

Registration number: 02571241

EP SHB Limited (formerly Centrica SHB Limited)

Annual Report and Financial Statements

for the Period from 1 January 2017 to 31 August 2017

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EP SHB Limited (formerly Centrica SHB Limited)

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EP SHB Limited (formerly Centrica SHB Limited)

Strategic Report for the Period from 1 January 2017 to 31 August 2017

The Directors present the Strategic Report for EP SHB Limited (the "Company") for the period from 1 January 2017 to 31 August 2017.

Review of the business

The Company's principal activity during the period was the operation of a 1,285 MW combined cycle gas turbine power station at Stallingborough, North Lincolnshire known as 'Humber'.

The Company operated under a capacity tolling agreement with British Gas Trading Limited who are responsible for energy procurement for the Centrica plc Group ("the Group"). In March 2015 a decision was made to maintain Phase 1 in a state of preservation from April 2015 to March 2017. This was a result of market conditions. Since this decision was made, Phase 1 has secured investment for a major overhaul in 2017/18 and was awarded a Supplementary Balancing Reserve contract for Winter 2016/17. During 2017 elements of this major overhaul focused on the Steam Turbine and balance of plant were completed. In addition a full Plant outage was taken during the summer of 2017 to complete a statutory inspection on the cooling water system. Phase 2 has continued to operate throughout 2017, except for the duration of the cooling water system inspection.

Market conditions continued to be challenging for gas-fired power stations, however the low reserve margin, primarily driven by coal closures has increased market prices compared to recent levels pre-winter 2016. Humber was successful in obtaining a capacity market agreement for 2017/18 with associated revenues commencing from October 2017. Humber had already secured capacity market agreements for 2018/19, 2019/20 and 2020/21 in previous auctions.

On 24 August 2017 the Company declared and paid an interim dividend of £143,960,074 to the Company's sole member GB Gas Holdings Limited. On the same date the Company's accounting reference date was changed to 31 August 2017.

As part of the sale, EP UK Investments Limited carried out a valuation of the Company using forecast cashflows based on future expectations of spark spreads, capacity and balancing markets, operational and maintenance costs, potential outages, grid connection costs and technical asset life. Their valuation was compared to the fixed asset carrying value which gave rise to a write back of £26,072,000 to the carrying value of the fixed assets.

The Directors determined that the inter company receivable built up under Centrica plc Group's ownership has no value by virtue of the agreements in the contract for sale, this resulted in £9,410,000 being written off.

Capacity Tolling Arrangement

The Company is responsible for the safe and reliable operation of the South Humber power station. Until 31 August 2017 the Company utilised the expertise within the wider Centrica plc group to optimise the value of the station through its trading operation. Accordingly, the Company had a capacity tolling arrangement with British Gas Trading Limited ("BGTL" - a fellow subsidiary of Centrica plc Group) to provide a route to market and facilitate this optimisation. The agreement required the Company to make generating capacity available to BGTL, where not already committed under a Supplementary Balancing Reserve agreement, and subsequently to deliver electricity in accordance with BGTL's nominations. BGTL provided the gas for generation. Capacity market revenue from capacity market agreements was retained by the Company. This arrangement was not considered a lease and income under the contract was recognised as earned. This internal Group agreement came to an end on 31 August 2017 with the sale of the company to EP UK Investments Limited (see below).

EP SHB Limited (formerly Centrica SHB Limited)

Strategic Report for the Period from 1 January 2017 to 31 August 2017 (continued)

Sale of the Company to EP UK Investments Limited

On 21 June 2017, the Centrica plc Group agreed to sell the company to EP UK Investments Limited as part of a combined sale with its EP Langage Ltd combined cycle gas turbine power station. Total consideration was £318 million in cash, subject to customary working capital and other completion adjustments. The transaction was subject to EU merger clearance which was obtained during July 2017, the transaction completed on 31 August 2017.

The Company's Financial Statements have been prepared in accordance with Financial Reporting Standard 101: reduced disclosures framework ("FRS 101").

Principal risks and uncertainties

From 1 January 2017 to 31 August 2017, the principal risks and uncertainties of the Company were integrated with the principal risks of the Centrica plc Group and were not managed separately. Accordingly, the principal risks and uncertainties of the Centrica plc Group, which included those of the Company are discussed in the 2017 Centrica plc Group Annual Report and Accounts which does not form part of this report.

Exit from the European Union

The UK referendum vote in June 2016 to leave the European Union has added to the uncertainties faced by the business. However, we believe that the direct impact on the business of these events is limited in the short-term. Many details of the implementation process remain unclear. Extricating from the European Union treaties is a task of immense complexity but with that being said, the business is well-positioned to manage any market impacts. There are also potential tax consequences of the withdrawal agreement which we will continue to reassess (at each reporting date) to ensure our tax provisions reflect the most likely outcome following the withdrawal.

Key performance indicators (KPIs)

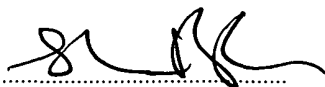
From 1 January 2017 to 31 August 2017, the Directors of the Centrica plc Group used a number of key performance indicators to monitor progress against the Centrica plc Group's strategy. The development and performance of the Centrica plc Group, which includes the Company, are discussed in the 2017 Centrica plc Annual Report and Accounts which does not form part of this report.

Future developments

Commercial generation is expected to continue for the foreseeable future.

There are no plans to change the nature of activities in the foreseeable future.

Approved by the Board on 26 MAR 2017 and signed on its behalf by:



Tarloke Singh Bains
Director

Company registered in England and Wales, No. 02571241
Registered office:
Berger House
36-38 Berkeley Square
London
United Kingdom
W1J 5AE

EP SHB Limited (formerly Centrica SHB Limited)

Directors' Report for the Period from 1 January 2017 to 31 August 2017

The Directors present their report and the audited Financial Statements for the period from 1 January 2017 to 31 August 2017.

