ENGIE Power Limited

Registered Number: 04236804

Reports and Financial Statements

31 December 2019

Directors

K A Dibble
N E A Lovett
R J Wells

Secretary

S J Gregory

Auditor

Ernst & Young LLP
20 Chapel Street
Liverpool
L3 9AG

Bankers

Barclays Bank PLC
50 Pall Mall
London
SW1A 1QF

Registered Office

No 1 Leeds
26 Whitehall Road
Leeds
LS12 1BE

Directors' Report

The directors present their report and the company financial statements for the year ended 31 December 2019.

Principal Activities

The principal activities of the company are the supply of electricity to industrial, commercial, small business and domestic customers and purchase of energy from upstream generators.

Future Developments

The business is planning to maintain and where possible expand its offerings to its long-standing business supply customers. The company has, however, taken the decision in January 2020 to sell its UK residential gas and electricity supply business to Octopus Energy Limited and as such will no longer be active in this market place. The directors do not feel that the financial position of the business will be materially affected by the decision to sell its UK residential gas and electricity supply business. Total revenue generated from the Home Energy portion of the business offering constituted £86.5 million in the year ended 31 December 2019.

Results and Dividends

The results for the year, after taxation, amounted to a profit of £4,063,000 (2018 loss: £10,716,000). Of this, all is attributable to the members of the company.

The company has seen a small decrease in sales revenue from its traditional Industrial & Commercial offering but an increase in sales revenue from the continued development of its "Small and Medium Sized Enterprises" (SMEs). Revenues in the period overall have decreased (5.6)% in the year to £1.05 billion.

The decrease in revenue has however resulted in an increase in the gross reported margin to 3.6% compared to 2.6% in 2018, with an adjusted gross margin (excluding any fair value gain or loss on commodity contracts, and one off write-offs within 2018) of 3.6% showing an decrease of 0.4% in the adjusted gross margin compared to 4.0% reported in 2018. See page 9 for the reconciliation of adjusted gross margin.

There was no interim dividend paid during the year (2018: £nil), and no final dividends have been approved or paid (2018: £nil).

Post Balance Sheet Events

On 20 January 2020, ENGIE Power Limited announced the sale of its UK residential gas and electricity energy supply business to Octopus Energy Limited, for an undisclosed consideration, and this deal completed on 31 January 2020. Under the terms of the agreement, ENGIE Power Limited's 70,000 UK residential energy customers' supply transferred to Octopus Energy Limited. ENGIE Power Limited's portfolio of business energy customers and district supply operations throughout the UK will not be impacted by this sale.

Total sales generated by the portfolio were £65.3 million and £86.5 million in the year ended 31 December 2018 and 2019 respectively. Total gross margin profit in relation to the residential gas and electricity business was £3.7 million 2019 (profit of £2.3 million 2018). Operating expenses are not directly allocated to this part of the business.

The decision to exit the UK residential energy supply market is driven by the wider ENGIE group's focus on activities closely aligned to the strategy of making zero carbon happen for businesses and local authorities.

In light of this decision, the directors have been required to perform an impairment review on a number of the intangible assets specifically held in relation to the UK residential energy supply part of the business. Following the review the directors have impaired the intangible assets by £1.7m.

Directors' Report (continued)

Post Balance Sheet Events (continued)

On 11 March 2020, the World Health Organization raised the public health emergency situation caused by the outbreak of COVID-19 to an international pandemic and the development of the pandemic remains an issue post 31 March 2020. The rapid evolution of events, nationally and internationally, represents an unprecedented health crisis, which impacts the macroeconomic environment and the evolution of business. The company operates in the UK, which is affected by the pandemic.

The company's business is not significantly impacted by government restrictions on its own working practices however certain customers have been affected by either full or partial shutdown of operations.

As a result, this post balance sheet event has had an adverse impact to date, upon the revenues, profits and cash flows for the financial year ended 31 December 2020 as well as debtors with regards to their expected credit losses and may impact the valuation of the derivatives. Several initiatives have been implemented to protect the financial standing of the company. Within ENGIE Supply Holding UK Limited and its subsidiaries a small proportion of employees have been furloughed taking advantage of funding available from the Government and VAT payments have been deferred (allowed in accordance with HMRC guidelines). As the pandemic develops and government advice changes any further impacts on future cash flows or the carrying value of assets will be reflected in the 2020 financial statements as these impacts are assessed.

On 21 December 2020, ENGIE Supply Holding UK Limited and its subsidiaries have been placed under strategic review. The outcome of that review will likely be concluded by the end of Q3 2021.

Going Concern

The directors have at the time of approving the financial statements, a reasonable expectation that the company has adequate resources to continue in operational existence for the period to 30 June 2022. They therefore continue to adopt the going concern basis of accounting in preparing the financial statements. In concluding this the directors have identified a material uncertainty in respect of the current strategic review of the business, which means that the entity might be sold, resulting in a change in ownership. This is explained more fully below.

The base case projections were prepared and reviewed at a divisional level including the company, its parent ENGIE Supply Holding UK Limited and the parent's subsidiaries as it is this group which collectively transacts the energy supply activities for ENGIE S.A. in the UK. Cash balances are maintained at a divisional level and cash is held both within bank accounts and on reserve at ENGIE S.A. subsidiary ENGIE Treasury Management.

Both the company and the division have no external debt.

Base case projections were prepared in August 2020 and are still considered relevant. Actual working capital at 31 March 2021 was better than assumed for the same date in the base case projections. The working capital variance at 31 March 2021 was analysed by type and the favourability was shown to be largely driven by the unexpected extension of the Covid 19 VAT deferral scheme, which will now unwind on even monthly basis over the 10 month period ending January 2022. The favourability on VAT working capital was partially offset by an increased working capital requirement for amounts due from customers. When considering all working capital variances and their expected impact on future working capital cashflows, it was concluded that no changes were required to the base case projections prepared in August 2020.

The directors have considered the forecast period to 30 June 2022, with the key assumptions being:

Directors' Report (continued)

Going Concern (continued)

Operating cashflows: Operating cashflows have been projected on the assumption that the division will continue its existing commercial activities over the review period with no material changes to the division's systems, processes and people. Consumption levels of the divisions supply customers are assumed to have recovered to levels observed before Covid 19. Although a residual impact on consumption levels remains at the time of approving the financial statements, the directors consider it not significant enough to materially affect the future operating cashflows of the division. Instead, the residual impact has been reflected in a downside projection which is explained later in this disclosure.

Working capital cashflows: Working capital cashflows have been projected on the assumption that the division will maintain its existing credit terms with both customers and suppliers. The timing of ongoing indirect tax cashflows including VAT and Climate Change Levy are assumed to remain unchanged. As noted above, repayment of the 2020 Covid 19 related VAT deferral scheme will now take place on a monthly basis to January 2022 but it is assumed that no further Covid 19 related governmental support will be obtained by the division during the review period.

Financing cashflows: the division has no external debt at the present date and is assumed to remain debt free over the review period.

Investment cashflows: a modest level of capital investment equivalent to 2 months' worth of operating costs is assumed during the review period. The investments assumed relate to maintenance of the division's IT systems. It is assumed that no disposals will take place during the period.

The base case indicates the division has a substantial level of headroom liquidity to continue its operations for the period to 30 June 2022. The level of headroom liquidity in the base case is equivalent to 24 months' worth of operating costs.

The directors have reviewed a downside projection which represents a plausible worst-case scenario. This downside projection assumes the residual impact of Covid 19 on consumption levels observed during March 21 persists over the duration of the review period and an additional UK lockdown takes place during the summer of 2021 which creates an adverse financial impact equal to that created by the first UK lockdown of 2020. The financial impact of the first UK lockdown of 2020 was equivalent to 10 months' worth of operating costs. In this downside scenario the headroom liquidity is projected to reduce by 32% from that of the base case projections, still leaving the equivalent of 16 months of operating costs.

The directors have further performed a reverse stress test to assess the level of unforeseen cash requirements that the division could withstand before it would experience liquidity issues over the period to 30 June 2022.
The directors consider the level of unforeseen cash requirements necessary to create liquidity issues for the company as implausible as it is equivalent to between 24 and 33 months of operating costs depending on when the unforeseen cash requirements arose, or a 73% fall in gross margins over the review period.

Most cash held by the company at the balance sheet date and at the time of the financial statements being approved is held on reserve at ENGIE Treasury Management under a current account agreement. ENGIE Treasury Management is a 100% owned subsidiary of the company's ultimate parent company ENGIE S.A.

The directors consider the cash held by ENGIE Treasury Management readily accessible when required by the company. The obligation of ENGIE Treasury Management to provide this access is unconditionally guaranteed by the ultimate parent company ENGIE S.A. The directors have obtained written confirmation that this guarantee remains in place at the time of the financial statements being approved and that, should it be revoked in the period to 30 June 2022, the guarantee will remain in place indefinitely for any liabilities which exist at the point of revocation.

Directors' Report (continued)

Going Concern (continued)

The directors are aware at the time of approving the financial statements that the company's owner, ENGIE S.A., is reviewing strategic options for its UK energy supply activities. As such, there is uncertainty as to whether the company might be sold, and if it is then how any future purchaser might finance the company post acquisition and how any purchaser might integrate the company into its legal structure. The directors consider this constitutes a material uncertainty that may cast significant doubt on the company's ability to continue as a going concern.

Notwithstanding the potential for change of ownership, the directors conclude the going concern basis is appropriate for the financial statements.

The company financial statements do not include the adjustments that would result if the company were unable to operate as a going concern.

Directors

The directors who served during the year ended 31 December 2019 and subsequently were:

K A Dibble
N E A Lovett
R J Wells
C Macpherson (Appointed 1 May 2019, Resigned 20 January 2020)

Directors' and Officers' Liability Insurance

The company has made qualifying third party indemnity provisions for the benefit of its directors, which were made during the year and remain in force at the date of this report, to indemnify them against certain liabilities which they may incur in their capacity as directors or officers of the company, including liabilities in respect of which the company is itself unable to provide an indemnity by virtue of Section 232 of the Companies Act 2006. These arrangements were in place in the previous financial year.

Employees

The company operates a framework for employee information and consultation which complies with the requirements of the information and Consultation of Employee Regulations 2004. The company places considerable value on the involvement of its employees and has continued its previous practice of ensuring effective two-way communication on matters affecting them as employees, and on various factors affecting the performance of the company. This is achieved through both formal and informal meetings, together with a regular newsletter and information on the company intranet. The Employee Works Council met regularly during the year. These arrangements were in place in the previous financial year.

Disabled Employees

Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicants concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the company continues and that appropriate training is arranged. It is the policy of the company that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

Financial Instruments

The company finances its activities using its own working capital. Intercompany overdrafts are used to satisfy short term cash flow requirements. Other financial assets and liabilities, such as trade debtors and trade creditors, arise directly from the company's operating activities. The company also enters into derivative energy transactions. The purpose is to manage the energy market price risk arising from the company's energy purchasing for its Customer base (2018 – the same applies).

Directors' Report (continued)

Environmental Policy

The company is committed to reducing its impact on the environment. As part of this commitment the company actively promotes and encourages energy efficiency and recycling wherever possible.

Auditor

Ernst & Young LLP will be deemed to be reappointed and Ernst & Young LLP will therefore continue in office.

Directors' statement as to disclosure of information to the auditor

The directors who were members of the board at the time of approving the directors' report are listed on page 2.

