Third Energy Trading Limited

Annual Report and
Financial Statements

for the year ended 31 December 2017

Company Registration No. 05721316

Third Energy Trading Limited

Contents of the Financial Statements

for the year ended 31 December 2017

Third Energy Trading Limited

Company information

for the year ended 31 December 2017

Directors	R Valand JAG Dewar (resigned 22nd January 2018) A Linn (appointed 22nd January 2018)
Joint Secretary	Pinsent Masons Secretarial Limited P Savage (appointed 22nd January 2018)
Registered office	Knapton Generating Station East Knapton Malton North Yorkshire YO17 8JF
Registered number	05721316
Independent auditor	KPMG LLP 15 Canada Square London E14 5GL

The directors submit their report and the financial statements of Third Energy Trading Limited for the year ended 31 December 2017.

Principal activities

The principal activity of the Company continues to be the generation of electricity at a gas turbine electricity generating station located at Knapton, North Yorkshire.

Review of the business

The Company has taken advantage of the small companies exemption not to prepare a strategic report.

The results for the year are shown on page 8 and are summarised as follows:

	2017	2016
	£'000	£'000
Turnover	1,002	1,025
Loss for the financial year	(560)	(1,162)

These results are in line with the directors' expectations.

The directors do not recommend the payment of a dividend.

Going concern

The financial statements have been prepared on the going concern basis, which assumes that the Company will continue its operations for the foreseeable future and will be able to realise its assets and discharge its liabilities and commitments in the normal course of operations.

As at the year ended 31 December 2017, the Company formed part of an operating model that included other entities within the Group to which the Company belongs and as such the Directors have reviewed the going concern of the Company as part of a wider review of the Group as a whole.

In assessing the Company's ability to continue as a going concern, the Directors have prepared base and sensitised cash flow forecasts for a period in excess of 12 months from the date of authorisation of these financial statements. Base case forecasts indicate that the Company will require further cash injections to continue to operate.

At 31 December 2017, the Company had net liabilities of £554,000 (2016 net assets: £6,000) but included within this amount is an amount owed by group undertakings of £1,934,000 (2016: £3,162,000) and an amount owed to group undertakings of £515,000 (2016: £1,175,000) of which £349,000 is owed to its immediate parent company, Third Energy Onshore Limited (2016: £1,175,000). Amounts owed to group undertakings are repayable on demand. The Company meets its day-to-day working capital requirements through this loan facility and is dependent on these loans not being recalled. As at the date of authorisation of these financial statements, the amounts owed by group undertakings is £3,058,000 and the amounts owed to group undertakings is £1,562,000 of which £1,322,000 is owed to Third Energy Onshore Limited.

Going concern (continued)
The Company relies entirely on the gas that is produced by its sister company, Third Energy UK Gas Limited, as the source of power for its electricity generation, with no alternative source available. Third Energy UK Gas Limited has been operating for over 25 years and the wells that it previously drilled are mature and producing low volumes of gas. The revenue earned from gas produced from existing wells is reducing and Third Energy UK Gas Limited is reliant on the sourcing of finance from its ultimate parent, Third Energy Holdings Limited, to fund the further exploration and development that is required to develop the conventional and unconventional resources. As a result, the Company is unable to generate sufficient revenue to cover its day-to-day operations and is reliant on funding from Third Energy Onshore Limited which, in turn, is dependent on further financing from Third Energy Holdings Limited and this financing is to a level to support the day-to-day activities only. The Group's finance provider is only expected to provide finance in the short term until alternative sources of funding have been agreed (see below). Third Energy Holdings Limited is not expected to provide the required funding to support the further exploration and development required in Third Energy UK Gas Limited that would enable the Group to progress to cash generation and continue as a going concern.