Directors of the Company

The Directors of the Company who were in office during the period and up to the date of signing the financial statements were as follows:

Mark Futyan (resigned 31 August 2017)

Mark Taylor (resigned 31 August 2017)

Richard McCord (resigned 31 August 2017)

Tarloke Bains (appointed 31 August 2017)

Victoria Gallagher (appointed 31 August 2017)

Pavel Horsky (appointed 31 August 2017)

Jan Springl (appointed 31 August 2017)

Marek Spurny (appointed 31 August 2017)

Antonia Stockton (appointed 31 August 2017)

Results and dividends

The results of the Company are set out on page 9. The loss for the financial period to 31 August 2017 is £177,000 (2016: loss: £39,957,000). On 24 August 2017 an interim dividend of £143,960,074 was declared and paid. The Directors do not recommend the payment of a final dividend (2016: £Nil).

Capital structure

No changes occurred during the period to 31 August 2017.

Objectives and policies

The Directors have established objectives and policies for managing financial risks to enable the Company to achieve its long-term shareholder value growth targets within a prudent risk management framework. These objectives and policies are regularly reviewed. Exposure to counterparty credit risk and liquidity risk arises in the normal course of the Company's business:

- Counterparty credit exposures are monitored by individual counterparties and by category of credit rating, and are subject to approved limits. From 1 January 2017 to 31 August 2017 credit risk was predominantly limited to exposures with other Centrica plc Group undertakings.
- Cash forecasts identifying the liquidity requirements of the Company are produced frequently and reviewed regularly.
- From 1 January 2017 to 31 August 2017 liquidity risk was managed through funding arrangements with Centrica plc Group undertakings.
- Foreign currency exposure is monitored by currency and duration and managed through hedging activities.

The Company did not take part in any hedging activity other than hedging with respect to foreign currency risk.

Future developments

Future developments are discussed in the Strategic Report on page 2.

EP SHB Limited (formerly Centrica SHB Limited)

Directors' Report for the Period from 1 January 2017 to 31 August 2017 (continued)

Going concern

The financial statements have been prepared on the going concern basis.

EP UK Investments Limited the company's immediate parent, has confirmed to the Directors that it will not demand repayment for the existing intercompany loan such that insolvency would result, for a period of at least twelve months from the date of signing the Annual Report and Financial Statements.

The Directors have considered the cash flow forecast for the period to the end of December 2018 and are satisfied that the company, taking account of reasonably possible changes in trading performance and the current funds available, is able to operate for at least twelve months from the signing of the Directors' Report and Financial Statements. For this reason the Directors believe that the company has adequate resources to continue in operational existence and therefore it is appropriate that the company continues to adopt the going concern basis in preparing the Directors' Report and Financial Statements.

Directors' and officers' liabilities

From 1 January 2017 to 31 August 2017 directors' and officers' liability insurance had been purchased by the ultimate parent company, Centrica plc Group, and was in place throughout the period under review. The insurance does not provide cover in the event that the Director is proved to have acted fraudulently.

EP SHB Limited (formerly Centrica SHB Limited)

Directors' Report for the Period from 1 January 2017 to 31 August 2017 (continued)

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Strategic Report, Directors' Report and the Financial Statements in accordance with applicable UK law and regulations.

Company law requires the Directors to prepare financial statements for each financial period. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 'Reduced Disclosure Framework' ("FRS 101"). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether FRS 101 has been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

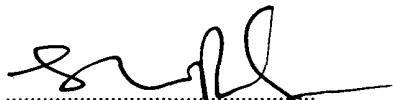
Disclosure of information to the auditors

Each of the Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are aware, there is no relevant audit information of which the Company's auditors are unaware, and that they have taken all steps that they ought to have taken as Directors to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Independent auditor

Following a rigorous selection process by the Audit Committee of Centrica plc, Deloitte LLP was selected as the Group's external auditor for the financial period commencing from 1 January 2017. Following the sale of the Company on 31 August 2017, KPMG LLP have been appointed as auditor of EP SHB Limited for the period ended 31 December 2018.

Approved by the Board on 26 MAR 2018 and signed on its behalf by:



Tarloke Singh Bains
Director

Company registered in England and Wales, No. 02571241
Registered office:
Berger House
36-38 Berkeley Square
London
United Kingdom
W1J 5AE

EP SHB Limited (formerly Centrica SHB Limited)

Independent Auditor's Report to the Members of EP SHB Limited (formerly Centrica SHB Limited)

Report on the audit of the financial statements

Opinion

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 August 2017 and of its profit for the period then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of EP SHB Limited (the 'company') which comprise:

- the income statement;
- the statement of comprehensive income;
- the statement of financial position;
- the statement of changes in equity;
- the related notes 1 to 24.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs(UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

EP SHB Limited (formerly Centrica SHB Limited)

Independent Auditor's Report to the Members of EP SHB Limited (formerly Centrica SHB Limited) (continued)

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to the going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

EP SHB Limited (formerly Centrica SHB Limited)

Independent Auditor's Report to the Members of EP SHB Limited (formerly Centrica SHB Limited) (continued)

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial period for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.



Anthony Matthews FCA (Senior Statutory Auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

London, UK

Date: *26 March 2018*

EP SHB Limited (formerly Centrica SHB Limited)

Income Statement for the Period from 1 January 2017 to 31 August 2017

	Note	1 January 2017 to 31 August 2017 £ 000	Year ended 31 December 2016 £ 000
Revenue	4	19,929	27,707
Cost of sales	5	<u>(22,057)</u>	<u>(35,699)</u>
Gross loss		(2,128)	(7,992)
Operating costs	5	(9,569)	(13,815)
Exceptional items - tangible assets impairment write back	8	26,072	-
Exceptional items - write off inter company receivable	8	(9,410)	-
Other income	6	<u>-</u>	<u>985</u>
Operating profit/(loss)		4,965	(20,822)
Finance cost	9	(11,575)	(16,348)
Finance income	9	<u>12,765</u>	<u>-</u>
Profit/(loss) before income tax		6,155	(37,170)
Income tax expense	12	<u>(6,332)</u>	<u>(2,787)</u>
Loss for the financial year		<u><u>(177)</u></u>	<u><u>(39,957)</u></u>

There were no recognised gains and losses in either period other than those shown above and accordingly no separate statement of comprehensive income has been included in the financial statements.

The above results were derived from continuing operations.

