

Registration number: 3043412

# The Renewable Energy Company Limited

Strategic Report, Directors' Report and Financial Statements

for the Year Ended 30 April 2017

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# **The Renewable Energy Company Limited**

## **Contents**

Company Information	1
Strategic Report	2 to 5
Directors' Report	6
Statement of Directors' Responsibilities	7
Independent Auditor's Report to the Members of The Renewable Energy Company Limited	8 to 9
Profit and Loss Account and Other Comprehensive Income	10
Balance Sheet	11
Statement of Changes in Equity	12
Notes to the Financial Statements	13 to 24

## **The Renewable Energy Company Limited**

### **Company Information**

<b>Directors</b>	Dale Vince Asif Rehmanwala
<b>Company secretary</b>	Tom Cowling
<b>Registered office</b>	Lion House Rowcroft Stroud Gloucestershire GL5 3BY
<b>Auditor</b>	KPMG LLP Chartered Accountants 66 Queen Square Bristol BS1 4BE

## **The Renewable Energy Company Limited**

### **Strategic Report for the Year Ended 30 April 2017**

The Directors present their strategic report for the year ended 30 April 2017.

#### **Principal activity**

The principle activity of the Renewable Energy Company Limited (the “Company”) is the supply of green energy - electricity and gas, to homes and businesses in Britain. The Company is accredited with the Eco Management Scheme (EMAS), which is the gold standard for environmental management.

The Company is a member of the Ecotricity Group Limited (the “Group”). The mission of the Group is to promote sustainability in all walks of life, but principally in the sectors of Energy, Transport and Food – which account for approximately 80% of the average individual’s personal carbon emissions. It does this in pursuit of its vision of a Green Britain. The Company (and the Group) operates a ‘not for dividend’ model which enables the re-investment of profits back into this mission.

#### **Fair review of the business and key performance indicators**

##### **Trading**

The Renewable Energy Company has continued to deliver strong customer meter growth in both domestic and business channels (+8.8% FY17, +12.4% FY16), albeit at a more moderate rate compared to historical performance, as the market continues to see increased new entrants and higher levels of switching.

Electricity customers as at the financial year end of 118,218 (FY16: 109,989) increased 7.5% (FY16: 11.9%) and gas customers of 74,520 (FY16: 67,143) were up 11.0% (FY16:13.5%).

Despite steady growth in customer numbers throughout the period under review, underlying trading was challenging owing to a combination of factors:

- an unseasonably mild winter led to lower demand in gas consumption;
- poor wind generation increased the need to trade during volatile wholesale periods; and
- increased grid and green costs which the Company chose not to pass on to customers in H1 FY17.

However, whilst underlying gross profit, being before the reduction of the gas unbilled accrual described below, in the supply business was down by £2,066k (6.9%) compared to FY16, this was only a partial driver in the material reduction in operational performance.

##### **Write down of unbilled gas accrued income**

Following the implementation of Project Nexus in June 2017 by the gas industry systems operator, a detailed review of the unbilled gas accrued income figure in the 30 April 2017 balance sheet was undertaken. Having completed this review, it was concluded that a total of approximately £10,983k, which has accumulated over several years, was over-estimated. This value has been treated as a change in estimate which has reduced accrued income and revenue for the year ended 30 April 2017 in the supply business.

## **The Renewable Energy Company Limited**

### **Strategic Report for the Year Ended 30 April 2017**

#### *Background*

Amongst other things, Project Nexus introduced a more technologically advanced system for gas suppliers, shippers and transporters to communicate with each other thereby significantly improving the accuracy of data in the industry - specifically gas consumption. Improvements in rolling annual quantity (AQ) prompted a review of the existing methodology when estimating the unbilled gas accrued income figure.

#### *Estimation methodology*

Accounting standards require the supply business to recognise revenue in relation to gas consumed by customers that has not yet been billed. This gives rise to an unbilled gas accrued income balance in the balance sheet of the supply business. As actual meter readings are rarely available for this calculation, the accrued income balance is an estimated value.