Each of the persons who is a director at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

By order of the Board,

DocuSigned by:

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R J Wells

Director

7 May 2021

Directors' Responsibilities Statement

The directors are responsible for preparing the Directors' Report, Strategic 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 Financial Reporting Standard 101 Reduced Disclosure Framework. 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 Financial Reporting Standard 101 Reduced Disclosure Framework 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.

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

Strategic Report

The directors present their Strategic Report for the year ended 31 December 2019.

Business Review

ENGIE Power Limited activities are the supply of electricity to industrial, commercial, small business and domestic customers and purchase of energy from upstream generators.

The business aims to operate a friendly, customer-focused service, with a transparent approach to building commercial relationships that last. The business offers a portfolio of energy products suitable for all businesses, large and small. In addition to supplying energy, ENGIE Power Limited is a market leader in demand-side services and a growing provider of export contracts and Power Purchase Agreements (PPAs).

	Units	2019	2018	Movement
Turnover	£'000	1,045,007	1,107,272	(5.6)%
Reported Gross Margin	£'000	37,665	29,107	29.4%
Reported Gross Margin Percentage	%	3.6	2.6	1.0
Headcount		344	308	12%

The company has seen a slight decrease in revenue in the year. During the 12 months ending 31 December 2019 the company generated revenues of £1.05 billion, a decrease of 5.6% on the reported revenue of £1.11 billion in the year ended 31 December 2018.

During the same period the company generated a gross margin percentage of 3.6%, an increase of 1.0% from the reported gross margin in 2018 of 2.6%. However, this margin is slightly distorted by movements on the valuations of the company's contracts to purchase and supply power, as well as a one off write-off within 2018 in relation to the use of brokers. Adjusting for these movements in 2019 and 2018, the adjusted gross margin has decreased by 0.4% to 3.6% in 2019, compared to 4.0% in the prior period. As shown in the table below;

	Units	2019	2018
Turnover	£'000	1,045,007	1,107,272
Reported Gross Margin	£'000	37,665	29,107
Movement on fair value	£'000	508	5,969
One off items (2018 write-off)	£'000	-	8,883
Adjusted Gross Margin	£'000	37,157	43,959
Adjusted Gross Margin percentage	%	3.6	4.0

Reduction in Revenue

Revenues for the financial year ending 31 December 2019 were 5.6% down on the previous year, this fall is attributable primarily to the loss of three large Industrial and Commercial customers from the supply portfolio during the year.

The net assets of the company at the end of 2019 were £13,148,000 (2018 net assets of £9,393,000).

Strategic Report (continued)

Future Developments

Based on the results achieved this year and with careful consideration of the impact of COVID-19 on the year ended December 2020, the directors remain confident in the future prospects of the company, subject to the strategic review noted within the post balance sheet event note.

The business is constantly developing the services and products to meet the changing needs of our customers and the evolving energy environment.

Statement of corporate governance arrangements

The company is part of the UK Business unit ("UK BU") of the ENGIE Group, and report to the ENGIE UK Management team and Board.

Purpose and leadership

All ENGIE group companies share the common purpose of 'harmonious progress', under the leadership of ENGIE Group Executive Committee. ENGIE's ambition is to become the world leader in the zero-carbon transition "as a service" for our customers. In the UK, this purpose and ambition is articulated as 'making zero carbon happen' for customers which is achieved through combining energy, services and regeneration activities for the benefit of individuals, businesses and communities.

Directors responsibilities

Across the UK BU, whilst the boards of directors do not apply any specific code of corporate governance, the directors are confident that the alternative arrangements, which have been in place and were operational throughout the financial year, are sufficient to ensure effective management of the company and the group and interaction with its members and stakeholders. These alternative arrangements consist of a combination of the following:

- a board of directors, composed of directors with in-depth knowledge of the company and the sectors it operates in;
- clearly documented delegations of authorities governing the performance of both day to day and key activities;
- oversight and guidance by an "Executive Board" of which all the officers of the company form part, that oversees ENGIE's activities in the UK and which sets the strategy for the long-term success of the group;
- guidance by an independent Advisory Board composed of external experts, who have extensive links to ENGIE's customer-base and the communities in which the company operates; and finally
- an independent Scrutiny Board (of which the independence is verified by the Centre for Public Scrutiny), which assesses the company's activities (as part of an UK group of companies) against its Responsible Business Charter and specific KPIs set therein. The Responsible Business Charter aims to ensure that the company operates to the highest economic, social and environmental standards while building and maintaining public trust.

Opportunity and risk

Risk and opportunity management is owned at the highest level of the business; the UK Board has a risk management committee which reviews UK risks and the measures taken to mitigation these. The committee identifies environmental and societal issues and transforms them into opportunities for the business as well as managing environmental, social and governance (ESG) risks associated with the company's activities that relate to the environment, local and international acceptability, health and safety, human resources management, ethics and governance.

Within the company, individual contracts are required to produce contract-specific aspects and impacts registers which identify risks and opportunities and include mitigation measures. Any activities that are deemed significant post-mitigation must have further actions identified and implemented to manage the associated risks.

Strategic Report (continued)

Statement of corporate governance arrangements (continued)

Board composition

The company reports into the ENGIE UK BU CEO Nicola Lovett and her Executive Board. The board ensures that the UK BU operates to the highest economic, social and environmental standards – leading the business in-line with the stated values of the organisation.

The board is supported by a robust business management system (including business continuity and succession plans) – ensuring that roles are consistently and fairly filled with highly experienced individuals.
Decisions of the board are scrutinised by a framework of separate parties:

- The board of ENGIE Group holds ultimate oversight over the UK BU.
- Independent oversight is received from the UK Advisory Board, led in 2020 by Sir Mike Rake.
- The ENGIE UK board also employs an independent Scrutiny Board, led by Lord Kerslake - which measures the UK BU's adherence to its self-administered Responsible Business Charter.

Remuneration

The ENGIE UK BU Executive total remuneration is reviewed by the ENGIE Scrutiny Board and was deemed to be fair, proportionate and timely in relation to corporate performance, in comparison with peers and in ratio with employees' pay and benefits.

The salary of all Executives in the UK is set by the parent company, ENGIE S.A., and aims to support long-term success by linking in bonus, salary increases and long-term incentives to a set number of financial and managerial targets, along with a view on market positioning. The same approach to bonus and salary is used for employees below the executive level (where eligible).

Stakeholder relationships and engagement

When managing stakeholder relationships, all activity adheres to ENGIE's Ethics Policy and Gifts and Hospitality Policy, with governance from a Board level Ethics Officer.

Directors' statement of compliance with duty to promote the success of the company (under section 172 (1) of the companies act 2006)

The directors view the company's key stakeholders to be the environment and community, customers, employees, regulators, government, and suppliers.

ENGIE has developed a Responsible Business Charter in the UK that supports its objectives in operating to the highest economic, social and environmental standards while building and maintaining public trust. It includes commitments in four areas: fair business growth, transparency and accountability, being a fair employer, and supporting communities and environmental leadership.

Additional assurance that high standards of conduct are maintained is gained from the oversight and guidance the companies receive from the independent Scrutiny Board, which is a non-statutory oversight committee appointed to account for effective delivery of and assess activities against the Responsible Business Charter.

The directors' actions are also guided by ENGIE's core values: Bold, Open, Caring and Demanding, which help define the UK BU companies' strategies and targets. Energy Supply, which incorporates ENGIE Supply Holding UK Limited, ENGIE Power Limited, ENGIE Gas Limited, ENGIE Gas Shipper Limited, IPM Energy Retail Limited and International Power Retail Supply Company (UK) Limited, falls part of all wider UK BU initiatives. The UK BU has five operating divisions; Business Services, Energy Infrastructure, Places & Communities, Public Sector and Energy Supply.

Strategic Report (continued)

Directors' statement of compliance with duty to promote the success of the company (under section 172 (1) of the companies act 2006) (continued)

The directors monitor the performance of ENGIE Power Limited against annual objectives.

The directors utilise a full range of communication channels managed at the UK BU level to engage with stakeholders. These include face to face meetings, forums and events, reports and other written materials, as well as through public relations activity, targeted digital content and social media.

Environment and Community

The directors see benefit in reducing the direct environmental impacts of its operations, as well as in supporting its customers in efforts to drive lower carbon outcomes. In 2019 the UK BU continued to improve its corporate environmental performance against a range of indicators. In line with its purpose of 'Making Zero Carbon Happen', the UK BU has reduced Scope 1 (direct emissions from owned or controlled sources) and Scope 2 (indirect emissions from the generation of purchased electricity, steam, heating and cooling consumed) carbon intensity by 57% since 2012 and Scope 3 (all other indirect emissions that occur in a company's value chain) emissions by 5% since 2018. The UK BU has saved clients over 71,000 tonnes of CO_2e and increased the proportion of its vehicle fleet made up of electric vehicles to 9%.

As of 2019, Scope 1 and 2 asset carbon intensity (carbon emissions per Mwh of energy generated) has been reduced by 76% and freshwater abstraction by 62%. The proportion of electricity generating capacity comprising renewables remains at 4%.

For its energy supply operations, Scope 1 and 2 emissions are very small (consistent with office-based activity) whilst its Scope 3 emissions are based on the carbon profile of the GB gas and electricity supply markets, adjusted by the impact of its access to renewable sources of energy. The company has plans in place to continue to reduce emissions in all categories.

In terms of the GB energy market, continuing progress is being made in decarbonising the power sector at a national level, forming a key part of the UK Government's commitment to reaching "Net Zero" by 2050. Engie Power Limited markets a range of products and services designed to support customers through this zero carbon transition, including renewable supply, corporate renewable power purchase agreements, provision of green gas, energy efficiency, and zero carbon roadmap advice.

ENGIE in the UK defines community investment as the total financial value of employee fundraising, employee volunteering hours and management time, gifts and donations, financial investment including spend with the VCSE sector and sponsorship of community events.

In 2019 the total community investment for the UK BU exceeded £1 million for the second consecutive year. This included over 14,000 volunteering hours, with 997 of these hours being from Energy Supply, and £140,000 raised for the ENGIE chosen charities.

Customers

The directors recognise that maintaining positive relationships with customers is a major driver to performance in the sector, ensuring strong levels of retention and providing broader business opportunities. The directors directly engage with key customers at a strategic level in order to build partnerships, understand changing requirements and help to improve the company's products and services. The directors also work to ensure that the culture of the company has a strong customer focused ethos, investing in its systems and people to continually improve the customer experience.

Providing excellent customer service is a key focus for the company. Industrial and Commercial customers have a designated account manager who ensures the customers are on an appropriate product and ensure that bills are understood. Advice is also provided to customers directly and via webinars, on industry and regulatory developments.

Strategic Report (continued)

Directors' statement of compliance with duty to promote the success of the company (under section 172 (1) of the companies act 2006) (continued)

Customers (continued)

The main Customer Service team is situated at the Shared Service Centre in Newcastle and consists of frontline advisors, team leaders and an operations manager. All teams have their own individual targets and objectives whilst across Customer Service there are "Customer First KPI's" which are monitored and measured throughout each month.

Employee involvement and engagement

The directors believe in the importance of an engaged and well-motivated employee base in achieving our overall business objectives. Employee involvement in the company is encouraged, and engagement levels are tracked through regular employee surveys. Achieving a shared purpose and common awareness on the part of all employees of the financial and economic factors affecting the company plays a material role in improving its performance.