EP SHB Limited (formerly Centrica SHB Limited)

Statement of Financial Position as at 31 August 2017

	Note	31 August 2017 £ 000	31 December 2016 £ 000
Non-current assets			
Deferred tax assets		-	5,928
Property, plant and equipment	13	158,590	121,402
		<u>158,590</u>	<u>127,330</u>
Current assets			
Trade and other receivables	14	10,390	550,992
Inventories	15	7,401	7,688
Other financial assets	16, 22	-	5,342
Cash and cash equivalents		580	-
		<u>18,371</u>	<u>564,022</u>
Total assets		176,961	691,352
Current liabilities			
Borrowings		-	(93)
Trade and other payables	17	(115,035)	(488,295)
Other financial liabilities	18, 22	-	(5,745)
		<u>(115,035)</u>	<u>(494,133)</u>
Non-current liabilities			
Deferred tax liabilities	12	(365)	-
Provisions for other liabilities	19	(4,443)	(4,335)
Total liabilities		<u>(119,843)</u>	<u>(498,468)</u>
Net assets		<u>57,118</u>	<u>192,884</u>
Equity			
Called up share capital	20	20,000	20,000
Share premium account		8,436	8,436
Capital contribution reserve		8,371	0
Retained earnings		<u>20,311</u>	<u>164,448</u>
Total equity		<u>57,118</u>	<u>192,884</u>

The financial statements on pages 9 to 32 were approved and authorised for issue by the Board of Directors on 26 March 2018 and signed on its behalf by:



Tarloke Singh Bains

Director

Company number 02571241

The notes on pages 12 to 32 form an integral part of these financial statements.

EP SHB Limited (formerly Centrica SHB Limited)

Statement of Changes in Equity for the Period from 1 January 2017 to 31 August 2017

	Called up share capital £ 000	Share premium account £ 000	Retained earnings £ 000	Total Equity £ 000
At 1 January 2017	20,000	8,436	164,448	192,884
Loss for the financial period	-	-	(177)	(177)
Total comprehensive income	-	-	(177)	(177)
Derivative liabilities transferred to reserves	-	-	8,371	8,371
Dividends	-	-	(143,960)	(143,960)
At 31 August 2017	20,000	8,436	28,682	57,118

	Called up share capital £ 000	Share premium account £ 000	Retained earnings £ 000	Total Equity £ 000
At 1 January 2016	20,000	8,436	204,405	232,841
Loss for the financial year	-	-	(39,957)	(39,957)
Total comprehensive loss	-	-	(39,957)	(39,957)
At 31 December 2016	20,000	8,436	164,448	192,884

The notes on pages 12 to 32 form an integral part of these financial statements.

EP SHB Limited (formerly Centrica SHB Limited)

Notes to the Financial Statements for the Period from 1 January 2017 to 31 August 2017

1 General information

EP SHB Limited (formerly Centrica SHB Limited) (the 'Company') is a company limited by share capital incorporated and domiciled in the UK.

The address of its registered office and principal place of business is:

Berger House
36-38 Berkeley Square
London
United Kingdom
W1J 5AE

These financial statements were authorised for issue by the Board on 26th March 2018

2 Accounting policies

Basis of preparation

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101").

In preparing these financial statements the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- A Cash Flow Statement and related notes;
- Comparative period reconciliations for tangible fixed assets;
- Disclosures in respect of the compensation of Key Management Personnel;
- Disclosures in respect of capital management;
- Disclosures in respect of related parties transactions with wholly-owned subsidiaries;
- The effects of new but not yet effective IFRSs.

As the consolidated financial statements of Centrica plc Group include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- Certain disclosures required by IFRS 13 Fair value measurement and the disclosures required by IFRS 7 Financial instrument have not been provided apart from those which are relevant for the financial instruments which are held at fair value;
- Disclosures of the net cash-flows attributable to the operating, investing and financing activities of discontinued operations.

These financial statements are presented in pound sterling (with all values rounded to the nearest thousand pounds (£000) except when otherwise indicated), which is also the functional currency of the Company. Operations and transactions conducted in currencies other than the functional currency are translated in accordance with the foreign currencies accounting policy set out below.

EP SHB Limited (formerly Centrica SHB Limited)

Notes to the Financial Statements for the Period from 1 January 2017 to 31 August 2017 (continued)

2 Accounting policies (continued)

The financial statements are prepared on the historical cost basis except for derivative financial instruments and financial instruments designated at fair value through profit and loss on initial recognition. The carrying value of recognised assets and liabilities that are hedged items in fair value hedges, and are otherwise carried at cost, are adjusted to record changes in the fair values attributable to the risks that are being hedged.

On 31 August 2017, GB Gas Holdings Limited agreed to sell their 100% shareholding in EP SHB Limited to EP UK Investments Limited (see note 23). Due to the sale, the amounts presented in the financial statements are not entirely comparable.

Going concern

The financial statements have been prepared on the going concern basis.

EP UK Investments Limited the company's immediate parent, has confirmed to the Directors that it will not demand repayment for the existing intercompany loan such that insolvency would result, for a period of at least twelve months from the date of signing the Annual Report and Financial Statements.

The Directors have considered the cash flow forecast for the period to the end of December 2018 and are satisfied that the company, taking account of reasonably possible changes in trading performance and the current funds available, is able to operate for at least twelve months from the signing of the Directors' Report and Financial Statements. For this reason the Directors believe that the company has adequate resources to continue in operational existence and therefore it is appropriate that the company continues to adopt the going concern basis in preparing the Directors' Report and Financial Statements.

Summary of significant accounting policies and key accounting estimates

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.

Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and provision of services in the ordinary course of the Company's activities, and is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be measured reliably. Revenue is recognised on the basis of power supplied during the period. Power purchases and sales entered into to optimise the performance of power generation facilities are presented net within revenue.

Revenue is recognised on an accruals basis and principally relates to the sale of power generation capacity to a fellow Centrica plc Group undertaking in accordance with a capacity tolling arrangement. It is shown net of sales/value added tax, returns, rebates and discounts.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying value.

Cost of sales

Cost of sales within the power generation business includes the depreciation of assets included in generating power, fuel purchase costs, direct labour costs and carbon emissions costs.

EP SHB Limited (formerly Centrica SHB Limited)

Notes to the Financial Statements for the Period from 1 January 2017 to 31 August 2017 (continued)

2 Accounting policies (continued)

Overhaul costs

Contract work involved in replacing gas turbine components is capitalised and depreciated over their expected economic life, typically over the period to the next overhaul. Repairs and other costs that are not of a capital nature are charged directly to the Income Statement as incurred.