Historically, management was not sufficiently confident in the reliability of industry consumption data to perform an estimate of the unbilled consumption at an individual customer level. As a result, the consumption estimate was calculated by taking the total gas volume charged to the supply business by gas suppliers and removing the total gas volume billed to customers. A global provision for leakage within the gas system was then applied to produce the final estimated accrued income balance.

In light of reliable information becoming available for individual customers following a thorough internal review as a result of the implementation of Project Nexus, management is now confident that the consumption data is sufficiently reliable to calculate an estimate at an individual customer level and therefore the estimate of accrued income is now based on this new information. The effect of this change in estimate is to reduce the unbilled gas accrued income balance.

#### *Write down*

On implementation of the new methodology, the unbilled gas accrued income value in the supply business was reduced by £10,983k. This has negatively impacted both the balance sheet and profit and loss statement in the supply business as well as those of these consolidated accounts. However, the write down of the unbilled accrued income balance has no impact on the reported cash position of either the supply business or these consolidated Group accounts.

The Electricity unbilled accrued income figure remains unchanged owing to the sophisticated methodology which has been adopted since inception which ensures wholesale costs are reconciled to actual customer meter readings by electricity industry system operators.

## **The Renewable Energy Company Limited**

### **Strategic Report for the Year Ended 30 April 2017**

#### **Full year results**

Despite strong customer growth, the write down of accrued income has been the primary contributor to revenue of £118,990,289 only marginally increasing by 1.1% (2016: £117,686,660).

The write down materially impacted gross profit of £16,666,893 (2016: £29,715,373) reducing by 43.9% (2016: 12.3% increase). As a consequence, gross profit margin diminished to 14.0% (2016: 25.2%) which was marginally compounded through customer growth mix favouring business channels which attract lower margins.

Total administration costs of £26,160,276 reduced by 9.9% (2016: £29,065,143) owing to a business wide transformation strategy to improve process and efficiencies.

Total pre-tax loss was £8,078,736 (FY16 pre-tax profit: £2,173,919) taking into account the £11.0m impact of the write down of accrued income. When excluding this, underlying profit before tax held up, increasing by 33.5% (2016: 49.1% decrease). The combination of increased customer growth and business transformation initiatives more than offset the impact of low gas usage (due to un-seasonally warm weather) and the effect of increased energy related costs.

The financial position remains strong despite the write down of the unbilled gas accrued income asset with net assets at £21,034,844 (2016: £29,115,493).

#### **Future developments**

The Directors believe the likelihood that the unfavourable events (exceptional weather and grid volatility combined) of the last financial year occurring in future years to be low.

The write down of the unbilled gas accrued income is anticipated to be a one-time event which will not re-occur. In addition, the Company has established a dedicated revenue assurance team to focus on all aspects of revenue generation. The Smart Meter Programme, which is underway, will assist with more accurate and timely meter data.

During the last financial year the Company continued with its development as an online energy company, with the introduction of its first app and a move to paperless billing. The Business Transformation strategy focussed on improvements to the customer service system. This will continue to be rolled out in FY18 and should complete in that year.

Working capital will be strengthened as we complete the transition from quarterly billing to monthly, which will boost cash flow.

Growth is expected to continue in the coming years, this will be particularly strong in our business channels. The Board anticipates that the financial performance of the Company will recover in FY18 with any profits being re-invested in the Group's projects which underpin the wider Group's mission.

## **The Renewable Energy Company Limited**

### **Strategic Report for the Year Ended 30 April 2017**

#### **Principal risks and uncertainties**

The principal risks of the Company continue to be:

#### **Political and regulatory risk**

There have been a significant number of changes to the regulations governing the energy industry. SMART and Project Nexus are both areas which require the Company to continue to invest resource and cost to ensure the Company remain both compliant and competitive.

The proposed energy price cap on standard variable tariffs (SVTs) announced in the Autumn 2017 statement is currently difficult to predict in terms of outcome however the Company continues to monitor developments closely.

It still remains hard to predict, with certainty, the medium and long term effects on the economy including energy prices and Government approach to renewable energy following the EU referendum vote in June 2016 to leave the EU.