The directors regularly communicate with employees on matters of concern to them, and consult with them or their representatives, in order that their views are considered where company developments may affect their interests. This is achieved through regular meetings between management and elected employee representatives, company-wide web presentations, leadership blogs, intranet news articles and mails to employees' home addresses.

The company also encourages the involvement of employees to optimise company and ENGIE group performance through wider employee share ownership utilising the group's Link Employee Share Purchase Plan.

The UK BU of ENGIE offers and actively promotes development opportunities at all levels. There are focussed programmes at a global and local level for the highest potential talent, which are aligned to the succession planning process. In the wider business, the ENGIE group has developed accredited management development programmes that are open to all employees.

The company also offers a variety of bespoke development programmes for areas of the business such as Business Development and Finance. Currently under development in the UK is an in-house, sophisticated digital learning team enabling a greater number of employees to be reached for training and development of technical, mandatory and soft skills. This is in addition to a Global Digital Learning Platform available to all Energy Supply staff, with a combination of mandatory and optional learning courses.

The UK BU contributes to ENGIE's global skills reporting process, which provides an understanding of current skill trends and gaps requiring attention. This enables the company to establish a clear understanding of the short, medium and long-term focus areas. Succession plans and pools for business-critical roles are regularly reviewed, developing internal and external development plans to ensure a sustainable pipeline of talent.

Regulators and Government

The company operates in a highly regulated market, which is subject to a regular flow of government policy consultations, and regulatory developments. Depending on their nature, policy and regulatory changes may provide opportunities or pose risk to the company's operations.

The directors place strong emphasis on compliance with regulations, including with the terms of its relevant licences, and understands the need to demonstrate good performance to, and foster good relationships with, Ofgem, the industry regulator, government, and industry code administrators.

The company has a designated Regulation Director who is responsible for a proactive engagement plan with these stakeholders to facilitate those relationships and understand the expectations that are critical to the business.,

Strategic Report (continued)

Directors' statement of compliance with duty to promote the success of the company (under section 172 (1) of the companies act 2006) (continued)

Regulators and Government (continued)

This includes regular meetings with BEIS investor relations, direct involvement in key industry change proposals, responses to policy and regulatory consultations, and engagement with relevant trade associations. The directors regularly attend senior level meetings with BEIS and Ofgem.

Suppliers

ENGIE's suppliers are fundamental to the running of the business from both an operational and regulatory perspective. The company complies with the payment policies and performance regulations introduced by the government in April 2017 which involves submitting supplier payment data on a half-yearly basis.

Although this is the regulatory requirement, the results of the payment performance are monitored by the directors and used to set objectives to encourage ongoing improvement.

The UK directors maintain high standards of business conduct by ensuring that activities of the UK BU companies of ENGIE are in line with ENGIE's Ethics Charter, policies and codes of conduct. The overarching Ethics Charter includes a zero tolerance for all forms of corruption and is supplemented with a range of more specific policies and practical guidelines which deal with areas such as supplier relationships, conflicts of interest and gifts and hospitality. All Board members have received training in this respect.

Long term consequences of decisions made in year

The only significant decision made during the year was the sale of its UK residential gas and electricity energy supply business to Octopus Energy Limited. The decision to exit the UK residential energy supply market is driven by the wider ENGIE group's focus on activities closely aligned to the strategy of making zero carbon happen for businesses and local authorities.

With relation to the sale of the residential side of the business, appropriate due diligence was performed on Octopus Energy Limited to ensure a smooth transition for customers and the transfer process was carefully designed and communicated to ensure that it was straightforward for customers. For affected employees, redeployment opportunities were actively identified where possible, leaving a small number of roles being made redundant. These employees were given regular communication and offered appropriate redundancy packages by the company. The regulator, Ofgem, was informed and involved with the sale throughout the process and all supplier payments were honoured.

Principal Risks and Uncertainties

The key risks are, COVID-19, energy price volatility, credit risk, non-performance of information systems, political or regulatory change, reputation risk, business disruption, failing to attract, retain and motivate staff, project risk, Brexit and non-compliance.

COVID-19

With regard to the current situation with the COVID-19 pandemic or public health crisis in general, in summary, the pandemic will have an adverse impact upon the revenues, profits, cash flows and may impact the valuation of long term assets for the financial year ended 31 December 2020 and the financial year ending 31 December 2021 as well as trade debtors with regards to their expected credit losses and the valuation of the derivatives. However the risk that COVID-19 has had on the business has been closely monitored by the directors and forecasts have been prepared in order to assess the future results of the business.

Strategic Report (continued)

Principal Risks and Uncertainties (continued)

Energy Price Volatility

Exposure to energy price risk is minimised by restricting quotation validity to limited underlying market price movements and by hedging sales with purchases at the point of contract acceptance. Electricity forward contracts are used to fix the price of future physical flows and thus provide greater certainty on future revenues and costs.

Credit risk

The company's credit risk is attributable to its trade debtors, accrued income and derivatives. The risk is controlled by review of customer creditworthiness and is mitigated through the use of credit insurance, customer prepayments, letters of credit and customer deposits. The company's treasury policies seek to reduce and minimise financial risk and ensure sufficient liquidity for foreseeable needs. The majority of transactions are in £ sterling, however where appropriate the ENGIE group hedges foreign exchange transactions to minimise exposure to foreign exchange movements.

Non-performance of information systems

The impact of systems failure is mitigated by ensuring system and application requirements are approved and managed in an appropriate manner and maintaining a disaster recovery solution.

Political or regulatory change and non-compliance

The company operates in a highly regulated market, which is subject to a continuous flow of government policy interventions, and regulatory developments. Depending on their nature, policy and regulatory changes may provide opportunities or pose risk to the company's operations.

The ENGIE group's Regulatory Affairs team monitor and provide active participation in consultation on legislative changes within the industry and the company ensures compliance with all relevant legislation.

Reputation risk

ENGIE SA group instruction manuals set out the policies and procedures with which the UK subsidiaries are required to comply. The leadership team are responsible for ensuring that the UK companies observe and implement the policies and procedures set out in the manual which is regularly reviewed and updated.

Business disruption

The company has a business continuity plan ready to be implemented in response to a critical business event.

An Internal Control Review Project combined with a Continuous Improvement Programme was in place throughout the year. The combination of these two initiatives is the documentation of policies, procedures and key processes throughout the business with the objective of achieving a greater level of control, process consistency, efficiency and improvement.

Project risk

There is a comprehensive budgeting system in place with an annual budget approved locally by the leadership team and also centrally by ENGIE SA. Management information systems provide the leadership team and directors with relevant and timely reports that identify significant deviations from approved plans and include regular re-forecasts for the year, in order to facilitate timely analysis and appropriate decisions and actions.

Strategic Report (continued)

Principal Risks and Uncertainties (continued)

Brexit

Currently Brexit poses a risk due to the changes to activities of customers which may be affected by the post implementation phase of Brexit. The company engages directly with customers, and employs a Regulation Director who has regular contact with government bodies, to ensure that any impacts, both direct and indirect, on the business is known as soon as possible and necessary steps are taken to mitigate potential risk.

By order of the Board,

DocuSigned by:

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R J Wells

Director

7 May 2021

Independent Auditor's Report

to the members of ENGIE Power Limited

Opinion

We have audited the financial statements of ENGIE Power Limited for the year ended 31 December 2019 which comprise the Profit and Loss Account, the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and the related notes 1 to 30, including a summary of significant accounting policies The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2019 and of its profit 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.

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 below. 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.

Material uncertainty relating to Going Concern

We draw attention to note 1 in the financial statements, which indicates that the company's ultimate controlling party plans to initiate a strategic review activity of its UK energy supply activities including the company. As such, there is uncertainty as to whether the company might be sold and, if it is, how any future purchaser might finance the company post acquisition and how any purchaser might integrate the company into its legal structure. As stated in note 1, these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Emphasis of matter – effects of COVID-19

We draw attention to notes 1 and 29 of the financial statements, which describe the impact on the company of COVID-19. Our opinion is not modified in respect of this matter.

Independent Auditor's Report (continued)

to the members of ENGIE Power Limited

Other information

The other information comprises the information included in the annual report set out on pages 3 to 16, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this 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 the other information, we are required to report that fact.

We have nothing to report in this regard.

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 year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

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 material misstatements in the Strategic Report or Directors' Report.

We have nothing to report in respect of the following matters in relation to which 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.

Independent Auditor's Report (continued)

to the members of ENGIE Power Limited

Responsibilities of directors

As explained more fully in the Directors' Responsibilities Statement set out on page 8, 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 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 the 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 https://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.

Ernst + Young LLP

Jennifer Hazlehurst (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor

Liverpool

7 May 2021

Profit and Loss Account

for the year ended 31 December 2019

	Note	2019 £'000	2018 £'000
Turnover	3	1,045,007	1,107,272
Cost of sales		(1,007,850)	(1,072,196)
Fair value loss on commodity contracts	20	508	(5,969)
Gross profit		37,665	29,107
Administrative expenses		(33,690)	(41,035)
Operating profit/(loss)	4	3,975	(11,928)
Interest receivable and similar income	8	1,672	220
Interest payable and similar charges	9	(628)	(1,280)
Profit/(loss) before taxation		5,019	(12,988)
Tax (charge) / credit	10	(956)	2,272
Profit/(loss) for the financial year after tax		4,063	(10,716)

All amounts relate to continuing activities.

Statement of Comprehensive Income

at 31 December 2019

There was no other comprehensive income attributable to the shareholders of the company other than the profit for the year ended 31 December 2019 of £4,063,000 (2018 loss: £10,716,000).

Balance Sheet

at 31 December 2019

	Note	2019 £'000	2018 £'000
Non-current assets			
Intangible assets	12	9,797	14,477
Property, plant and equipment	11	2,861	1,340
Right-of-use assets	21	2,606	-
Debtors greater than one year	14	18,554	19,963
Derivative financial instruments	20	17,820	25,983
		51,638	61,763
Current assets			
Stocks	13	33	2,726
Debtors due within one year	14	341,421	246,376
Derivative financial instruments	20	64,729	55,001
Intercompany cash sweep		103,003	123,475
Cash at bank and in hand		75	582
Deferred tax asset	19	629	697
Assets held for sale	15	8,375	-
		518,265	428,857
Total assets		569,903	490,620
Current liabilities			
Creditors: amounts falling due within one year	16	418,669	333,624
Lease liabilities	21	544	-
Borrowings	17	46,916	60,527
Derivative financial instruments	20	67,742	57,872
		533,871	452,023
NET CURRENT LIABILITIES		**(15,606)**	**(23,166)**
Total assets less current liabilities		**36,032**	**38,597**
Non-current liabilities			
Provisions	18	1,346	2,894
Lease liabilities	21	4,040	-
Derivative financial instruments	20	17,498	26,310
		22,884	29,204
Total liabilities		556,755	481,227
NET ASSETS		**13,148**	**9,393**

Balance Sheet (continued)

at 31 December 2019

	Note	2019 £'000	2018 £'000
Capital and reserves			
Called up share capital	24,28	-	-
Profit and loss account	28	13,148	9,393
TOTAL SHAREHOLDERS' FUNDS		**13,148**	**9,393**

The financial statements with a registration number 04236804 were approved by the board of directors and authorised for issue on 27 April 2021. They were signed on its behalf by:

DocuSigned by:

BDBA95524A46441...