The Group has disposed of the Offshore business and is actively seeking alternative sources of funding for the Onshore business which is expected to result in the disposal of the Onshore business, including the Company, and the Group has appointed Lazard as its financial advisor to advise the Group in relation to its management of this process. The Group's finance provider has indicated, on a non-reliance basis, that it intends to continue providing support to Third Energy Holdings Limited on a short term basis whilst the finance provider believes, in its sole discretion, that there is a reasonable prospect of a commercially acceptable outcome fom the current processes in relation to the proposed sale of the Onshore businesses of the Group. This support will enable the Company to meet its day-to-day activities but it will not allow Third Energy UK Gas Limited to carry out the evaluation or development activities until the alternative sources of funding have been identified or a disposal is completed. The Directors are confident that this process will reach a successful conclusion. Currently, however, the Directors cannot guarantee a successful outcome to this process nor can they guarantee that the alternative sources of funding or disposal of the Onshore business on a going concern basis will complete before the current financial support of the Group and Company is withdrawn. Additionally, whilst the Directors believe that the sale of the Company on a going concern basis is a realistic possibility, there can be no certainty as to the intentions of any future owners on whom the Company would be reliant for funding for day-to-day activities and to fund the necessary evaluation and development expenditure required in Third Energy UK Gas Limited.

Based on the above indications the Directors believe that it remains appropriate to prepare the financial statements on a going concern basis. However, these conditions represent a material uncertainty that may cast significant doubt on the ability of the Company to continue as a going concern and, therefore, to continue realising its assets and discharging its liabilities in the normal course of business. these financial statements do not reflect the adjustments and classifications of assets, liabilities, revenues and expenses which would be necessary if the Company were unable to continue as a going concern

Directors
The directors who have held office since 1st January 2017 are set out below:

Mr R Valand	
Mr JAG Dewar	(resigned 22nd January 2018)
Mr DJ Robottom	(resigned 28th March 2017)
Mr A Linn	(appointed 22nd January 2018)

Political contributions
The Company made no political donations and did not incur any political expenditure during the year.

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

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

On behalf of the Board

Rasik Valand
Director

19th February 2019
Knapton Generating Station
East Knapton
Malton
North Yorkshire
YO17 8JF

Third Energy Trading Limited

Statement of Directors' responsibilities in respect of the Directors' Report and the financial statements.

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice) including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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 responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Independent auditor's report to the members of Third Energy Trading Limited

Opinion

We have audited the financial statements of Third Energy Trading Limited, ("the Company") for the year ended 31 December 2017 which comprise the statement of Profit and loss account and Other Comprehensive Income, Balance Sheet, Statement of Changes in Equity and related notes, including the accounting policies in note 2.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of the loss for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Material uncertainty related to going concern

We draw attention to note 2 of the financial statements which indicates that the Company is dependent on financial support from its parent company. That support is only expected to continue until a sale of the Company is agreed. If a sale is not agreed within a timeframe that the ultimate parent considers reasonable, then the Company will not have the funding to continue in operation. In the event of a sale, the Company is dependent on funding from any future parent.

These conditions, along with other matters explained in note 2, constitute a material uncertainty that may cast doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

The impact of uncertainties due to the UK exiting the European Union on our audit

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the directors and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of those depend on assessments of the future economic environment and the company's future prospects and performance.

Brexit is one of the most significant economic events for the UK and, at the date of this report, its effects are subject to unprecedented levels of uncertainty of outcomes, with full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

Directors' report

The directors are responsible for the directors' report. Our opinion on the financial statements does not cover that report and we do not express an audit opinion thereon.

Our responsibility is to read the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the directors' report;
- in our opinion the information given in that directors' report for the financial year is consistent with the financial statements; and
- in our opinion that report has been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required 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; or
- prepare a strategic report.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 5, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; 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 they intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities

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

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our work and to whom we owe our responsibilities

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.

M Smith

Mark Smith (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL
26/2/19

Third Energy Trading Limited

Profit and loss account and Other Comprehensive Income
for the year ended 31 December 2017

	Notes	2017 £'000	2016 £'000
Turnover	*1*	1,002	1,025
Cost of sales		(1,035)	(1,627)
Gross loss		(33)	(602)
Administrative expenses		(380)	(422)
Operating loss	*3*	(413)	(1,024)
Interest payable and similar expenses	*4*	(147)	(138)
Loss before taxation		(560)	(1,162)
Tax on profit/(loss)	*5*	-	-
Loss for the financial year	*12*	(560)	(1,162)
Total comprehensive loss for the period		(560)	(1,162)

The result for the year arises from the Company's continuing operations.

The Company has no items of other comprehensive income or expense in the periods being reported upon.

The notes on pages 11 to 18 form part of these financial statements.