#### **Weather volatility and demand**

Variability in relation to the weather directly impacts both customer demand and the energy purchasing strategy. The Company purchases energy both within the Group from the wider generation portfolio as well as trading on the wholesale market. In the event of low wind generation, this results in having to trade more energy in the wholesale market which could have an adverse effect on financial results.

To mitigate risk associated with weather change, operating a robust hedging model which encompasses accurate forecasting is key. This facilitates the ability to avoid short-term system imbalances as well as ensures we are adequately hedged in both the medium and long-term.

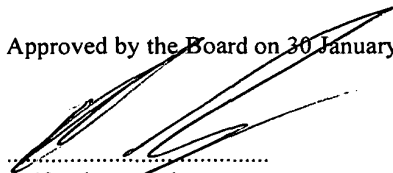
#### **Competition**

The Company is exposed to increased competition when supplying gas and electricity to both domestic and business customers. This impacts the operation in a number of ways including customer growth, customer retention, supply volume and earnings. The Company manages this risk through its ethical pricing strategy, consistent offering of excellent customer service, underpinned by its green credential status to attract like-minded customers.

#### **Financial risks**

The Company is exposed to a variety of financial risks including commodity price risk, interest rate risk, credit risk and liquidity risk. The Company monitors energy prices and analyses supply and demand volumes to manage exposure to these risks. The Company's hedging policy results in buying power and gas forward to mitigate future risk. The Company does not enter into or trade financial instruments, including derivatives, for speculative purposes.

Approved by the Board on 30 January 2018 and signed on its behalf by:



Asif Rehmanwala  
Director

Lion House, Rowcroft, Stoud, Gloucestershire, GL5 3BY

**The Renewable Energy Company Limited**  
**Directors' Report for the Year Ended 30 April 2017**

The Directors present their report and the financial statements for the year ended 30 April 2017.

**Directors of the Company**

The Directors who held office during the year were as follows:

Dale Vince

Asif Rehmanwala

Paul Wheatcroft (resigned 22 February 2017)

Garry Peagam (appointed 6 April 2017 and resigned 6 July 2017)

**Dividends**

The Directors do not recommend the payment of a dividend (2016: £Nil).

**Political donations**

The Company made no political donations and incurred no political expenditure during the year (2016: £Nil).

**Charitable donations**

The Company made £10,500 of charitable donations during the year (2016: £28,178).

**Employees**

The Company is committed to ensuring its development and the the development of its employees. The Group values the differences between employees that define them as unique individuals and that diversity within the workplace is an integral part of achieving success. The Company also recognises its responsibilities to its employees.

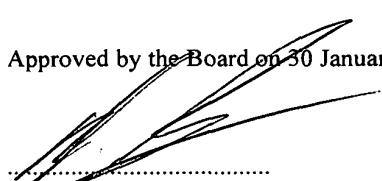
**Disclosure of information to the auditor**

Each Director has taken steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information. The Directors confirm that there is no relevant information that they know of and of which they know the auditor is unaware.

**Reappointment of auditor**

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

Approved by the Board on 30 January 2018 and signed on its behalf by:



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Asif Rehmanwala  
Director

Lion House, Rowcroft, Stoud, Gloucestershire, GL5 3BY



## **The Renewable Energy Company Limited**

### **Statement of Directors' Responsibilities**

The Directors are responsible for preparing the Strategic Report, 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 the Directors have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

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

The Directors are responsible for keeping 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 have a 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 Renewable Energy Company Limited**

### **Independent Auditor's Report to the Members of The Renewable Energy Company Limited**

We have audited the financial statements of The Renewable Energy Company Limited for the year ended 30 April 2017, set out on pages 10 to 24. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), 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 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.

#### **Respective responsibilities of Directors and auditor**

As explained more fully in the Statement of Directors' Responsibilities set out on page 7, 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**

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate).

#### **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 30 April 2017 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

#### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year is consistent with the financial statements. Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic Report and the Directors' Report:

- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

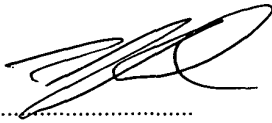
**The Renewable Energy Company Limited**

**Independent Auditor's Report to the Members of The Renewable Energy Company Limited**

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

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit 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.