R J Wells

Director

7 May 2021

Statement of Changes in Equity

for the year ended 31 December 2019 and 31 December 2018

	Note	Share Capital £'000	Profit and loss account £'000	Total £'000
At 1 January 2018		-	**20,109**	**20,109**
Loss for the year		-	(10,716)	(10,716)
At 31 December 2018 (as previously reported)		-	**9,393**	**9,393**
At 1 January 2019 (as previously reported)		-	**9,393**	**9,393**
Effect of change in accounting policy for initial application of IFRS 16		-	(308)	(308)
At 1 January 2019 – As restated		-	**9,085**	**9,085**
Profit for the year		-	4,063	4,063
At 31 December 2019		-	**13,148**	**13,148**

Notes to the Financial Statements

at 31 December 2019

1. Authorisation of financial statements and statement of compliance with FRS 101

The financial statements of ENGIE Power Limited (the 'company') for the year ended 31 December 2019 were authorised for issue by the board of the directors on 27 April 2021 and the balance sheet was signed on the board's behalf. ENGIE Power Limited is a private limited company incorporated and domiciled in England & Wales.

Basis of Preparation

The financial statements have been prepared in accordance with FRS101 (Financial Reporting Standard 101) "Reduced Disclosure Framework" and interpretations in force at the reporting date.

The company meets the definition of a qualifying entity under FRS 100 (Financial Reporting Standard 100) issued by the Financial Reporting Council. Accordingly, in the year ended 31 December 2012 the company underwent transition from reporting under IFRSs adopted by the European Union to FRS 101 as issued by the Financial Reporting Council. The financial statements have therefore been prepared in accordance with FRS 101 (Financial Reporting Standard 101) 'Reduced Disclosure Framework' as issued by the Financial Reporting Council.

The company has taken advantage of the following disclosure exemptions under FRS 101:

(a) the requirements of paragraphs 45(b) and 46-52 of IFRS 2 Share based Payment, because:

(i) the share based payment arrangement concerns the instruments of another group entity;

(b) the requirements of IFRS 7 Financial Instruments: Disclosures

(c) the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement;

(d) the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:

(i) paragraph 79(a)(iv) of IAS 1;

(ii) paragraph 73(e) of IAS 16 Property, Plant and Equipment;

(iii) paragraph 118(e) of IAS 38 Intangible Assets;

(e) the requirements of paragraphs 10(d), 10(f), 39(c) and 134-136 of IAS 1 Presentation of Financial Statements;

(f) the requirements of IAS 7 Statement of Cash Flows;

(g) the requirements of paragraph 17 of IAS 24 Related Party Disclosures;

(h) the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member; and

(i) the requirements of paragraphs 134(d)-134(f) and 135(c)-135(e) of IAS 36 Impairment of Assets.

Where required, equivalent disclosures are given in the group accounts of ENGIE SA. The group accounts of ENGIE SA are available to the public and can be obtained as set out in note 30.

The principal accounting policies adopted by the company are set out in note 2.

The financial statements have been prepared on the historical cost basis, except for the revaluation of derivative financial instruments. Historical cost is generally based on the fair value of the consideration given in exchange for the assets.

The company financial statements are presented in Pounds Sterling because that is the currency of the primary economic environment in which the company operates and all values are rounded to the nearest thousand Pounds Sterling (£'000) except when otherwise indicated.

Notes to the Financial Statements (continued)

at 31 December 2019

1. Authorisation of financial statements and statement of compliance with FRS 101 (continued)

Going concern

The directors have at the time of approving the financial statements, a reasonable expectation that the company has adequate resources to continue in operational existence for the period to 30 June 2022. They therefore continue to adopt the going concern basis of accounting in preparing the financial statements. In concluding this the directors have identified a material uncertainty in respect of the current strategic review of the business, which means that the entity might be sold, resulting in a change in ownership. This is explained more fully below.

The base case projections were prepared and reviewed at a divisional level including the company, its parent ENGIE Supply Holding UK Limited and the parent's subsidiaries as it is this group which collectively transacts the energy supply activities for ENGIE S.A. in the UK. Cash balances are maintained at a divisional level and cash is held both within bank accounts and on reserve at ENGIE S.A. subsidiary ENGIE Treasury Management.

Both the company and the division have no external debt.

Base case projections were prepared in August 2020 and are still considered relevant. Actual working capital at 31 March 2021 was better than assumed for the same date in the base case projections. The working capital variance at 31 March 2021 was analysed by type and the favourability was shown to be largely driven by the unexpected extension of the Covid 19 VAT deferral scheme, which will now unwind on even monthly basis over the 10 month period ending January 2022. The favourability on VAT working capital was partially offset by an increased working capital requirement for amounts due from customers. When considering all working capital variances and their expected impact on future working capital cashflows, it was concluded that no changes were required to the base case projections prepared in August 2020.

The directors have considered the forecast period to 30 June 2022, with the key assumptions being:

Operating cashflows: Operating cashflows have been projected on the assumption that the division will continue its existing commercial activities over the review period with no material changes to the division's systems, processes and people. Consumption levels of the divisions supply customers are assumed to have recovered to levels observed before Covid 19. Although a residual impact on consumption levels remains at the time of approving the financial statements, the directors consider it not significant enough to materially affect the future operating cashflows of the division. Instead, the residual impact has been reflected in a downside projection which is explained later in this disclosure.

Working capital cashflows: Working capital cashflows have been projected on the assumption that the division will maintain its existing credit terms with both customers and suppliers. The timing of ongoing indirect tax cashflows including VAT and Climate Change Levy are assumed to remain unchanged. As noted above, repayment of the 2020 Covid 19 related VAT deferral scheme will now take place on a monthly basis to January 2022 but it is assumed that no further Covid 19 related governmental support will be obtained by the division during the review period.

Financing cashflows: the division has no external debt at the present date and is assumed to remain debt free over the review period.

Investment cashflows: a modest level of capital investment equivalent to 2 months' worth of operating costs is assumed during the review period. The investments assumed relate to maintenance of the division's IT systems. It is assumed that no disposals will take place during the period.

The base case indicates the division has a substantial level of headroom liquidity to continue its operations for the period to 30 June 2022. The level of headroom liquidity in the base case is equivalent to 24 months' worth of operating costs.

Notes to the Financial Statements (continued)

at 31 December 2019

1. Authorisation of financial statements and statement of compliance with FRS 101 (continued)

Going concern (continued)

The directors have reviewed a downside projection which represents a plausible worst-case scenario. This downside projection assumes the residual impact of Covid 19 on consumption levels observed during March 21 persists over the duration of the review period and an additional UK lockdown takes place during the summer of 2021 which creates an adverse financial impact equal to that created by the first UK lockdown of 2020. The financial impact of the first UK lockdown of 2020 was equivalent to 10 months' worth of operating costs. In this downside scenario the headroom liquidity is projected to reduce by 32% from that of the base case projections, still leaving the equivalent of 16 months of operating costs.

The directors have further performed a reverse stress test to assess the level of unforeseen cash requirements that the division could withstand before it would experience liquidity issues over the period to 30 June 2022. The directors consider the level of unforeseen cash requirements necessary to create liquidity issues for the company as implausible as it is equivalent to between 24 and 33 months of operating costs depending on when the unforeseen cash requirements arose, or a 73% fall in gross margins over the review period.

Most cash held by the company at the balance sheet date and at the time of the financial statements being approved is held on reserve at ENGIE Treasury Management under a current account agreement. ENGIE Treasury Management is a 100% owned subsidiary of the company's ultimate parent company ENGIE S.A.

The directors consider the cash held by ENGIE Treasury Management readily accessible when required by the company. The obligation of ENGIE Treasury Management to provide this access is unconditionally guaranteed by the ultimate parent company ENGIE S.A. The directors have obtained written confirmation that this guarantee remains in place at the time of the financial statements being approved and that, should it be revoked in the period to 30 June 2022, the guarantee will remain in place indefinitely for any liabilities which exist at the point of revocation.

The directors are aware at the time of approving the financial statements that the company's owner, ENGIE S.A., is reviewing strategic options for its UK energy supply activities. As such, there is uncertainty as to whether the company might be sold, and if it is then how any future purchaser might finance the company post acquisition and how any purchaser might integrate the company into its legal structure. The directors consider this constitutes a material uncertainty that may cast significant doubt on the company's ability to continue as a going concern.

Notwithstanding the potential for change of ownership, the directors conclude the going concern basis is appropriate for the financial statements.

The company financial statements do not include the adjustments that would result if the company were unable to operate as a going concern.

New and Revised IFRSs applied

IFRS 16 – Leases (effective date 1 January 2019)

In the current year, the company has applied IFRS 16 'Leases', which is effective for annual periods beginning on or after 1 January 2019. The nature and effect of the changes resulting from the adoption of this new accounting standard are described below and the significant accounting policies meeting these requirements are described in the relevant policies.

Notes to the Financial Statements (continued)

at 31 December 2019

1. Authorisation of financial statements and statement of compliance with FRS 101 (continued)

New and Revised IFRSs applied (continued)

IFRS 16 – Leases (effective date 1 January 2019)

IFRS 16 was issued in January 2016 and it replaces IAS 17 'Leases' and IFRIC 4 'Determining whether an Arrangement contains a Lease'. IFRS 16 introduces significant changes to lessee accounting by removing the distinction between an operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets when such recognition exemptions are adopted.

The date of initial application of IFRS 16 for the company is 1 January 2019.

The company has applied IFRS 16 using the modified retrospective approach which:
• requires the company to recognise the cumulative effect of initially applying IFRS 16 as an adjustment to the opening balance of retained earnings at the date of initial application; and
• does not permit restatement of comparatives, which continue to be presented under IAS 17 and IFRIC 4.

Impact of the new definition of a lease

The company has made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to be applied to those leases entered or changed before 1 January 2019.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration. This is in contrast to the focus on 'risks and rewards' in IAS 17 and IFRIC 4.

The company applies the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or changed on or after 1 January 2019. In preparation for the first-time application of IFRS 16, the company has carried out an implementation project. The project has shown that the new definition in IFRS 16 will not significantly change the scope of contracts that meet the definition of a lease for the company.

Impact on Lessee Accounting

IFRS 16 changes how the company accounts for leases previously classified as operating leases under IAS 17, which were off balance sheet.

Applying IFRS 16, for all leases (except as noted below), the company:

a) recognises right-of-use assets and lease liabilities in the balance sheet, initially measured at the present value of the future lease payments, with the right-of-use asset adjusted by the amount of any prepaid or accrued lease payments in accordance with IFRS 16;
b) recognises depreciation of right-of-use assets and interest on lease liabilities in the profit and loss account

Lease incentives (e.g. rent free periods) are recognised as part of the measurement of the right-of-use assets and lease liabilities, whereas under IAS 17 they resulted in the recognition of a lease incentive, amortised as a reduction of rental expenses on a straight line basis.

Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36.

Notes to the Financial Statements (continued)

at 31 December 2019

1. Authorisation of financial statements and statement of compliance with FRS 101 (continued)

New and Revised IFRSs applied (continued)

IFRS 16 – Leases (effective date 1 January 2019)
For short-term leases (lease term of 12 months or less) and leases of low-value assets (which includes tablets and personal computers, small items of office furniture and telephones), the company has opted to recognise a lease expense on a straight-line basis as permitted by IFRS 16.