Third Energy Trading Limited

Balance Sheet

31 December 2017 Company Registration No. 05721316

	Notes	2017	2016
		£'000	£'000
Fixed Assets			
Intangible assets	*6*	-	-
Tangible assets	*7*	2,381	540
		2,381	540
Current Assets			
Debtors	*8*	2,103	3,662
Cash at bank and in hand		6	23
		2,109	3,685
Creditors: Amounts falling due within one year	*9*	(547)	(1,645)
Net Current Assets		1,562	2,040
Total Assets less Current Liabilities		3,943	2,580
Provisions for liabilities	*10*	(4,497)	(2,574)
Net (Liabilities)/Assets		(554)	6
Capital and reserves			
Called up share capital	*11*	-	-
Profit and loss account - (deficit)/surplus	*12*	(554)	6
Shareholders' funds - (deficit)/surplus	*13*	(554)	6

The notes on pages 11 to 18 form part of these financial statements.

The financial statements were approved by the board of directors and authorised for issue on 19th February 2019 and are signed on its behalf by:

Rasik Valand
Director

Third Energy Trading Limited
Statement of Changes in Equity
31 December 2017

	Called-up share capital £'000	Profit and loss account £'000	Total £'000
At 1 January 2016	-	1,168	1,168
Loss for the financial year	-	(1,162)	(1,162)
At 31 December 2016	-	6	6
Loss for the financial year	-	(560)	(560)
At 31 December 2017	-	(554)	(554)

The notes on pages 11 to 18 form part of these financial statements.

1 **General information**

Third Energy Trading Limited is a private company incorporated, domiciled and registered in England. The registered number is 05721316 and the registered address is Knapton Generating Station, East Knapton, Malton, North Yorkshire, YO17 8JF.

2 **Accounting policies**

Basis of preparation

These financial statements have been prepared under the historical cost convention in accordance with Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* ("FRS 102") as issued in August 2014. The amendments to FRS 102 issued in July 2015 have been applied. The presentation currency of these financial statements is sterling. All amounts in the financial statements have been rounded to the nearest £1,000.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

The company has taken advantage of the exemptions under FRS 102 not to prepare a Cash Flow Statement as the company is included within the consolidated financial statements of Third Energy Holdings Limited.

The smallest and largest group into which the Company is consolidated is Third Energy Holdings Limited. Copies of the accounts of Third Energy Holdings Limited can be obtained from Knapton Generating Station, East Knapton, Malton, North Yorkshire YO17 8JF.

The Company's ultimate parent undertaking, Third Energy Holdings Limited includes the Company in its consolidated financial statements. In these financial statements, the company is considered to be a qualifying entity (for the purposes of this FRS) and has applied the exemptions available under FRS 102 in respect of the following disclosures:

- Reconciliation of the number of shares outstanding from the beginning to end of the period;
- Cash Flow Statement and related notes; and
- Key Management Personnel compensation.

Measurement convention

The financial statements are prepared on the historical cost basis.

Going concern

The financial statements have been prepared on the going concern basis, which assumes that the Company will continue its operations for the foreseeable future and will be able to realise its assets and discharge its liabilities and commitments in the normal course of operations.

As at the year ended 31 December 2017, the Company formed part of an operating model that included other entities within the Group to which the Company belongs and as such the Directors have reviewed the going concern of the Company as part of a wider review of the Group as a whole.

In assessing the Company's ability to continue as a going concern, the Directors have prepared base and sensitised cash flow forecasts for a period in excess of 12 months from the date of authorisation of these financial statements. Base case forecasts indicate that the Company will require further cash injections to continue to operate.

At 31 December 2017, the Company had net liabilities of £554,000 (2016 net assets: £6,000) but included within this amount is an amount owed by group undertakings of £1,934,000 (2016: £3,162,000) and an amount owed to group undertakings of £515,000 (2016: £1,175,000) of which £349,000 is owed to its immediate parent company, Third Energy Onshore Limited (2016: £1,175,000). Amounts owed to group undertakings are repayable on demand. The Company meets its day-to-day working capital requirements through this loan facility and is dependent on these loans not being recalled. As at the date of authorisation of these financial statements, the amounts owed by group undertakings is £3,058,000 and the amounts owed to group undertakings is £1,562,000 of which £1,322,000 is owed to Third Energy Onshore Limited.