.....  
**James Ledward (Senior Statutory Auditor)**  
**for and on behalf of KPMG LLP, Statutory Auditor**  
*Chartered Accountants*  
KPMG LLP  
66 Queen Square  
Bristol  
BS1 4BE

Date: 31 January 2018

**The Renewable Energy Company Limited**

**Profit and Loss Accounts and Other Comprehensive Income for the Year Ended 30 April 2017**

	Note	2017 £	2016 £
Turnover	3	118,990,289	117,686,660
Cost of sales		<u>(102,323,396)</u>	<u>(87,971,287)</u>
Gross profit		16,666,893	29,715,373
Administrative expenses		(26,160,276)	(29,065,143)
Other operating income	4	<u>1,410,222</u>	<u>1,634,740</u>
Operating (loss)/profit		(8,083,161)	2,284,970
Other interest receivable and similar income	6	9,196	6,346
Interest payable and similar charges	7	<u>(4,771)</u>	<u>(117,397)</u>
(Loss)/profit before taxation		(8,078,736)	2,173,919
Taxation	11	<u>(1,913)</u>	<u>(4,811)</u>
(Loss)/profit for the financial year		(8,080,649)	2,169,108
Other comprehensive income for the financial year		<u>-</u>	<u>-</u>
Total comprehensive (loss)/income for the financial year		<u><u>(8,080,649)</u></u>	<u><u>2,169,108</u></u>

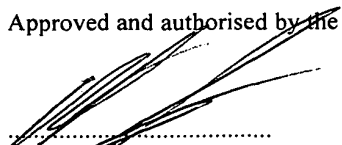
The notes on pages 13 to 24 form an integral part of these financial statements.

# The Renewable Energy Company Limited

(Registration number: 3043412)  
Balance Sheet as at 30 April 2017

	Note	2017 £	2016 £
<b>Fixed assets</b>			
Tangible assets	12	12,964	17,679
Investments	13	<u>15</u>	<u>15</u>
		<u>12,979</u>	<u>17,694</u>
<b>Current assets</b>			
Debtors	14	82,470,935	75,265,294
Cash at bank and in hand	15	<u>210,637</u>	<u>2,929,356</u>
		82,681,572	78,194,650
<b>Creditors: Amounts falling due within one year</b>	16	<u>(61,659,707)</u>	<u>(49,096,851)</u>
<b>Net current assets</b>		<u>21,021,865</u>	<u>29,097,799</u>
<b>Net assets</b>		<u>21,034,844</u>	<u>29,115,493</u>
<b>Capital and reserves</b>			
Called up share capital	18	3	3
Profit and loss account		<u>21,034,841</u>	<u>29,115,490</u>
<b>Total equity</b>		<u>21,034,844</u>	<u>29,115,493</u>

Approved and authorised by the Board on 30 January 2018 and signed on its behalf by:



Asif Rehmanwala

Director

Lion House, Rowcroft, Stoud, Gloucestershire, GL5 3BY

# **The Renewable Energy Company Limited**

## **Statement of Changes in Equity for the Year Ended 30 April 2017**

	Share capital £	Profit and loss account £	Total £
At 1 May 2016	3	29,115,490	29,115,493
Loss for the year	-	(8,080,649)	(8,080,649)
At 30 April 2017	<u>3</u>	<u>21,034,841</u>	<u>21,034,844</u>

	Share capital £	Profit and loss account £	Total £
At 1 May 2015	3	26,946,382	26,946,385
Profit for the year	-	2,169,108	2,169,108
At 30 April 2016	<u>3</u>	<u>29,115,490</u>	<u>29,115,493</u>

## **The Renewable Energy Company Limited**

### **Notes to the Financial Statements for the Year Ended 30 April 2017**

#### **1 General information**

The company is a private company limited by share capital incorporated in the UK. The presentation currency of these financial statements is sterling.

#### **2 Accounting policies**

##### **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.

##### **Statement of compliance**

These financial statements were prepared in accordance with Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' ("FRS 102").

##### **Basis of preparation**

These financial statements have been prepared using the historical cost convention.