This expense is presented within 'administrative expenses' in the profit and loss account.

The company has used the following practical expedients when applying the cumulative catch-up approach to leases previously classified as operating leases applying IAS 17:

- the company has applied a single discount rate to a portfolio of leases with reasonably similar characteristics;
- the company has adjusted the right-of-use asset at the date of initial application by the amount of provision for onerous leases recognised under IAS 37 in the balance sheet immediately before the date of initial application as an alternative to performing an impairment review;
- the company has decided not to exclude leases for which the residual lease term ends within 12 months of the transition date;
- the company has excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- the company has used hindsight when determining the lease term when the contract contains options to extend or terminate the lease.

Financial impact of initial application of IFRS 16

In the context of the transition to IFRS 16 right-of-use assets of £2.9m and lease liabilities of £5.1m were recognised as at 1 January 2019. Of these lease liabilities £0.5m was due within one year.

The following reconciliation to the opening balance for the lease liabilities as at 1 January 2019 is based on the operating lease obligations as at 31 December 2018

	1 January 2019 £'000
Operating lease obligations at 31 December 2018	5,741
Relief short term asset leases	(57)
Gross Liabilities at 1 January 2019	**5,684**
Discounting	(569)
Lease Liabilities at 1 January 2019	**5,115**
Present value of finance leases as at 31 December 2018	-
Additional lease liabilities as a result of the initial application of IFRS 16 as at 1 January 2019	**5,115**

Notes to the Financial Statements (continued)

at 31 December 2019

1. Authorisation of financial statements and statement of compliance with FRS 101 (continued)

New and Revised IFRSs applied (continued)

IFRS 16 – Leases (effective date 1 January 2019) (continued)

The lease liabilities were discounted at the incremental borrowing rate as at 1 January 2019. The incremental borrowing rate was 2.4%.

Leases are presented as follows in the profit and loss account

	2019 £'000
Included within Administrative expenses	
Expenses from short term assets leases	57
Depreciation on right-of-use assets	336
Included in Interest payable and similar charges	
Interest expense on lease liabilities	119

Disclosures regarding right-of-use assets and lease liabilities and other disclosures can be found under the relevant balance sheet items, note 21.

2. Accounting Policies

Critical Accounting judgements and key sources of estimation uncertainty

In the application of the company's accounting policies, the directors are required to make judgments, estimates and assumptions about the 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 that are 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.

Critical judgements in applying the company's accounting policies

The following are critical judgments, apart from those involving estimations (which are dealt with separately below), that the directors have made in the process of applying the company's accounting policies and that have the most significant effect on the amount recognised in the financial statements.

Commodity Contracts in scope of IFRS 9 – Financial Instruments

The company routinely enters into retail and wholesale contracts, including contracts for physical delivery of power, which are not stacked against each other.

Wholesale contracts are for energy trading and hence clearly in the scope of IFRS 9.

Management has assessed that retail contracts are also viewed as net settled (and therefore in scope of IFRS 9) since the criteria of 'net settlement' were met for similar contracts.

Following this principle all of the company's power purchase and sale contacts are accounted for as derivatives – apart from those deemed as for residential Customers which do not meet the criteria set out in IFRS 9.

Notes to the Financial Statements (continued)

at 31 December 2019

2. Accounting Policies (continued)

Critical judgements in applying the company's accounting policies (continued)

Unobservable valuation inputs in the fair value determination

When determining whether day one gains should be recognized immediately in profit or loss or deferred, management assesses whether unobservable inputs were significant to the initial fair value measurement. When its contribution is viewed as significant then the entire day one gain of the contract is deferred.

Leases

Application of IFRS 16 requires significant judgements and certain key estimations which, among others, include identifying whether a contract includes a lease, determining whether it is reasonably certain than an extension or termination option will be exercised, determination of the appropriate rate to discount the lease payments, assessment of whether a right-of-use asset is impaired.

The company cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR used is 2.4%. The IBR represents the rate of interest that the company would have to pay to borrow over a similar term the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The company estimates the IBR using observable inputs (such as market interest rates) when available.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (which includes tablets and personal computers, small items of office furniture and telephones), the company has opted to recognise a lease expense on a straight-line basis as permitted by IFRS 16.

At the commencement date of the lease, the company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments less any lease incentives receivable.

Assets held for sale

On 20 January 2020, ENGIE Power Limited announced the sale of its UK residential gas and electricity energy supply business to Octopus Energy Limited. The directors considered the residential gas and electricity energy supply business to meet the criteria to be classified as held for sale at that date as the disposal group includes all residential energy supply contracts held by the business and the associated customer related working capital including accrued income and accounts receivables.

This disposal group has been classified as held for sale in accordance with IFRS 5; as its carrying amount will be recovered principally through a sale transaction rather than through continuing use, and the disposal group was available for immediate sale at the balance sheet date. This judgement is supported by the fact that the sale of this disposal group was completed on 31 January 2020.

The balance included in the disposal group has been reviewed and impaired accordingly to take into consideration the intangible assets not sold as well as impairment of accrued income and trade receivables.

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.

Fair value of financial instruments

Financial instruments are recognised and measured in accordance with IFRS 9 Financial Instruments Recognition and Measurement. The fair value of financial instruments is calculated based on prices quoted on active markets. Where active markets don't exist, there is some degree of estimation in deriving these prices, however industry data and external benchmarking is used where relevant.

Notes to the Financial Statements (continued)

at 31 December 2019

2. Accounting Policies (continued)

Key sources of estimation uncertainty (continued)

Accrued Income & Cost

In assessment of the accrued income and cost, commercial assumptions and market data are used to estimate future billed consumption, and price outturn. This data is a combination of historical observations and energy industry provided information. For the avoidance of doubt this covers energy, transportation, metering, and intermediary fees.

Uncertainty on other balance sheet items (including accrued income, and accruals), is mitigated by the long period between the balance sheet date and the date when the financial statements are authorised for issue. Relevant information obtained by the company subsequent to the balance sheet date, if material, is adjusted in the accounts recognised as the financial statements as far as these provide evidence of conditions that existed at the balance sheet date.

However, in respect of certain accruals, there is an industry reconciliation process of power purchase costs which can typically take 14 months from the date of supply to be finalised due to the processes that the energy market has to complete in order to finalise consumption data for any particular month. Therefore, there is an element of power purchase costs that needs to be estimated based on a combination of in-house and industry data that is available.

During the year the business has undertaken a review of the techniques used to calculate energy, transportation and intermediary fee accruals, along with its estimation of bad debt provisioning and finance cost accruals. This has allowed the business to more accurately estimate these costs going forward but also review its historic liabilities and provisions.

Property, Plant and equipment – on-going valuation

Property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses. Cost comprises the aggregate amount paid, and the fair value of any other consideration given to acquire the asset and includes costs directly attributable to making the asset capable of operating as intended.

The carrying value of the assets are reviewed on at least an annual basis for impairment to ensure that the carrying value presented in the financial statements is not greater than its fair value.

In order to do this the directors, consider both internal factors such as;

- obsolescence or physical damage,
- if the asset is lying idle and not being used within the business or:
- if it is not performing its function as was expected.

As well as external factors such as:

- Significant decreases in market value
- Changes in technology of legal frameworks which may render the item obsolete.

Where the carrying value of the assets exceeds what the directors consider to be its fair value the assets value will be impaired with the amount being written down taken to the Profit and Loss account when identified.

Intangible Assets – on-going valuation

Intangible assets acquired separately are measured at cost on initial recognition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and impairment losses.

The carrying value of the assets are reviewed on at least an annual basis for impairment to ensure that the carrying value presented in the financial statements is not greater than its fair value.

To establish if the asset needs to be impaired the directors will consider such factors as:

- Obsolescence of technology acquired
- Changes in the entities legal framework
- Retention of customers (specific to sales order book acquired)

Notes to the Financial Statements (continued)

at 31 December 2019

2. Accounting Policies (continued)

Key sources of estimation uncertainty (continued)

Intangible Assets – on-going valuation (continued)

Where the carrying value of the assets exceeds what the directors consider to be its fair value the assets value will be impaired with the amount being written down taken to the Profit and Loss account when identified.

Bad Debt Provision

In assessment of the bad debt provision, assumptions are applied to categorise debt into risk profiles based on the nature of the transactions. The company has adopted the provisions of IFRS 9 such that it uses the Expected Credit Loss Model to identify the expected losses on outstanding debtor balances.

External & Intercompany Receivables – Expected Credit Losses

For receivables from both external companies and fellow group and subsidiary companies, expected credit losses are calculated in accordance with the simplified approach permitted by IFRS9, using a provision matrix applying historical credit loss experience to both external and intercompany receivables. The expected credit loss rate varies depending upon on whether and the extent to which settlement of the receivables is overdue and is adjusted as appropriate to reflect current economic conditions. The key drivers of the loss rate are the nature of the business unit and the type of receivable in question.

When a receivable (either external or intercompany) is determined to have no reasonable expectation of recovery it is written off, firstly against any expected credit allowance available and then to the income statement.

Subsequent recoveries of amounts previously provided for or written off are credited to the income statement: Long term receivables are discounted where the effect is material.

As at 31 December 2019, the company recognised a total of £87.0 million (2018: £119.7 million) of external trade receivables and a total of £154.9 million of intercompany receivables in the year (2018: £55,000). Having undertaken an assessment of these balances, management have concluded that any expected credit losses would be immaterial for both the current year and prior year: and therefore, no adjustments in relation to the expected credit loss provision. The bad debt provision recognised at the balance sheet date is detailed in Note 14.

Taxation

The company is subject to routine tax audits and also a process whereby tax computations are discussed and agreed with the appropriate authorities. Whilst the ultimate outcome of such tax audits and discussions cannot be determined with certainty, management estimates the level of provisions required for both current and deferred tax on the basis of professional advice and the nature of current discussions with the tax authority concerned.

Dilapidations

Provision is made for the future cost of returning the company office to its original state as per the agreed contract. The estimate is based upon the cost per square foot, indexed to account for expected inflation.

Significant accounting policies

Intangible assets

Intangible assets acquired separately are measured at cost on initial recognition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and impairment losses.

Notes to the Financial Statements (continued)
at 31 December 2019

2. Accounting Policies (continued)

Significant accounting policies (continued)

Intangible assets (continued)

Intangible assets are amortised on a straight line basis over their expected useful economic lives, as follows:

Application software and development costs	-	3 years to 5 years
Sales order book	-	6 years

The carrying value of intangible assets is assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method are reviewed at least each financial year end.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates.

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the profit and loss when the asset is derecognised.

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses. Cost comprises the aggregate amount paid and the fair value of any other consideration given to acquire the asset and includes costs directly attributable to making the asset capable of operating as intended.

Depreciation is provided on property, plant and equipment in equal annual instalments over their estimated useful lives. The rates of depreciation are as follows:

Fixtures, fittings and office equipment	-	5 years
IT equipment	-	3 years to 5 years
Leasehold improvements	-	15 years

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end, and adjusted prospectively, if appropriate.

Impairment of non-financial assets

The company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the company makes an estimate of the asset's recoverable amount in order to determine the extent of the impairment loss. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. 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 which the estimate of future cash flows have not been adjusted.

Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses on continuing operations are recognised in the profit and loss in those expense categories consistent with the function of the impaired asset.

Notes to the Financial Statements (continued)

at 31 December 2019

2. Accounting Policies (continued)

Significant accounting policies (continued)

Impairment of non-financial assets (continued)

For assets, where an impairment loss subsequently reverses, the carrying amount of the asset or cash generating unit is increased to the revised estimate of its recoverable amount, not to exceed the carrying amount that would have been determined, net of depreciation, had no impairment losses been recognised for the asset or cash generating unit in prior years. A reversal of impairment loss is recognised immediately in the profit and loss.

Leases

The company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Company as a lessee

The company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The company recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The company recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received.

Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

Land and Buildings - 15 years

If ownership of the leased asset transfers to the company at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset. The right-of-use assets are also subject to impairment.

Lease Liabilities

At the commencement date of the lease, the company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees.

In calculating the present value of lease payments, the company uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable.

After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

The company's lease liabilities are included in other current and other non current liabilities (see Note 21).

Notes to the Financial Statements (continued)

at 31 December 2019

2. Accounting Policies (continued)

Significant accounting policies (continued)

Leases (continued)

Short-term leases and leases of low-value assets

The company applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low value assets are recognised as expense on a straight-line basis over the lease term.

Financial Assets

Initial recognition and measurement

Financial assets within the scope of IFRS 9 are classified as financial assets at fair value through profit or loss, loans and receivables. The company determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus directly attributable transaction costs. The measurement basis is determined by reference to the contractual cash flow characteristics of the financial asset.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace are recognised on the trade i.e., the date that the company commits to purchase or sell the asset. The subsequent measurement of financial assets depends on their classification, and is accounted for as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the company that are not designated as hedging instruments in hedge relationships as defined by IFRS 9.

Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments (no hedges are currently in place). Financial assets at fair value through profit and loss are carried in the balance sheet at fair value with changes in fair value recognised as a finance expense in the profit and loss account.

The company evaluates its financial assets at fair value through profit and loss (held for trading) and whether the intent in the near term is still appropriate. When the company is unable to trade these financial assets due to inactive markets and management's intent significantly changes to do so in the foreseeable future, the company may elect to reclassify these financial assets in rare circumstances. The reclassification to loans and receivables, available for sale or held to maturity depends on the nature of the asset. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation. The company did not reclassify any financial assets in the current period.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through the profit and loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the profit and loss. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Notes to the Financial Statements (continued)

at 31 December 2019

2. Accounting Policies (continued)

Significant accounting policies (continued)

Financial Assets (continued)

Treatment of "day-one" gains and losses

In the normal course of its business, the Group will acquire non-financial and financial instruments where the fair value on initial recognition is the transaction price, being the fair value of the consideration given or received. However, for certain transactions the initial recognition for energy derivatives differs from the transaction price, and a day 1 gain or loss will arise. In such circumstances, the day one gains of the entire contract is not recognised immediately in profit or loss but deferred and amortised to profit and loss based on volumes delivered over the contractual period.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest (EIR) method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance revenue in the income statement. The losses arising from impairment are recognised in the profit and loss in other operating expenses. For receivables from fellow group companies a 12-month expected credit loss (ECL) allowance is recorded on initial recognition. If there is subsequent evidence of a significant increase in the credit risk of an asset, the allowance is increased to reflect the full lifetime ECL. If there is no realistic prospect of recovery, the asset is written off.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

Assets carried at amortised cost

For financial assets carried at amortised cost the company first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the profit and loss. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the company.

Notes to the Financial Statements (continued)

at 31 December 2019

2. Accounting policies (continued)

Significant accounting policies (continued)

Financial Assets (continued)

Assets carried at amortised cost (continued)

If, in subsequent years, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to other operating expense in the profit and loss.

Impairment of financial assets

IFRS 9 requires an expected credit loss (ECL) model to be applied to the financial assets. The expected credit loss model requires the company to account for expected losses as a result of credit risk on initial recognition of financial assets and to recognise changes in those expected credit losses at each reporting date.

De-recognition of financial assets

The financial assets (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when (i) the rights to receive cash flows from the asset have expired or (ii) the company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the company has transferred substantially all the risks and rewards of the asset, or (b) the company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Stock

The company holds green certificates for the purpose of meeting renewable obligation targets and exempting climate change levy. Certificates have been stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. Costs incurred in purchasing certificates are accounted for at the weighted average purchase cost.

Debtors due within one year

Trade debtors are recognised and carried at the lower of their original invoiced value and recoverable amount. Where the time value of money is material, debtors are carried at amortised cost. Provision is made when there is objective evidence that the company will not be able to recover balances in full. Balances are written off when the probability of recovery is assessed as being remote.

Receivable Financing Agreements

The company has entered into a Receivables Financing Agreement, so as to better able to manage and forecast its cash holdings. Under this financing agreement certain debtors are assigned to a third-party ahead of the contracted payment date. In these circumstances the liability is settled upon payment by the customer. These amounts are recognised as short-term borrowings.

Cash at bank and in hand

Cash and short-term deposits in the balance sheet comprise cash at banks and in hand and short-term deposits with an original maturity of three months or less.

Intercompany cash sweep

Cash is placed within an intercompany account on an overnight sweep basis. It is readily available for use by the company with an automated arrangement in place to return cash outflows to the company's bank account.

Notes to the Financial Statements (continued)

at 31 December 2019

2. Accounting policies (continued)

Significant accounting policies (continued)

Financial Liabilities

Initial recognition and measurement

Financial liabilities within the scope of IFRS 9 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The company determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

Purchases or sales of financial liabilities that require delivery of liabilities within a time frame established by regulation or convention in the marketplace are recognised on the trade i.e., the date that the company commits to purchase or sell the liabilities.

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition at fair value through profit or loss. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments (no hedges are currently in place). Gains or losses on liabilities held for trading are recognised in profit or loss.

Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments (no hedges are currently in place). Financial liabilities at fair value through profit and loss are carried in the balance sheet at fair value with changes in fair value recognised in the profit and loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Fair values

The fair value of financial instruments that are traded in active markets at the reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in note 20.

Interest bearing loans and borrowings

Obligations for loans and borrowings are recognised when the company becomes party to the related contracts and are measured initially at the fair value of consideration received less directly attributable transaction costs.

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses arising on the repurchase, settlement or otherwise cancellation of liabilities are recognised respectively in finance revenue and finance cost.

2. Accounting policies (continued)

Significant accounting policies (continued)

Financial Liabilities (continued)

De-recognition of financial liabilities

A liability is generally derecognised when the contract that gives rise to it is settled, sold, cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, such that the difference in the respective carrying amounts together with any costs or fees incurred are recognised as profit or loss.

Provisions

A provision is recognised when the company has a legal or constructive obligation as a result of a past event; it is probable that an outflow of economic benefits will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation. If the effect is material, expected future cash flows are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability.

Where the company expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when recovery is virtually certain. The expense relating to any provision is presented in the profit and loss net of any reimbursement. Where discounting is used, the increase in the provision due to unwinding the discount is recognised as a finance cost.

Income taxes

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the following exceptions:

Where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss; and

Deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Income tax is charged or credited to other comprehensive income if it relates to items that are charged or credited to other comprehensive income. Similarly, income tax is charged or credited directly to equity if it relates to items that are credited or charged directly to equity. Otherwise income tax is recognised in the profit and loss.

Sales Tax

Turnover, expenses and assets are recognised net of the amount of sales tax except:

- Where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable.
- Debtors and creditors that are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of debtors or creditors in the balance sheet.

Notes to the Financial Statements (continued)

at 31 December 2019

2. Accounting policies (continued)

Significant accounting policies (continued)

Revenue recognition

The company supplies power to commercial business and domestic customers in the UK. The company has determined that no enforceable rights and obligations exist at the inception of the contract and arise only once the cooling off period is complete and the company is the legal supplier of energy to the customer. The performance obligation is the supply of energy over the contractual term: the units of supply represent a series of distinct goods that are substantially the same with the same pattern of transfer to the customer. The performance obligation is considered to be satisfied as the customer consumes based on the units of energy delivered.

In respect of energy supply contracts, the company considers that it has the right to consideration from the customer for an amount that corresponds directly with the value delivered by the customer through their consumption. It is the judgement of the company that the consumers consume energy as the company supply's and, as a result, the company recognises revenue for the amount which the entity has a right to invoice. The company's assessment of the amount that it has the right to invoice includes an assessment of energy supplied to customers between the date the last meter reading and the year end (known as unread revenue). Unread electricity comprise both billed and unbilled revenue and is estimated through the billing systems, using historic consumption patterns, load forecasts and the differences between actual meter readings being returned and system estimates. Actual meter readings continue to be compared to the system estimates between the balance sheet date and finalisation of the accounts.

Cost of sales

Cost of sales includes the cost of retail power purchased during the period and related transportation, distribution costs, balancing charges, and services.

Finance Income

Interest income is recognised as interest accrues using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to its net carrying amount.

Pension costs

The company operates a defined contribution scheme.

Contributions to the defined contribution scheme are charged in the period in which they arise.

Foreign currencies

In preparing the financial statements, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rate prevailing at that date.

Exchange differences are recognised in profit or loss in the period in which they arise.

Commitments

As part of its on-going activities, the business has entered into a number of long term commitments for both renewable obligation certificates and other future dated power purchase agreements. Due to the long nature and uncertainty in the market place of these contracts an estimate of these costs will be made at each accounting period (note 26).

The business also will have continuing on-going costs in relation to its current internal and customer facing IT system. An estimate of the future costs is associated with these projects are made on an annual basis.

Operating profit

Operating profit is stated before interest income and interest payable, but after fair value movements on derivative financial instruments.

Notes to the Financial Statements (continued)
at 31 December 2019

3. Turnover

All turnover was generated in the UK from the supply and management of electricity to industrial, commercial, SME and domestic customers.

4. Operating profit/(loss)

This is stated after charging/(crediting):

	2019 £'000	2018 £'000
Depreciation - owned assets	377	368
Depreciation - right-of-use	336	-
Amortisation of intangible assets	4,986	4,537
Impairment of intangible assets	1,721	810
Staff costs (see note 6)	19,622	16,110
Impairment loss recognised on debtors	(335)	11,538
Operating lease rentals- land & buildings	-	469
- others	-	150
- short term operating leases (IFRS 16)	57	-

5. Auditor's Remuneration

Fees payable to Ernst & Young LLP and their associates for the audit of the company's annual accounts were £396,000 (2018: £426,000).

There were no fees payable by ENGIE Power Limited to Ernst & Young LLP for non-audit services (2018: £nil).

6. Staff costs

The monthly average number of employees during the year we as follows:

	2019 Number	2018 Number
Sales and Marketing	83	86
Administration	261	222
	344	**308**

The aggregate staff costs of these persons comprised:

	2019 £'000	2018 £'000
Wages and salaries	17,795	14,197
Social security costs	947	1,023
Other pension costs	880	890
	19,622	**16,110**

Notes to the Financial Statements (continued)

at 31 December 2019

7. Directors remuneration

There was only one director paid through Engie Power in the period, therefore details of directors' remuneration and highest paid director are as follows:

	2019 £'000	2018 £'000
Short term employee benefits	127	115
Post-employment pension	19	18
	146	133

The other directors of the company are employees of the ENGIE SA group and receive no remuneration for their qualifying services as directors of this company (2018 - £nil).