2 Accounting policies (continued)

The Company relies entirely on the gas that is produced by its sister company, Third Energy UK Gas Limited, as the source of power for its electricity generation, with no alternative source available. Third Energy UK Gas Limited has been operating for over 25 years and the wells that it previously drilled are mature and producing low volumes of gas. The revenue earned from gas produced from existing wells is reducing and Third Energy UK Gas Limited is reliant on the sourcing of finance from its ultimate parent, Third Energy Holdings Limited, to fund the further exploration and development that is required to develop the conventional and unconventional resources. As a result, the Company is unable to generate sufficient revenue to cover its day-to-day operations and is reliant on funding from Third Energy Onshore Limited which, in turn, is dependent on further financing from Third Energy Holdings Limited and this financing is to a level to support the day-to-day activities only. The Group's finance provider is only expected to provide finance in the short term until alternative sources of funding have been agreed (see below). Third Energy Holdings Limited is not expected to provide the required funding to support the further exploration and development required in Third Energy UK Gas Limited that would enable the Group to progress to cash generation and continue as a going concern.

The Group has disposed of the Offshore business and is actively seeking alternative sources of funding for the Onshore business which is expected to result in the disposal of the Onshore business, including the Company, and the Group has appointed Lazard as its financial advisor to advise the Group in relation to its management of this process. The Group's finance provider has indiciated, on a non-reliance basis, that it intends to continue providing support to Third Energy Holdings Limited on a short term basis whilst the finance provider believes, in its sole discretion, that there is a reasonable prospect of a commercially acceptable outcome fom the current processes in relation to the proposed sale of the Onshore businesses of the Group. This support will enable the Company to meet its day-to-day activities but it will not allow Third Energy UK Gas Limited to carry out the evaluation or development activities until the alternative sources of funding have been identified or a disposal is completed. The Directors are confident that this process will reach a successful conclusion. Currently, however, the Directors cannot guarantee a successful outcome to this process nor can they guarantee that the alternative sources of funding or disposal of the Onshore business on a going concern basis will complete before the current financial support of the Group and Company is withdrawn. Additionally, whilst the Directors believe that the sale of the Company on a going concern basis is a realistic possibility, there can be no certainty as to the intentions of any future owners on whom the Company would be reliant for funding for day-to-day activities and to fund the necessary evaluation and development expenditure required in Third Energy UK Gas Limited.

Based on the above indications the Directors believe that it remains appropriate to prepare the financial statements on a going concern basis. However, these conditions represent a material uncertainty that may cast significant doubt on the ability of the Company to continue as a going concern and, therefore, to continue realising its assets and discharging its liabilities in the normal course of business. these financial statements do not reflect the adjustments and classifications of assets, liabilities, revenues and expenses which would be necessary if the Company were unable to continue as a going concern.

Basic financial instruments

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

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

2 Accounting policies (continued)

Taxation

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

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

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

Deferred tax is provided in respect of the additional tax that will be paid or avoided on differences between the amount at which an asset (other than goodwill) or liability is recognised in a business combination and the corresponding amount that can be deducted or assessed for tax. Goodwill is adjusted by the amount of such deferred tax.

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

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

Tangible fixed assets

Power plant and gas collection equipment are stated at historical cost less accumulated depreciation and less any provision for impairment. Land is stated at historical cost and is not depreciated.

Included in the cost of the power plant are spare parts that have been purchased to repair the plant but not yet utilised at the year end. A provision is made to ensure that the carrying value of these items does not exceed their value in use.

The decommissioning asset is stated at an amount equal to the initial provision for decommissioning less accumulated depreciation.

Depreciation is provided so as to write off the costs of the assets to residual values over the assets' useful estimated lives, on the following bases -

Gas collecting equipment	7 to 10 years	Straight line
Power plant	3 to 15 years	Straight line
Decommissioning asset	35 years	Straight line

2 Accounting policies (continued)

Impairment

The carrying amounts of the Company's non-financial assets, other than stocks and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing is allocated to cash-generating units (or "CGU") that are expected to benefit from the synergies of the combination. For the purpose of goodwill impairment testing, if goodwill cannot be allocated to individual CGUs or groups of CGUs on a non-arbitrary basis, the impairment of goodwill is determined using the recoverable amount of the acquired entity in its entirety, or, if it has been integrated, the entire entity into which it has been integrated.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit or group of units on a pro rata basis.