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and whether the arrangement conveys a right to use the asset or assets. Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are capitalised and included in property, plant and equipment at their fair value, or if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The obligations relating to finance leases, net of finance charges in respect of future periods, are included within bank loans and other borrowings, with the amount payable within 12 months included in bank overdrafts and loans within current liabilities.

Lease payments are apportioned between finance charges and reduction of the finance lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Payments under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease.

Foreign currencies

Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into the respective functional currency of the entity at the rates prevailing at the reporting period date, and associated gains and losses are recognised in the income statement for the period, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges. Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within 'finance income or costs'. All other foreign exchange gains and losses are presented in the income statement in the respective financial line item to which they relate.

Non-monetary items that are measured at historical cost in a currency other than the functional currency of the Company are translated using the exchange rate prevailing at the dates of the initial transaction and are not retranslated. Non-monetary items measured at fair value in foreign currencies are retranslated at the rates prevailing at the date when the fair value was measured.

Taxation

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except that a change attributable to an item of income or expense recognised as other comprehensive income is also recognised directly in other comprehensive income.

Current tax, including UK corporation tax and foreign tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Tax is recognised in the income statement, except to the extent that it relates to items recognised in equity. In this case, the tax is recognised in equity.

EP SHB Limited (formerly Centrica SHB Limited)

Notes to the Financial Statements for the Period from 1 January 2017 to 31 August 2017 (continued)

2 Accounting policies (continued)

Deferred tax is recognised in respect of all temporary differences identified at the balance sheet date, except to the extent that the deferred tax arises from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting profit nor taxable profit and loss. Temporary differences are differences between the carrying amount of the Company's assets and liabilities and their tax base.

Deferred tax is provided on temporary differences arising on investments in subsidiaries, joint ventures and associates, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised only to the extent that it is probable that the deductible temporary differences will reverse in the future and there is sufficient taxable profit available against which the temporary differences can be utilised.

The amount of deferred tax provided is based on the expected manner or realisation or settlement using tax rates that have been enacted or substantively enacted at the balance sheet date.

EU Emissions Trading Schemes

At the period end the carbon dioxide emissions allowances are recorded as a liability within the Company.

Property, plant and equipment ('PP&E')

PP&E is included in the statement of financial position at cost, less accumulated depreciation and any provisions for impairment. The initial cost of an asset comprises its purchase price or construction cost and any costs directly attributable to bringing the asset into operation. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

Subsequent expenditure in respect of items of PP&E such as the replacement of major parts, major inspections or overhauls, are capitalised as part of the cost of the related asset where it is probable that future economic benefits will arise as a result of the expenditure and the cost can be reliably measured. All other subsequent expenditure, including the costs of day-to-day servicing, repairs and maintenance, is expensed as incurred.

Freehold land is not depreciated. Other PP&E are depreciated on a straight-line basis at rates sufficient to write off the cost, less estimated residual values, of individual assets over their estimated useful lives.

For gas turbine components depreciation is provided to write off the cost of the assets over their operating lives on an equivalent hours basis.

EP SHB Limited (formerly Centrica SHB Limited)

Notes to the Financial Statements for the Period from 1 January 2017 to 31 August 2017 (continued)

2 Accounting policies (continued)

Depreciation

Depreciation is charged so as to write off the cost of assets over their estimated useful lives, as follows:

Asset class	Depreciation method and rate
Power station assets and decommissioning asset	Straight line, up to 30 years
Other plant and machinery	Straight line, between 3 and 6 years
Turbine components	Equivalent operating hours

The carrying values of PP&E are tested annually for impairment and are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Residual values and useful lives are reassessed annually and if necessary changes are accounted for prospectively.

Inventories

Inventories are stated at the lower of cost incurred in bringing each item to its present location and condition and net realisable value. Provision is made where necessary for obsolete, slow-moving and defective inventories. Cost is determined on an average cost basis.

Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, that can be measured reliably, and it is probable that the Company will be required to settle that obligation. Provisions are measured at the best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

Where discounting is used, the increase in the provision due to the passage of time is recognised in the income statement within interest expense. Onerous contract provisions are recognised where the unavoidable costs of meeting the obligations under a contract exceeded the economic benefits expected to be received under it.

Decommissioning costs

Provision is made for the net present value of the estimated cost of decommissioning power stations at the end of their useful lives, based on price levels and technology at the balance sheet date.

When this provision relates to an asset with sufficient future economic benefits, a decommissioning asset is recognised and included as part of the associated PP&E and depreciated accordingly. Changes in these estimates and changes to the discount rates are dealt with prospectively and reflected as an adjustment to the provision and corresponding decommissioning asset included within PP&E. The unwinding of the discount on the provision is included in the income statement within interest expense.

EP SHB Limited (formerly Centrica SHB Limited)

**Notes to the Financial Statements for the Period from 1 January 2017 to 31 August 2017
(continued)**

2 Accounting policies (continued)

Impairment

The carrying amounts of the Company's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units ("CGU").

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

Financial assets and liabilities

Financial assets and financial liabilities are recognised in the Company's statement of financial position when the Company becomes a party to the contractual provisions of the instrument. Financial assets are de-recognised when the Company no longer has the rights to cash flows, the risks and rewards of ownership or control of the asset. Financial liabilities are de-recognised when the obligation under the liability is discharged, cancelled or expires.

Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business.

Trade receivables are initially recognised at fair value, which is usually original invoice amount and are subsequently held at amortised cost using the effective interest rate ("EIR") (although in practice the discounting is often immaterial) less an allowance for any uncollectible amounts. Provision is made when there is objective evidence that the Company may not be able to collect the trade receivable. Balances are written off when recoverability is assessed as being remote. If collection is due in one year or less receivables are classified as current assets. If not they are presented as non-current assets.

Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers.

Trade payables are initially recognised at fair value, which is usually original invoice amount and are subsequently held at amortised cost using the EIR method (although, in practice, the discount is often immaterial). If payment is due within one year or less payables are classified as current liabilities. If not, they are presented as non-current liabilities.