No director has exercised any group share options (2018 – £nil).

8. Interest receivable and similar income

	2019 £'000	2018 £'000
Interest receivable from customers for late payment	1	-
Inter-company loan interest	1,635	168
Other interest receivable	36	52
	1,672	**220**

9. Interest payable and similar charges

	2019 £'000	2018 £'000
Inter-company loan interest	106	965
Interest payable for late payment to suppliers	19	11
Interest on lease liabilities	119	-
Other interest payable	384	304
	628	**1,280**

Included within other interest payable is an amount of £384,000 paid in relation to the Receivables Financing Agreement entered into in November 2016 (2018: £290,000).

Notes to the Financial Statements (continued)

at 31 December 2019

10. Taxation

The tax charge / (credit) comprises:

	2019 £'000	2018 £'000
Current income tax:		
UK corporation tax on profits of the year	-	-
Group relief payable	790	(1,327)
Adjustments in respect of previous periods	98	-
Total current income tax	888	(1,327)
Deferred tax: (note 19)		
Deferred income tax relating to the origination and reversal of temporary differences	68	(1,040)
Adjustments in respect of previous periods	-	95
Total current deferred tax	68	(945)
Tax charge / (credit) in the profit and loss	956	(2,272)

Reconciliation of tax charge / (credit)	2019 £'000	2018 £'000
Profit / (loss) before tax	5,019	(12,988)
Profit/(loss) multiplied by rate of corporation tax of 19.00% (2018: 19%)	954	(2,468)
Adjustments in respect of prior periods – current tax	98	-
Deferred tax on IFRS 16	(46)	-
Adjustments in respect of prior periods – deferred tax	-	95
Change in Deferred tax rate	(17)	101
Non-taxable income	(33)	-
Tax charge / (credit) in the profit and loss	956	(2,272)

Factors that may affect future current and total tax charges

The standard rate of UK corporation tax is 19% and this took effect from 1 April 2017. The 2016 Finance Act introduced a UK corporation tax rate of 17% from 1 April 2020. Accordingly, these rates are applicable in the measurement of deferred tax assets and liabilities at 31 December 2019. Deferred tax has been provided at 17% being the rate at which temporary differences are expected to reverse.

However in March 2021, the 2021 Budget included an announcement to increase the standard rate of corporation tax rate from 19% to 25% from 1 April 2023. It is expected this will be substantively enacted during Summer 2021. Since the rate increase was not substantively enacted at the balance sheet date, deferred tax has been provided at 17%. The maximum impact on deferred tax balances of the rate increase is estimated to be immaterial.

Notes to the Financial Statements (continued)

at 31 December 2019

11. Property, Plant and Equipment

	Fixtures, fittings and office equipment	Leasehold improvements	IT equipment	Assets under construction	Total
	£'000	£'000	£'000	£'000	£'000
Cost					
At 1 January 2019	279	2,394	1,051	-	3,724
Additions	890	-	30	978	1,898
Transfers	663	(663)	-	-	-
At 31 December 2019	1,832	1,731	1,081	978	5,622
Accumulated depreciation					
At 1 January 2019	145	1,325	914	-	2,384
Charge for the year	267	-	110	-	377
Transfers	545	(545)	-	-	-
At 31 December 2019	957	780	1,024	-	2,761
Net book amount					
At 1 January 2019	134	1,069	137	-	1,340
At 31 December 2019	875	951	57	978	2,861

12. Intangible Assets

	Application Software and development costs	Sales Order Book	Total
	£'000	£'000	£'000
Cost			
At 1 January 2019	24,184	3,300	27,484
Additions	2,027	-	2,027
At 31 December 2019	26,211	3,300	29,511
Aggregate amortisation			
At 1 January 2019	9,707	3,300	13,007
Charge for the year	4,986	-	4,986
Impairment for the year	1,721	-	1,721
At 31 December 2019	16,414	3,300	19,714
Net book amount			
At 1 January 2019	14,477	-	14,477
At 31 December 2019	9,797	-	9,797

Notes to the Financial Statements (continued)

at 31 December 2019

12. Intangible Assets (continued)

The application software capitalised relates to several different applications developed specifically for the Retail businesses of the ENGIE group. The useful economic life of these applications has been determined as 3-5 years. The amortisation charge for the year is included within administrative expenses.

Development costs have been capitalised in accordance with IAS 38 Intangible Assets and are therefore not treated, for dividend purposes, as a realised loss.

In January 2020 the company decided to sell the residential portion of the business to Octopus Energy Limited. As such it has undertaken an exercise to identify all associated assets, in particular the carrying value of the associated software that the company has capitalised over the past 3 years and the value it has placed on payments made to Energy Brokers which have yet to be fully settled.

As a result of this review the company believes that there has been a reduction in the perceived long-term value it can derive from its domestic IT software. As such the company has written down the carrying value of some of its IT software to what it perceives is a balance more aligned to its current economic value at 31 December 2019.

In total the company has impaired the associated assets by £1.7m in the year to 31 December 2019.

13. Stock

	2019 £'000	2018 £'000
Renewable Obligation Certificates	33	2,726
	33	2,726

The large movement in the balance in the year is due to a contract including a higher fee in 2018 that was not in place in 2019.

14. Debtors

Debtors due within one year

	2019 £'000	2018 £'000
Trade debtors	86,991	119,721
Other debtors	4,145	1,852
Amounts owed by fellow subsidiary undertakings	102,357	55
Amounts owed by group undertakings	52,505	-
Prepayments	22,920	11,886
Accrued income	71,421	110,934
Current tax asset	1,082	1,928
	341,421	246,376

Of the total trade receivables balance of £87.0 million (2018 - £119.7 million) the company has provided a total of £21.3 million in respect of a combination of bad debt provision, credit note provision and expected credit loss reserve (2018 – £20.8 million). No amount was purchased or originated credit impaired. In the current year the company has incurred a total bad debt expense of £(0.3) million (2018 - £11.5 million).

Notes to the Financial Statements (continued)
at 31 December 2019

14. Debtors

Debtors greater than one year

	2019 £'000	2018 £'000
Prepayments	18,554	19,963
	18,554	19,963

15. Assets held for sale

On 20 January 2020, ENGIE Power Limited announced the sale of its UK residential gas and electricity energy supply business to Octopus Energy Limited, for an undisclosed consideration. Under the terms of the agreement, ENGIE Power Limited's 70,000 UK residential energy customers' supply transferred to Octopus Energy Limited. ENGIE Power Limited's portfolio of business energy customers and district supply operations throughout the UK will not be impacted by this sale. This deal completed on 31 January 2020.

Total sales generated by the portfolio were £65.3 million and £86.5 million in the year ended 31 December 2018 and 2019 respectively. Total gross margin profit in relation to the residential gas and electricity business was £3.7 million 2019 (profit of £2.3 million 2018). Operating expenses are not directly allocated to this part of the business.

It is confirmed that given the magnitude involved and the fact that this is not considered to represent a separate major line of business; this is not considered to be a discontinued operation, as defined by IFRS 5.

The major classes of assets of the residential side of the business classified as a disposal group held for sale as at 31 December 2019 are as follows:

Assets held for sale

	2019 £'000
Prepayments	1,259
Accrued income	7,116
	8,375

Impairment of £778,000 have been recognised in respect of the assets held for sale.

Notes to the Financial Statements (continued)

at 31 December 2019

16. Creditors due within one year

	2019 £'000	2018 £'000
Trade creditors	13,613	48,419
Amounts owed to group undertakings	67,917	27,789
Other creditors	86,978	101,226
Other taxation and social security	10,313	8,501
Accruals	130,865	147,689
Amounts owed to fellow subsidiary undertakings	108,983	-
	418,669	333,624

17. Borrowings

	2019 £'000	2018 £'000
Receivables financing due for settlement within one year	46,916	60,527
	46,916	60,527

The company operates a receivables financing arrangement, whereby certain trade debtors are assigned to a third party ahead of the contractual due date. This is settled with the third party when payment is received from the customer.

Receivables Financing – the amount shown above as receivables financing is the total due to Lloyds Banking Group as part of the company's debt factoring agreement. The interest incurred on these balances is charged at GBP 1 Month Libor plus 30 bonus points over the average portfolio. In the year a total of £384,000 was expensed to the profit and loss account in relation to this facility 2018 - £290,000) which is shown in other interest in Note 9.

18. Provisions

	2019 £'000	2018 £'000
Dilapidation	595	701
Contract levelisation	751	275
Rent accrual	-	1,918
	1,346	2,894

Notes to the Financial Statements (continued)
at 31 December 2019

18. Provisions (continued)

	Dilapidation	Contract Levelisation	Rent Accrual	Total
	£'000	£'000	£'000	£'000
At 1 January 2019	701	275	1,918	2,894
IFRS16 adjustment	-	-	(1,918)	(1,918)
Added during the year	-	213	-	213
Unwinding	(106)	263	-	157
At 31 December 2019	595	751	-	1,346

Dilapidation

The unwinding of the discounting of the remaining dilapidations provision is for No 1 Leeds and is expected to end close to the office lease end date in 2027.

Contract Levelisation

Provision is made to account for seasonality on contracts, where contract profits to date exceed overall forecast profitability on these contracts. This involves comparing the contract price with the expected weighted average purchase price.

The utilisation of the provision aligns with the expiry of the relevant contracts through 2020 to 2023.

Rent Accrual

The rent accrual is a cost accrual for No 1 Leeds for the reduced rent period which ran for 1 year rent free and 4 years half rent from October 2012. This had started to be released from October 2017. Due to the adoption of IFRS 16 there is no longer a cost accrual necessary however the rent free and reduced rent payments have been brought into the lease liability shown in note 21.

19. Deferred tax

An analysis of the movements in deferred tax is as follows:

	2019	2018
	£'000	£'000
Deferred tax (asset)/liability at 1 January	(697)	248
Deferred tax charge/(credit) in profit and loss account for the year (note 10)	68	(945)
Deferred tax asset at 31 December	(629)	(697)

Analysed as:	2019	2018
	£'000	£'000
Accelerated capital allowances	(24)	(51)
Other short-term temporary differences	(605)	(646)
	(629)	(697)

19. Deferred tax (continued)

Deferred Tax represents the tax on differences between the accounting carrying values of assets and liabilities and their tax bases. These differences are temporary and are expected to unwind in the future. The principle deferred tax assets and liabilities recognised by the company relate to capital investments, provisions and fair value movements on derivative financial instruments. Forecasts indicate that there will be suitable taxable profits to utilise those deferred tax assets not offset against deferred tax liabilities.

20. Financial instruments

Fair values

Set out below is an analysis by category of the company's financial instruments that are carried at fair value in the financial statements. Note that in all cases the fair value is equal to the carrying value of those assets and liabilities.