##### **Name of parent of group**

These financial statements are consolidated in the financial statements of the company's ultimate parent undertaking, Ecotricity Group Limited.

The financial statements of Ecotricity Group Limited may be obtained from Lion House, Rowcroft, Stroud, Gloucestershire, GL5 3BY.

In these financial statements, the company is considered to be a qualifying entity and has applied the exemptions available under FRS 102 in respect of the following disclosures:

- Reconciliation of the number of shares outstanding from the beginning to the end of the period;
- Cash flow statement and related notes; and
- Key management personnel compensation.

As the consolidated financial statements of Ecotricity Group Ltd include the equivalent disclosures, the Company has also taken the exemptions in respect of the following disclosures:

- The disclosures required by FRS 102.11 Basic Financial Instruments and FRS 102.12 Other Financial Instrument Issues in respect of financial instruments not falling within the fair value accounting rules of Paragraph 36(4) of Schedule 1.

##### **Going concern**

After reviewing the Company's forecasts and projections, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. The Company therefore continues to adopt the going concern basis in preparing its financial statements.

The directors have reviewed the cash flow forecasts for the Group. In particular the directors note that the Group's trading and cash flow performance since the balance sheet date is in line with these forecasts. With regard to the net current liabilities of the Company and taking account of reasonably possible changes in trading performance, the directors are satisfied that the Group will generate sufficient cash flows to allow the parent company to meet its liabilities as they fall due for payment for at least the next 12 months. The group is forecast at times of peak working capital to use the overdraft facility. The group's current overdraft facility is due for renewal by 28 February 2018 and the Directors are confident that the facility will be renewed by that date and, therefore, sufficient funding will continue to be available.

## **The Renewable Energy Company Limited**

### **Notes to the Financial Statements for the Year Ended 30 April 2017**

#### **2 Accounting policies (continued)**

##### **Turnover**

Turnover comprises the fair value of the consideration received or receivable for the sale of energy in the ordinary course of the Company's activities. Turnover is shown net of value added tax and after eliminating sales within the company.

The Company recognises revenue when the amount of revenue can be reliably measured; it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Company's activities.

##### **Other operating income**

Other operating income comprises the fair value of the consideration received or receivable for services provided other than the sale of energy. Other operating income is shown net of value added tax.

The Company recognises other operating income when the amount can be reliably measured; it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Company's activities.

##### **Interest receivable and interest payable**

Interest income and interest payable are recognised in the profit and loss account as they accrue on funds invested or borrowed, using the effective interest method. Foreign currency gains and losses are reported on a net basis.

##### **Taxation**

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. Timing differences between accumulated depreciation and tax allowances for the cost of a fixed asset are not provided if and when all conditions for retaining tax allowances have been met. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax balances are not discounted.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities and other future taxable profits.



## **The Renewable Energy Company Limited**

### **Notes to the Financial Statements for the Year Ended 30 April 2017**

#### **2 Accounting policies (continued)**

##### **Tangible assets**

Tangible assets are stated at cost less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

The cost of tangible assets includes directly attributable incremental costs incurred in their acquisition and installation.

At the end of each financial period, the Company assesses whether tangible fixed assets are impaired.

##### ***Depreciation***

Depreciation methods, useful lives and residual values are reviewed if there is an indication of a significant change since the last annual reporting date in the pattern by which the company expects to consume an asset's future economic benefits.

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. Land is not depreciated. The estimated useful lives are as follows:

<b><i>Asset class</i></b>	<b><i>Depreciation method and rate</i></b>
Computer Equipment	3 years
Plant, Machinery and Motor Vehicles	4 years
Fixtures and Fittings	4 years

##### **Impairment of non-financial assets**

The carrying amounts of the Company's non-financial 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 is the greater of its value in use and its fair value less costs to sell. 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.

An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss.