EP SHB Limited (formerly Centrica SHB Limited)

Notes to the Financial Statements for the Period from 1 January 2017 to 31 August 2017 (continued)

2 Accounting policies (continued)

Share capital

Ordinary shares are classified as equity. Equity instruments are measured at the fair value of the cash or other resources received or receivable. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds received. Own equity instruments that are re-acquired (treasury or own shares) are deducted from equity. No gain or loss is recognised in the Company's income statement on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and current balances with banks and similar institutions, which are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

Interest-bearing loans and other borrowings

All interest-bearing (and interest free) loans and other borrowings with banks or similar institutions and 'intercompany entities' are initially recognised at fair value net of directly attributable transaction costs (if any, in respect of 'intercompany funding'). After initial recognition, these financial instruments are measured at amortised cost using the EIR method, except when they are the hedged item in an effective fair value hedge relationship where the carrying value is also adjusted to reflect the fair value movements associated with the hedged risks. Such fair value movements are recognised in the Company's income statement. Amortised cost is calculated by taking into account any issue costs, discount or premium, when applicable.

Derivative financial instruments

Until 31 August 2017, the Company used a range of derivatives to hedge exposures to foreign exchange risks, arising in the normal course of business. The use of derivative financial instruments was governed by the Centrica plc Group's policies. Further detail on the Centrica plc Group's risk management policies is included within the Centrica Annual Report and Accounts 2017.

A derivative instrument was considered to be used for hedging purposes when it altered the risk profile of an underlying exposure of the Company in line with the Company's risk management policies and is in accordance with established guidelines, which require the hedging relationship to be documented at its inception, ensure that the derivative is highly effective in achieving its objective, and require that its effectiveness can be reliably measured.

EP SHB Limited (formerly Centrica SHB Limited)

Notes to the Financial Statements for the Period from 1 January 2017 to 31 August 2017 (continued)

2 Accounting policies (continued)

All derivatives were recognised at fair value on the date on which the derivative was entered into and were re-measured to fair value at each reporting date. Derivatives were carried as assets when the fair value was positive and as liabilities when the fair value was negative. Derivative assets and derivative liabilities were offset and presented on a net basis only when both a legal right of set-off existed and the intention to net settle the derivative contracts was present.

Derivatives were classified as a current asset or liability. The full fair value of a hedging derivative was classified as a non-current asset or liability if the remaining maturity of the hedged item was more than 12 months and, as a current asset or liability, if the maturity of the hedged item was less than 12 months.

Derivatives embedded in other financial instruments or other host contracts were treated as separate derivatives when their risks and characteristics were not closely related to those of the host contracts and the host contracts were not carried at fair value, with gains or losses reported in the income statement. The closely-related nature of embedded derivatives was reassessed when there was a change in the terms of the contract which significantly modified the future cash flows under the contract. Where a contract contained one or more embedded derivatives, and providing that the embedded derivative significantly modified the cash flows under the contract, the option to fair value the entire contract may be taken and the contract would be recognised at fair value with changes in fair value recognised in the income statement.

Hedge accounting

Until 31 August 2017, for the purposes of hedge accounting, hedges were classified as either fair value hedges or cash flow hedges.

Fair value hedges

Where a derivative financial instrument was designated as a hedge of the variability in fair value of a recognised asset or liability or an unrecognised firm commitment, all changes in the fair value of the derivative were recognised immediately in the income statement. The carrying value of the hedged item was adjusted by the change in fair value that was attributable to the risk being hedged and any gains or losses on re-measurement were recognised immediately in the income statement.

On the discontinuance of hedge accounting, any adjustment made to the carrying amount of the hedged item as a consequence of the fair value hedge relationship, was recognised in the income statement over the remaining life of the hedged item.

Cash flow hedges

Where a derivative financial instrument was designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument was recognised directly in the hedging reserve. Any ineffective portion of the hedge was recognised immediately in the income statement.

When the forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the associated cumulative gain or loss was removed from the hedging reserve and was included in the initial carrying amount of the non-financial asset or liability. If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains and losses that were recognised directly in equity are reclassified into the income statement in the same period or periods during which the asset acquired or liability assumed affects profit or loss e.g. when interest income or expense is recognised.

EP SHB Limited (formerly Centrica SHB Limited)

Notes to the Financial Statements for the Period from 1 January 2017 to 31 August 2017 (continued)

2 Accounting policies (continued)

For cash flow hedges, other than those covered above, the associated cumulative gain or loss is removed from equity and recognised in the income statement in the same period or periods during which the hedged forecast transaction affects profit or loss.

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised in the income statement immediately.

3 Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in note 2, the Directors may be required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. Such estimates and the associated assumptions would be based on historical experience or other factors that are considered to be relevant. Actual results may differ from these estimates. In the Directors' opinion there are no critical judgements, apart from those involving estimations (which are dealt with separately below).

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Decommissioning costs

The estimated cost of decommissioning of power stations is reviewed periodically and is based on price levels and technology at the balance sheet date. Provision is made for the estimated cost of decommissioning at the balance sheet date. The payment dates of total expected future decommissioning costs are uncertain and dependent on the lives of the facilities, but are currently anticipated to be incurred in 2028.

Impairment

The Company has material long-lived assets that are assessed or tested for impairment at each reporting date in accordance with the Company's accounting policy as disclosed in note 2. The Company makes judgements and estimates in considering whether the carrying amounts of these assets or cash generating units are recoverable.

The recoverable amount of the Company's assets is calculated as the higher of fair value less costs to sell or by discounting the pre-tax cash flows expected to be generated by the assets and is dependent on views of forecast power generation and forecast power, gas, carbon and capacity prices (where applicable) and the timing and extent of capital expenditure. Where forward market prices are not available, prices are determined based on internal model inputs.

EP SHB Limited (formerly Centrica SHB Limited)

Notes to the Financial Statements for the Period from 1 January 2017 to 31 August 2017 (continued)

4 Revenue

The analysis of the Company's revenue from continuing operations for the period is as follows:

	1 January 2017 to 31 August 2017 £ 000	Year ended 31 December 2016 £ 000
Power station tolling revenue	12,428	19,832
Supplementary Balancing Reserve revenue	6,501	6,640
Other revenue	1,000	1,235
	<u>19,929</u>	<u>27,707</u>

All revenue relates to the principal activity of the business and occurs wholly in the United Kingdom.