	2019 £'000	2018 £'000
Financial assets at fair value		
Fair value through profit and loss (FVTPL) > 1 Year *	17,820	25,983
Fair value through profit and loss (FVTPL) < 1 Year*	64,729	55,001
	82,549	80,984
Financial liabilities at fair value		
Fair value through profit and loss (FVTPL) > 1 Year *	17,498	26,310
Fair value through profit and loss (FVTPL) < 1 Year *	67,742	57,872
	85,240	84,182

*see note on economic hedges below

Changes in value of financial instruments at fair value

Profit for the year has been arrived at after (charging)/crediting:

	Year ended 2019 £'000	Year ended 2018 £'000
Financial assets at fair value		
Fair value through profit and loss (FVTPL)	1,566	20,449
Financial liabilities at fair value		
Fair value through profit and loss (FVTPL)	(1,058)	(26,418)
Loss through profit and loss	508	(5,969)

Valuation techniques and assumptions applied for the purposes of measuring fair value

The fair values of derivative instruments are calculated using prices derived from observable macroeconomic data and are provided by the ENGIE group. Where active markets don't exist, there is some degree of estimation in deriving these prices, however industry data and external benchmarking is used where relevant.

Notes to the Financial Statements (continued)

at 31 December 2019

20. Financial instruments (continued)

Hedging activities

Economic hedges

The company enters into wholesale purchase commitments to cover future contracted supplies, subject to market liquidity, availability of products and compliance with risk policies and limits set down by management.

The company had entered into wholesale purchase commitments for future delivery under certain supply contracts where the consumption unit price has been fixed for a period of time. The purchase commitments related to such supply contracts have been fair valued through the profit and loss. The supply contracts with such customers are designated as derivatives and these supply contracts are also fair valued through the profit and loss (see note 2). No transactions are designated as being in a hedge relationship for accounting purposes.

"Day One" Gains

For certain transactions the initial recognition for energy derivatives differs from the transaction price, and a day 1 gain or loss will arise. In such circumstances, the day one gains of the entire contract is not recognised immediately in profit or loss, but deferred and amortised to profit and loss based on volumes delivered over the contractual period.

Outlined in the table below is a summary of the impact of the day one gains by year and the cumulative impact over the last 3 years.

	Opening	**Additions**	**Releases**	**Closing**
2017	5,554,423	4,644,499	(927,643)	9,271,279
2018	9,271,279	-	(231,212)	9,040,067
2019	9,040,067	-	(3,175,899)	5,864,168

21. Leases

The company has a lease contract for an office building. The lease term on this building is 15 years. The remaining duration of this lease is 7 years. Set out below are the carrying amounts of right-of-use assets recognised and the movements during the period:

	Land and Buildings £'000	**Total £'000**
Cost		
At 1 January 2019 (restated)	5,044	5,044
Additions	-	-
At 31 December 2019	5,044	5,044
Accumulated depreciation		
At 1 January 2019 (restated)	2,102	2,102
Charge for the year	336	336
At 31 December 2019	2,438	2,438
Net book amount		
At 1 January 2019 (restated)	2,942	2,942
At 31 December 2019	2,606	2,606

Notes to the Financial Statements (continued)

at 31 December 2019

21. Leases (continued)

Set out below are the carrying amounts of lease liabilities (included under current and non-current liabilities) and the movements during the period:

	2019 £'000
As at 1 January (restated)	5,115
Additions	-
Accretion of interest	119
Payments	(650)
As at 31 December	4,584
Current	544
Non-current	4,040

Lease Maturity

The lease commitments are separated as follows:

	2019 £'000
Within 1 year	544
Within 2 years	557
Within 3 Years	571
Within 4 Years	585
Within 5 Years	600
Over 5 Years	1,727
As at 31 December	4,584

The company had total cash outflows for leases of £649,613 in 2019 (£649,613 in 2018). The company also had non-cash additions to right-of-use assets and lease liabilities of £0 in 2019 (£0 in 2018).

(i) Comparative of leases

As the modified retrospective method has been used in relation to the transition to IFRS16 there are no direct comparatives to the above. Instead the disclosure below is stated under IAS17.

The company had entered into commercial operating leases on certain properties and motor vehicles. These leases had remaining durations of up to 1 year for vehicle and 8 years for land and buildings.

Notes to the Financial Statements (continued)

at 31 December 2019

21. Leases (continued)

Future minimum rentals payable under non-cancellable operating leases are as follows:

	Land and building	Other	Total
	2018	2018	2018
	£'000	£'000	£'000
Not later than one year	650	47	697
After one year but not more than five	2,598	10	2,608
After five years	2,436	-	2,436
	5,684	57	**5,741**

Land & Building commitments are those created by the lease for No. 1 Leeds, 26 Whitehall Road, Leeds.

22. Financial Risk Management

As a participant in the energy market, the company is exposed to a number of financial risks. To manage these risks the company operates an enterprise risk management framework, in which all key risks are assessed each year.

Credit Risk

All new customers and suppliers are credit checked, and all supply contacts are insured via a full turnover credit insurance policy, with each customer insured for at least 4 months' worth of energy consumption. Security from the Customer is obtained if credit insurance cannot be secured. The company works closely with a debt collection company and a disconnections agent to minimise its exposure.

Liquidity Risk

The company funds most investment from its own working capital. It offers fifteen-day payment terms and uses a receivables financing product to offer extended payment terms to its customer base. There is a £20m unutilised loan facility from its parent company.

The company has to closely monitor its debtor recoveries, supplier payments, green certificate purchasing, and intermediary payments, when forecasting future cash flows.

Market Risk

The company is exposed to commodity price fluctuations. It has an established demand forecasting system and applies a 'back to back' hedging strategy, with limits to minimise open positions. It also has a number of products that can be used to minimise the impact of unexpected market demand and supply.

System Risk

The company manages a significant number of applications and data transfer. It has a robust change management, and system delivery process, with established supply partners.

23. Capital management

With the exception of derivatives, the company has no long-term liabilities, or share capital. All profits are paid to the Parent Entity, in return for a licence to operate in the UK market, and future capital investment.

Notes to the Financial Statements (continued)
at 31 December 2019

24. Share capital

	2019 £	2018 £
Authorised		
1,000 ordinary shares of £1 each	1,000	1,000
Called up, allotted and fully paid		
1 ordinary share of £1 each	1	1

25. Pension arrangements

The company operates a defined contribution pension scheme, the assets of which are held separately from those of the company. Employer's contributions to the scheme during the year were £880,000 (2018: £890,000). At 31 December 2019, contributions of £73,000 (2018: £107,000) were unpaid.

26. Other financial commitments

(i) Electricity purchase commitments

At 31 December the company was committed to certain future electricity purchase contracts in relation to fulfilling the company's obligation to provide electricity to meet its customers future needs. These contracts are due to be settled as follows:

	2019 £'000	2018 £'000
Not later than one year	229,009	216,977
After one year but not more than five	197,212	164,896
After five years	1,486	868
	427,707	382,741

At 31 December 2019 the company has a number of Power Purchase Agreements in place for the purchase of electricity and Renewable Obligation Certificates over the next 20 years. Due to the longevity of these contracts, the uncertainty of the volume of power and number of certificates that will be purchased and the price that will ultimately be paid, the purchase commitments have been estimated at £3,247,563,466 (2018: £2,964,542,671) using forecast purchases and prices as at 31 December 2019.

Notes to the Financial Statements (continued)

at 31 December 2019

26. Other financial commitments (continued)

(iii) Fixed Assets (Capital Commitments)

At 31 December the company was committed to spend £108,000 (2018: £320,000) during 2020. This relates to the development of a customer portal for B2B customers. This expenditure is due to be settled as follows:

	2019 £'000	2018 £'000
Not later than one year	108	320
	108	320

27. Related party transactions

Trading transactions

During the year, the company entering into the following trading transactions with related parties:

	2019 Purchases £'000	2019 Amount owed to £'000	2018 Purchases £'000	2018 Amount owed to £'000
ENGIE UK Markets Limited (EUKM), previously called IPM Energy Trading Limited (IPMETL)	222,266	-	259,101	-

Terms and conditions of transactions

The purchases from ENGIE UK Markets Limited, who are not a wholly owned subsidiary of the group, represent the purchase of electricity and are made at prices and with terms and conditions in line with external third party customers.

Transactions entered into with related group companies, which are either 100% owned by the company's immediate parent company (ENGIE Supply Holdings UK Limited), or ultimate parent company (ENGIE SA), have been excluded from the disclosure above having applied the exception criteria in paragraph 17 of IAS 24: Related Party Disclosures.

Compensation of key management personnel

	2019 £'000	2018 £'000
Short term employee benefits	127	115
Post-employment pension	19	18
	146	133

No key management personnel have exercised any group share options (2018: £nil).

Notes to the Financial Statements (continued)

at 31 December 2019

28. Reserves

Issued share capital

Issued share capital represents the nominal value of shares that have been issued.

Profit and loss account

The profit and loss account includes all current and prior period realised and retained profits and losses.

29. Events after the Balance Sheet Date

On 20 January 2020, ENGIE Power Limited announced the sale of its UK residential gas and electricity energy supply business to Octopus Energy Limited, for an undisclosed consideration, and this deal completed on 31 January 2020. Under the terms of the agreement, ENGIE Power Limited's 70,000 UK residential energy customers' supply transferred to Octopus Energy Limited. ENGIE Power Limited's portfolio of business energy customers and district supply operations throughout the UK will not be impacted by this sale.

Total sales generated by the portfolio were £65.3 million and £86.5 million in the year ended 31 December 2018 and 2019 respectively. Total gross margin profit in relation to the residential gas and electricity business was £3.7 million 2019 (profit of £2.3 million 2018). Operating expenses are not directly allocated to this part of the business.

The decision to exit the UK residential energy supply market is driven by the wider ENGIE group's focus on activities closely aligned to the strategy of making zero carbon happen for businesses and local authorities.

In light of this decision, the directors have been required to perform an impairment review on a number of the intangible assets specifically held in relation to the UK residential energy supply part of the business. Following the review the directors have impaired the intangible assets by £1.7m.

On 11 March 2020, the World Health Organization raised the public health emergency situation caused by the outbreak of COVID-19 to an international pandemic and the development of the pandemic remains an issue post 31 March 2020. The rapid evolution of events, nationally and internationally, represents an unprecedented health crisis, which impacts the macroeconomic environment and the evolution of business. The company operates in the UK, which is affected by the pandemic.

The company's business is not significantly impacted by government restrictions on its own working practices however certain customers have been affected by either full or partial shutdown of operations.

As a result, this post balance sheet event has had an adverse impact to date, upon the revenues, profits and cash flows for the financial year ended 31 December 2020 as well as debtors with regards to their expected credit losses and may impact the valuation of the derivatives. Several initiatives have been implemented to protect the financial standing of the company. Within ENGIE Supply Holding UK Limited and its subsidiaries a small proportion of employees have been furloughed taking advantage of funding available from the Government and VAT payments have been deferred (allowed in accordance with HMRC guidelines). As the pandemic develops and government advice changes any further impacts on future cash flows or the carrying value of assets will be reflected in the 2020 financial statements as these impacts are assessed.

On 21 December 2020, ENGIE Supply Holding UK Limited and its subsidiaries have been placed under strategic review. The outcome of that review will likely be concluded by the end of Q3 2021.

30. Controlling party

The company's immediate parent undertaking is ENGIE Supply Holding UK Limited, a company registered in England and Wales.

The company's ultimate parent company and ultimate controlling party is ENGIE SA a company incorporated and registered in France. This is the smallest and largest group which consolidates this company's financial statements. Copies of ENGIE SA's group financial statements can be obtained from ENGIE SA, Tour T1, 1 place Samuel de Champlain, Faubourg de l'Arche, 92930 Paris La Défense, France.