## **The Renewable Energy Company Limited**

### **Notes to the Financial Statements for the Year Ended 30 April 2017**

#### **2 Accounting policies (continued)**

##### **Classification of financial instruments issued by Company**

In accordance with FRS 102.22, financial instruments issued by the Company are treated as equity only to the extent that they meet the following two conditions:

- they include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company; and
- where the instrument will or may be settled in the entity's own equity instruments, it is either a non-derivative that included no obligation to deliver a variable number of the entity's own equity instruments or is a derivative that will be settled by the entity exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the entity's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

##### **Basic financial instruments**

###### ***Investments***

Investments in equity instruments are measured initially at cost less impairment. Transaction costs are included unless the investments are subsequently measured at fair value through profit and loss.

###### ***Cash and cash equivalents***

Cash and cash equivalents comprise cash on hand and call deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value.

###### ***Trade and other debtors***

Trade debtors are amounts due from customers for goods provided in the ordinary course of business.

Trade and other debtors are recognised initially at the transaction price less attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses in the case of trade debtors. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of interest for a similar debt instrument.

###### ***Trade and other creditors***

Trade and other creditors are recognised initially at the transaction price less attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of interest for a similar debt instrument.

## The Renewable Energy Company Limited

### Notes to the Financial Statements for the Year Ended 30 April 2017

#### 2 Accounting policies (continued)

##### Other financial instruments

Other financial instruments not meeting the definition of Basic Financial Instruments are recognised initially at fair value. Subsequent to initial recognition other financial instruments are measured at fair value with changes recognised in profit or loss.

The Group has long-term commercial agreements for the supply of electricity and gas. The 'own use exemption' has been applied and so these contracts have not been measured as financial instruments. The 'own use exemption' is available because the contracts are held for the purpose of the delivery of a non-financial item (energy) in accordance with the Group's own expected purchase and sale requirements.

##### Provisions

A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the amount required to settle the obligation at the reporting date.

##### Dividends

Dividend distribution to the Company's shareholders is recognised as a liability in the financial statements in the reporting period in which the dividends are declared.

#### 3 Turnover

Turnover consists of sales wholly in the United Kingdom arising on the following continuing activities:

	2017 £	2016 £
Sale of electricity	85,681,092	78,569,403
Sale of gas	33,309,197	39,117,257
	<u>118,990,289</u>	<u>117,686,660</u>

#### 4 Other operating income

The analysis of the Company's other operating income for the year is as follows:

	2017 £	2016 £
Income from administration of FITs scheme	1,389,718	1,620,788
Other income	20,504	13,952
	<u>1,410,222</u>	<u>1,634,740</u>

#### 5 Expenses

Included in profit are the following:

	2017 £	2016 £
Depreciation expense	<u>4,715</u>	<u>4,714</u>

## The Renewable Energy Company Limited

### Notes to the Financial Statements for the Year Ended 30 April 2017

#### 6 Other interest receivable and similar income

	2017 £	2016 £
Interest income on bank deposits	9,196	6,337
Dividend income from financial assets	-	9
	<u>9,196</u>	<u>6,346</u>

#### 7 Interest payable and similar charges

	2017 £	2016 £
Interest on bank overdrafts	<u>4,771</u>	<u>117,397</u>

#### 8 Staff costs

The aggregate payroll costs were as follows:

	2017 £	2016 £
Wages and salaries	9,690,345	7,807,491
Social security costs	757,940	621,855
Pension costs, defined contribution scheme	<u>511,062</u>	<u>355,464</u>
	<u>10,959,347</u>	<u>8,784,810</u>

The average number of persons employed by the Company was as follows:

	2017 No.	2016 No.
Administration and support	409	311
Sales and marketing	33	31
Trading	<u>13</u>	<u>19</u>
	<u>455</u>	<u>361</u>

#### 9 Directors' remuneration

The remuneration of Directors was borne by the ultimate parent company Ecotricity Group Limited in both years, and amounts attributable to qualifying services provided to the Company are approximately £783,464 (2016: £791,603) and approximate company pension contributions to money purchase pension plans of £39,380 (2016: £26,667).

## The Renewable Energy Company Limited

### Notes to the Financial Statements for the Year Ended 30 April 2017

#### 10 Auditor's remuneration

	2017 £	2016 £
Audit of the financial statements	<u>26,500</u>	<u>24,363</u>

Amounts receivable by the Company's auditor and their associates in respect of services to the Company and its associates, other than the audit of the Company's financial statements, have not been disclosed for the information is required instead to be disclosed on a consolidated basis in the consolidated financial statements of the Company's parent, Ecotricity Group Limited.