Included within the above are rentals receivable under operating leases in relation to Supplementary Balancing Reserve agreements amounting to £6,501,000 (2016: £6,640,000) of which £657,000 (2016: £661,000) are contingent rentals in relation to utilisation fees under these agreements. Additionally, included within the above are amounts receivable under an internal Centrica plc Group capacity tolling arrangement.

Capacity Tolling Arrangement

The Company is responsible for the safe and reliable operation of the South Humber power station. From 1 January 2017 to 31 August 2017 the Company utilised the expertise within the wider Centrica plc Group to optimise the value of the station through its trading operation. Accordingly, the Company had a capacity tolling arrangement with British Gas Trading Limited ("BGTL" - a fellow subsidiary of Centrica Plc) to provide a route to market and facilitate this optimisation. The agreement required the Company to make generating capacity available to BGTL, where it was not already committed under a Supplementary Balancing Reserve agreement, and subsequently to deliver electricity in accordance with BGTL's nominations. BGTL provided the gas for generation.

The contract continued until divestment of the Company by the Centrica plc Group on 31 August 2017.

5 Analysis of costs by nature

	1 January 2017 to 31 August 2017			Year ended 31 December 2016		
	Cost of sales £ 000	Operating costs £ 000	Total costs £ 000	Cost of sales £ 000	Operating costs £ 000	Total costs £ 000
Depreciation expense	5,228	-	5,228	15,078	-	15,078
Other operating expenses	-	9,569	9,569	-	13,815	13,815
Other cost of sales	<u>16,829</u>	<u>-</u>	<u>16,829</u>	<u>20,621</u>	<u>-</u>	<u>20,621</u>
Total operating costs by nature	<u>22,057</u>	<u>9,569</u>	<u>31,626</u>	<u>35,699</u>	<u>13,815</u>	<u>49,514</u>

EP SHB Limited (formerly Centrica SHB Limited)

Notes to the Financial Statements for the Period from 1 January 2017 to 31 August 2017 (continued)

6 Other income

The analysis of the company's other gains and losses for the period is as follows:

	1 January 2017 to 31 August 2017 £ 000	Year ended 31 December 2016 £ 000
Gain on disposal of property, plant and equipment	-	134
Rates rebate	-	851
	<u>-</u>	<u>985</u>

7 Employees' costs

The Company has 77 direct employees as of 1 September 2017 (2016: zero). However, payroll costs amounting to £3,841,000 (2016: £4,009,000) were incurred through a recharge during the period in respect of an average of 62 (2016: 57) staff providing services to EP SHB Limited under an employee services agreement with a Centrica plc Group company. Also under this agreement additional pension costs of £391,000 (2016: £479,000) have been incurred from the Centrica plc Group company.

8 Exceptional items

As part of the sale, EP UK Investments Limited carried out a valuation of the Company using forecast cashflows based on future expectations of spark spreads, capacity and balancing markets, operational and maintenance costs, potential outages, grid connection costs and technical asset life. Their valuation was compared to the fixed asset carrying value which gave rise to a write back of £26,072,000 to the carrying value of the fixed assets.

The Directors determined that the inter company receivable built up under Centrica plc Group's ownership has no value by virtue of the agreements in the contract for sale, this resulted in £9,410,000 being written off.

9 Finance income/cost

Finance income

	1 January 2017 to 31 August 2017 £ 000	Year ended 31 December 2016 £ 000
Interest income from amounts owed by Group undertakings	<u>(12,765)</u>	<u>-</u>

EP SHB Limited (formerly Centrica SHB Limited)

**Notes to the Financial Statements for the Period from 1 January 2017 to 31 August 2017
(continued)**

9 Finance income/cost (continued)

Finance cost

	1 January 2017 to 31 August 2017 £ 000	Year ended 31 December 2016 £ 000
Interest on amounts owed to Group undertakings	11,540	16,267
Unwind of discount on decommissioning provisions	35	81
Total finance cost	11,575	16,348

10 Directors' remuneration

The aggregate emoluments paid to Directors in respect of their qualifying services were £66,403 (2016: £92,768) and the aggregate value of company contributions paid to a pension scheme in respect of Directors' qualifying services were £5,230 (2016: £11,950).

There was one Director (2016: two) to whom retirement benefits are accruing under a defined benefit pension scheme. There were two Directors (2016: two) to whom retirement benefits are accruing under money purchase pension schemes. Two Directors (2016: two) received shares in the ultimate parent company in respect of their qualifying services under a long-term incentive scheme and none of the Directors (2016: nil) exercised share options relating to the ultimate parent company. Some of these costs were borne by other Centrica plc Group companies.

11 Auditor's remuneration

The Company paid the following amounts to its auditors in respect of the audit of the Financial Statements provided to the Company.

	1 January 2017 to 31 August 2017 £ 000	Year ended 31 December 2016 £ 000
Audit of the financial statements	12	49

EP SHB Limited (formerly Centrica SHB Limited)

**Notes to the Financial Statements for the Period from 1 January 2017 to 31 August 2017
(continued)**

12 Income tax

Tax charged in the income statement

	1 January 2017 to 31 August 2017 £ 000	Year ended 31 December 2016 £ 000
Current taxation		
UK corporation tax adjustment to prior periods	39	(36)
Deferred taxation		
Adjustment in respect of prior periods	-	6
(Reduction)/increase arising from changes in tax rates and laws	(878)	74
Origination and reversal of timing differences	<u>7,171</u>	<u>2,743</u>
Total deferred taxation	<u>6,293</u>	<u>2,823</u>
Tax expense in the income statement	<u>6,332</u>	<u>2,787</u>

The differences between the taxes shown above and the amounts calculated by applying the standard rate of UK corporation tax rate to the profit before tax are reconciled below:

	1 January 2017 to 31 August 2017 £ 000	Year ended 31 December 2016 £ 000
Profit/(loss) before income tax	<u>6,155</u>	<u>(37,170)</u>
Tax expense/(credit) at the standard UK rate 19.37% (2016: 20.00%)	1,192	(7,434)
Effects of:		
Net expenses non-deductible for tax purposes	2,164	1,151
Increase (decrease) in current tax from adjustment for prior periods	39	(30)
Increase arising from group relief tax reconciliation	3,119	7,406
Increase from transfer pricing adjustments	44	1,620
Deferred tax (credit)/charge relating to changes in tax rates or laws	(878)	74
Increase from unrecognised tax losses	<u>652</u>	<u>-</u>
Total income tax expense	<u>6,332</u>	<u>2,787</u>

The main rate of corporation tax for the period to 31 August 2017 was 19.37% (2016: 20%). The corporation tax rate will reduce to 17% with effect from 1 April 2020 following the enactment of Finance Act 2016. The deferred tax assets and liabilities included in these financial statements are based on the reduced rate of 17% having regard to their reversal profiles.

EP SHB Limited (formerly Centrica SHB Limited)

**Notes to the Financial Statements for the Period from 1 January 2017 to 31 August 2017
(continued)**

12 Income tax (continued)

Deferred tax

The movements in respect of the deferred income tax assets and liabilities that occurred during the financial period are as follows:

Deferred tax movement during the period:

	At 1 January 2017 £ 000	Recognised in income £ 000	At 31 August 2017 £ 000
Accelerated tax depreciation	5,677	(6,327)	(650)
Derivatives	(1)	1	-
Other items	252	33	285
Net tax assets/(liabilities)	<u>5,928</u>	<u>(6,293)</u>	<u>(365)</u>

Deferred tax movement during the prior year:

	At 1 January 2016 £ 000	Recognised in income £ 000	At 31 December 2016 £ 000
Accelerated tax depreciation	8,536	(2,859)	5,677
Derivatives	(1)	-	(1)
Other items	216	36	252
Net tax assets/(liabilities)	<u>8,751</u>	<u>(2,823)</u>	<u>5,928</u>

Certain deferred tax assets and liabilities have been offset where there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following is an analysis of the gross deferred tax balances and associated offsetting balances for financial reporting purposes:

	2017 Assets £ 000	2017 Liabilities £ 000	2016 Assets £ 000	2016 Liabilities £ 000
Gross deferred tax balances crystallising within one year	96	(81)	1,988	-
Gross deferred tax balances crystallising after one year	<u>189</u>	<u>(569)</u>	<u>3,940</u>	<u>-</u>
	<u>285</u>	<u>(650)</u>	<u>5,928</u>	<u>-</u>
Net deferred tax balances (after offsetting for financial reporting purposes)	<u>285</u>	<u>(650)</u>	<u>5,928</u>	<u>-</u>

EP SHB Limited (formerly Centrica SHB Limited)

**Notes to the Financial Statements for the Period from 1 January 2017 to 31 August 2017
(continued)**

13 Property, plant and equipment

	Freehold land £ 000	Power station assets £ 000	Turbine components and other plant and machinery £ 000	Decommissioning asset £ 000	Total £ 000
Cost or valuation					
At 1 January 2017	2,210	540,806	211,575	3,640	758,231
Additions	-	12,763	3,516	73	16,352
Disposals	-	(25)	-	-	(25)
Revaluation to discount rate	-	-	-	-	-
At 31 August 2017	<u>2,210</u>	<u>553,544</u>	<u>215,091</u>	<u>3,713</u>	<u>774,558</u>
Accumulated depreciation					
At 1 January 2017	-	521,486	114,555	788	636,829
Depreciation charge for the period	-	1,461	3,609	158	5,228
Disposals	-	(17)	-	-	(17)
Impairment write back	-	(26,072)	-	-	(26,072)
At 31 August 2017	<u>-</u>	<u>496,858</u>	<u>118,164</u>	<u>946</u>	<u>615,968</u>
Carrying amount					
At 31 August 2017	<u>2,210</u>	<u>56,686</u>	<u>96,927</u>	<u>2,767</u>	<u>158,590</u>
At 31 December 2016	<u>2,210</u>	<u>19,320</u>	<u>97,020</u>	<u>2,852</u>	<u>121,402</u>

As a result of the external valuation and subsequent sale of the company to EP UK Investments Limited the tangible asset values were reviewed and the previous impairment of £26,072,000 was written back.

Included within the net book value of land and buildings above is £2,210,000 (2016: £2,210,000) in respect of freehold land and buildings.

In 2016 the fair value of the Company's decommissioning asset was revalued due to a change in the discount rate to 1.2% (real) from 2.2% (real). This resulted in an adjustment of £483,000 in the balance sheet in 2016 (see note 19). There was no change to the rate during 2017.

EP SHB Limited (formerly Centrica SHB Limited)

Notes to the Financial Statements for the Period from 1 January 2017 to 31 August 2017 (continued)

14 Trade and other receivables

	At 31 August 2017 Current £ 000	At 31 December 2016 Current £ 000
Amounts owed by Group undertakings	-	533,726
Prepayments	7,308	9,461
Other receivables and accrued income	3,082	7,805
	<u>10,390</u>	<u>550,992</u>

In 2016, included within the amounts receivable from Group undertakings was a receivable of £528,555,000 consisting of interest bearing and non-interest bearing balances to the same Centrica plc Group undertaking.

On 24 August 2017 an inter company balance of £537,055,000 owed by Centrica plc to the Company and an inter company balance of £483,095,000 owed by the Company to Centrica Holdings Limited (resulting in a net inter company receivable balance position to the Company of £53,960,000) were novated to GB Gas Holdings Limited ("GBGH"), the Company's sole member. On the same date the Company declared and paid an interim dividend of £143,960,000 to the Company's sole member GBGH resulting in a net amount being owed to GBGH of £90,000,000. Following the sale of the Company on 31 August 2017 this balance became payable to the Company's new sole member, EP UK Investments Limited.

15 Inventories

	At 31 August 2017 £ 000	At 31 December 2016 £ 000
Raw materials and consumables	<u>7,401</u>	<u>7,688</u>

There is no significant difference between the replacement cost of inventories and their carrying amounts.

16 Other financial assets

	At 31 August 2017 Current £ 000	At 31 December 2016 Current £ 000
Derivatives financial instruments	<u>-</u>	<u>5,342</u>

EP SHB Limited (formerly Centrica SHB Limited)

**Notes to the Financial Statements for the Period from 1 January 2017 to 31 August 2017
(continued)**

17 Trade and other payables

	At 31 August 2017 Current £ 000	At 31 December 2016 Current £ 000
Trade payables	3,887	666
Accrued expenses	18,159	9,582
Amounts owed to Group undertakings	90,069	472,818
Value Added Tax	-	285
EU ETS emissions obligation	2,920	4,944
	<u>115,035</u>	<u>488,295</u>

The amounts payable to Group undertakings of £90,069,000 accrues interest at 4% per annum, all amounts are unsecured and repayable on demand.