#### 11 Taxation

Total tax expense recognised in the profit and loss, other comprehensive income and equity:

	2017 £	2016 £
<b>Current taxation</b>		
UK corporation tax	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>
<b>Deferred taxation</b>		
Origination and reversal of timing differences	1,134	2,928
Effect of tax rate changes on opening tax deferred tax balances	<u>779</u>	<u>1,883</u>
Total deferred taxation	<u>1,913</u>	<u>4,811</u>
Total tax expense	<u>1,913</u>	<u>4,811</u>

	2017			2016		
	Current Tax £	Deferred tax £	Total tax £	Current tax £	Deferred tax £	Total tax £
<b>Taxation</b>						
Recognised in profit and loss account	-	1,913	1,913	-	4,811	4,811

## The Renewable Energy Company Limited

### Notes to the Financial Statements for the Year Ended 30 April 2017

#### 11 Taxation (continued)

The tax on profit before tax for the year is lower than the standard rate of corporation tax in the UK (2016: lower than the standard rate of corporation tax in the UK) of 19.92% (2016: 20%).

The differences are reconciled below:

	2017 £	2016 £
(Loss)/profit before tax	<u>(8,078,736)</u>	<u>2,173,919</u>
Tax using the UK corporation tax rate of 19.92% (2016: 20%)	(1,609,106)	434,784
Expenses not deductible for tax purposes	2,499	1,485
Group relief claimed	(579,487)	(433,016)
Adjusting closing deferred tax to average rate	<u>585</u>	<u>1,558</u>
Total tax (credit)/charge	<u>(2,185,509)</u>	<u>4,811</u>

From 1 April 2015, the main rate of corporation tax was reduced to 20%. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the company's future current tax charge accordingly. The deferred tax liability at 30 April 2017 has been calculated based on these rates.

#### 12 Tangible assets

	Fixtures and Fittings £	Computer equipment £	Total £
<b>Cost</b>			
At 1 May 2016	<u>63,610</u>	<u>431,244</u>	<u>494,854</u>
At 30 April 2017	<u>63,610</u>	<u>431,244</u>	<u>494,854</u>
<b>Depreciation</b>			
At 1 May 2016	45,931	431,244	477,175
Charge for the year	<u>4,715</u>	<u>-</u>	<u>4,715</u>
At 30 April 2017	<u>50,646</u>	<u>431,244</u>	<u>481,890</u>
<b>Carrying amount</b>			
At 30 April 2017	<u>12,964</u>	<u>-</u>	<u>12,964</u>
At 30 April 2016	<u>17,679</u>	<u>-</u>	<u>17,679</u>

## The Renewable Energy Company Limited

### Notes to the Financial Statements for the Year Ended 30 April 2017

#### 13 Investments held as fixed assets

	Participating interests £
<b>Cost</b>	
At 1 May 2016	15
At 30 April 2017	15
<b>Net book value</b>	
At 30 April 2017	15
At 30 April 2016	15

There are no companies in which the Company's interest is more than 20% at the end of the financial year. The company has a participating interest in:

Smart Energy Code Company Limited registered at 8 Fenchurch Place, London EC3M 4AJ.

#### 14 Debtors

	2017 £	2016 £
<b>Due within one year</b>		
Trade debtors	18,371,421	14,178,284
Amounts owed by group undertakings	36,212,410	23,775,098
Prepayments and accrued income	27,860,115	37,295,955
Deferred tax assets	12,109	14,022
Income tax asset	14,880	1,935
	<u>82,470,935</u>	<u>75,265,294</u>

#### 15 Cash and cash equivalents

	2017 £	2016 £
Cash at bank	210,637	2,929,356
Bank overdrafts	<u>(6,664,052)</u>	<u>-</u>
	<u>(6,453,415)</u>	<u>2,929,356</u>

## The Renewable Energy Company Limited

### Notes to the Financial Statements for the Year Ended 30 April 2017

#### 16 Creditors

	2017 £	2016 £
<b>Due within one year</b>		
Bank overdrafts	6,664,052	-
Trade creditors	19,677,590	20,454,688
Amounts due to group undertakings	22,766,604	20,662,478
Social security and other taxes	453,667	271,577
Other payables	22,137	294,057
Accrued expenses	<u>12,075,657</u>	<u>7,414,051</u>
	<u>61,659,707</u>	<u>49,096,851</u>

The company has an agreed overdraft limit of up to £13,500,000 with an annual interest rate of 2.4%. The terms of the overdraft are renewed on an annual basis on 31 March.