On 24 August 2017 an inter company balance of £537,055,000 owed by Centrica plc to the Company and an inter company balance of £483,095,000 owed by the Company to Centrica Holdings Limited (resulting in a net inter company receivable balance position to the Company of £53,960,000) were novated to GB Gas Holdings Limited ("GBGH"), the Company's sole member. On the same date the Company declared and paid an interim dividend of £143,960,000 to the Company's sole member GBGH resulting in a net amount being owed to GBGH of £90,000,000. Following the sale of the Company on 31 August 2017 this balance became payable to the Company's new sole member, UK Investments Limited.

18 Other financial liabilities

	At 31 August 2017 Current £ 000	At 31 December 2016 Current £ 000
Derivative financial instruments	<u>-</u>	<u>5,745</u>

19 Provisions for other liabilities

	Decommissioning £ 000
At 1 January 2017	4,335
Additions and revisions	73
Accretion of interest	35
At 31 August 2017	<u>4,443</u>

EP SHB Limited (formerly Centrica SHB Limited)

Notes to the Financial Statements for the Period from 1 January 2017 to 31 August 2017 (continued)

19 Provisions for other liabilities (continued)

Decommissioning provision

The payment dates of total expected future decommissioning costs are uncertain and dependent on the lives of the facilities, but is currently anticipated to be incurred in 2028.

In 2016 the discount rate used to calculate the decommissioning provision was reduced from 2.2% to 1.2%. This change decreased the decommissioning liability by £483,000. There was no change to the rate during the 2017.

20 Capital

Allotted, called up and fully paid shares

	31 August 2017		31 December 2016	
	No.	£	No.	£
Ordinary Shares of £1 each	20,000,000	20,000,000	20,000,000	20,000,000

21 Commitments and contingencies

Leases as lessee

At 31 August 2017 the Company had annual commitments under non-cancellable operating leases with the following maturity:

	At 31 August 2017 £ 000	At 31 December 2016 £ 000
In two to five years	26	11
In over five years	55	49
	<u>81</u>	<u>60</u>

The amount of non-cancellable operating lease payments recognised as an expense during the period as cost of sales was £26,000 (2016: £11,000).

Leases as lessor

The Company receives Supplementary Balancing Reserve revenue which, as discussed in Note 4, constitutes rental income under operating leases. This income is recognised as earned.

Total future minimum lease payments under non-cancellable operating leases expected to be received within one year is £Nil (2016: £5,852,000).

Capital commitments

Contracted future capital expenditure as at 31 August 2017 was £36,835,000 (31 December 2016: £38,109,000).

EP SHB Limited (formerly Centrica SHB Limited)

Notes to the Financial Statements for the Period from 1 January 2017 to 31 August 2017 (continued)

22 Financial instruments at fair value

The Company has previously entered into forward contracts to economically hedge its foreign exchange exposure on milestone payments made to foreign suppliers. The derivatives fair value are recognised in the financial statements. At 31 August 2017, the Company held no derivative contracts.

Determination of fair values

The Company's policy for the classification and valuation of financial instruments is disclosed in the accounting policies section of these financial statements. The fair value hierarchy levels are determined in accordance with IFRS 13 and are consistent with those used by its ultimate controlling party being Centrica plc. Further information on the matter including valuation techniques to derive Level 2 and Level 3 fair values is provided in its Annual Report and Accounts 2017.

Financial instruments carried at fair value

	Fair value hierarchy			
	At 31 August 2017	At 31 August 2017	At 31 December 2016	At 31 December 2016
	Fair value and carrying value £ 000	Level 2 £ 000	Fair value and carrying value £ 000	Level 2 £ 000
Financial assets at fair value through profit or loss:				
Foreign exchange derivatives	-	-	5,342	5,342
Total financial assets at fair value through profit or loss	-	-	5,342	5,342
Financial liabilities at fair value through profit or loss:				
Foreign exchange derivatives	(8,371)	(8,371)	(5,745)	(5,745)
Total financial liabilities at fair value through profit or loss	(8,371)	(8,371)	(5,745)	(5,745)
Total financial instruments at fair value	(8,371)	(8,371)	(403)	(403)

The fair value of the foreign exchange derivatives held under Centrica plc Group's ownership were agreed to not be transferred by virtue of the agreements in the contract for sale. This resulted in the value being waived and therefore treated as a capital contribution in the statement of changes in equity.

EP SHB Limited (formerly Centrica SHB Limited)

Notes to the Financial Statements for the Period from 1 January 2017 to 31 August 2017 (continued)

23 Parent and ultimate parent undertaking

Until 31 August 2017 EP SHB Limited's immediate parent undertaking was GB Gas Holdings Limited, a company registered in England and Wales.

EP SHB Limited's ultimate parent and controlling party was Centrica plc, a company registered in England and Wales, which is the only company to include these financial statements in its consolidated statements. Copies of the Centrica plc consolidated financial statements may be obtained from www.centrica.com.

On 31 August 2017 GB Gas Holdings Limited sold their 100% shareholding in EP SHB Limited to EP UK Investments Limited, a company registered in England and Wales. EP UK Investments Limited's ultimate parent undertaking is Energetický a průmyslový holding, a.s., a company registered in the Czech Republic. The consolidated financial statements of Energetický a průmyslový holding, a.s. may be obtained from Parizska 26, 111 00 Prague 1, Czech Republic.

EP SHB Limited (formerly Centrica SHB Limited)

**Notes to the Financial Statements for the Period from 1 January 2017 to 31 August 2017
(continued)**

24 Related undertakings

The company has related undertakings as follows:

Related undertakings	Principal activity	Country of incorporation	Principal place of business	Class of shares held	Direct investment and voting rights (%)	Indirect interest and voting rights (%)
Humberland Limited	Dormant	United Kingdom	Berger House, 36-38 Berkeley Square, London, UK, W1J 5AE	Ordinary	100%	Nil