#### 17 Deferred tax

	Deferred tax £
At 1 May 2016	14,022
Credited to profit and loss account	<u>(1,913)</u>
At 30 April 2017	<u>12,109</u>

#### Analysis of deferred tax

	2017 £	2016 £
Accelerated capital allowances	<u>12,109</u>	<u>14,022</u>

#### 18 Capital and reserves

##### *Share capital*

##### Allotted, called up and fully paid shares

	2017		2016	
	No.	£	No.	£
Ordinary shares of £1 each	<u>3</u>	<u>3</u>	<u>3</u>	<u>3</u>

The holders of ordinary shares are entitled to receive dividends from time to time and are entitled to one vote per share at meetings of the Company.



## **The Renewable Energy Company Limited**

### **Notes to the Financial Statements for the Year Ended 30 April 2017**

#### **19 Accounting estimates and judgements**

In the application of the Company's accounting policies, which are described in Note 2, the Directors are required to make judgements, estimates and assumptions about carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

#### ***Key sources of estimation uncertainty***

##### **• Unbilled income**

Revenue calculated from energy sales includes an estimate of the value of electricity or gas supplied to customers between the date of the last meter reading and the end of the reporting period. This is estimated using historical consumption patterns and data available upon which the Group takes a prudent position until the final reconciliation data is available. The total of accrued income relating to unbilled energy provision at year end is £24,695,498 (2016: £35,300,261).

During the year the Group changed its estimation methodology for unbilled income for gas customers. This change was made possible due to the availability of more reliable new industry information for customers' estimated annual consumption. As a result the estimate is now based upon individual customers' estimated annual consumption rather than an aggregated approach. This has materially reduced revenue and the accrued income balance at 30 April 2017 by £10,982k.

##### **• Bad debt provision**

The Company provides for debts which are deemed to be irrecoverable. The provision is estimated by considering the ageing of the debts as well as payment method and assessing the likelihood of recoverability of specific debts. The likelihood is judged against historic patterns of recoverability. The carrying value of the provision at 30 April 2017 was £2,637,666 (2016: £2,353,655).

## The Renewable Energy Company Limited

### Notes to the Financial Statements for the Year Ended 30 April 2017

#### 20 Related party transactions

The Company has taken advantage of the exemptions contained in FRS 102.33 and has not disclosed transactions or balances with wholly owned subsidiaries which form part of the Group.

#### Summary of transactions with other related parties

The Company made a charitable donation of £27,500 during the previous year to the Green Britain Foundation, a charity and company of which a director is also a director. There were no such donations in the current year.

The following transactions took place between the Company and non-wholly owned subsidiaries of the Group:

	Debtors outstanding		Creditors outstanding	
	2017	2016	2017	2016
	£	£	£	£
Other Group undertakings	<u>10,648,694</u>	<u>8,461,540</u>	<u>-</u>	<u>-</u>
	Sales to		Costs incurred from	
	2017	2016	2017	2016
	£	£	£	£
Other Group undertakings	<u>52,333</u>	<u>-</u>	<u>129,513</u>	<u>25,536</u>

#### 21 Ultimate parent undertaking and controlling party

The Company's immediate and ultimate parent undertaking is Ecotricity Group Limited, a Company incorporated in England and Wales. The ultimate controlling party of the Company is D Vince, the only shareholder of Ecotricity Group Limited.

The largest Group in which the results of the Company are consolidated is that headed by Ecotricity Group Limited. No other financial statements include the results of the Company. Consolidated financial statements may be obtained from Lion House, Rowcroft, Stroud, Gloucestershire, GL5 3BY.