An impairment loss is reversed if and only if the reasons for the impairment have ceased to apply.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Provision for decommissioning

A provision for decommissioning costs is recognised in full at the commencement of operations. The amount recognised is the present value of the estimated future expenditure that will be required to decommission the company's assets and bring the land back to the state that existed prior to the assets being built. The discount applied to the anticipated site restoration liability is subsequently released over the life of the field and is charged to interest expense.

A corresponding tangible fixed asset is created at an amount equal to the provision. This is subsequently depreciated as part of the capital costs of the production facilities.

Operating lease

Payments (excluding costs for services and insurance) made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease unless the payments to the lessor are structured to increase in line with expected general inflation; in which case the payments related to the structured increases are recognised as incurred. Lease incentives received are recognised in profit and loss over the term of the lease as an integral part of the total lease expense.

Finance lease

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability using the rate implicit in the lease. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents are charged as expenses in the periods in which they are incurred.

2 **Accounting policies (continued)**

Turnover

Turnover represents amounts receivable for the Company's electricity generation and income from the provision of facilities to the Company's gas supplier, which is a fellow subsidiary company, at its well sites and pipelines. Turnover is stated net of trade discounts and VAT and is recognised in the month that the electricity is delivered.

3 **Operating loss**	2017	2016
Operating loss is stated after charging/(crediting):	£'000	£'000
Depreciation of tangible assets		
- owned assets	69	381
Auditor's remuneration in respect of the company	7	8
Operating leases - land and buildings	7	7

There were no employees during the year other than the directors (2016: none).

The directors' remuneration is borne by Third Energy Holdings Limited. Given the size of the Group and the interconnected nature of each subsidiary company's activities, the directors do not believe it is practical to apportion the remuneration between their services to this company and their services as directors of the parent company and fellow subsidiary companies. The directors believe that the expense of the directors' remuneration related to this Company would be trivial.

4 **Interest payable and similar charges**	2017	2016
	£'000	£'000
Unwinding of discount on decommissioning provision	142	134
Other interest	5	4
	147	138

5 **Taxation**	2017	2016
Analysis of charge in the period	£'000	£'000
Current tax - UK corporation tax on profits for the period	-	-
Deferred tax - origination and reversal of timing differences	-	-
Tax on loss on ordinary activities	-	-
Factors affecting tax charge in the period		
Loss before taxation	(560)	(1,162)
Loss before taxation multiplied by the standard rate of corporation tax in the UK of 20% (2016: 20%)	(108)	(232)
Unrecognised deferred tax on losses	108	197
Difference in tax rate	-	35
Total tax charge	-	-

5 **Taxation (continued)**

The company has a potential deferred tax asset of £1.8m (2016: £1.8m) consisting of accumulated tax losses of £6.7m, accelerated capital allowances of £1.9m and other timing differences of £2.5m (2016: accumulated tax losses of £6.7m, accelerated capital allowances of £1.9m and other timing differences of £2.5m). This asset has not been recognised under FRS 102, due to uncertainty that the Company will have sufficient taxable profits against which the asset can be utilised in the foreseeable future.

Reductions in the UK corporation tax rate were from 20% to 19% (effective from 1 April 2017) and 18% (effective from 1 April 2020) were substantively enacted on 26 October 2015. A further reduction to the UK corporation tax rate was substantively enacted on 6 September 2016 to further reduce the tax rate to 17% (to be effective from 1 April 2020). This will reduce the company's future current tax charge accordingly.

6 **Intangible fixed assets**

	Goodwill £'000
Cost	
At 1 January 2017 and 31 December 2017	4,902
Amortisation	
At 1 January 2017 and 31 December 2017	4,902
Net book value	
At 1 January 2017 and 31 December 2017	-

7 **Tangible fixed assets**

	Decommiss-ioning asset £'000	Power Plant £'000	Gas Collection Equipment £'000	Land £'000	Total £'000
Cost					
At 1 January 2017	1,537	11,280	4,902	193	17,912
Additions	1,781	129	-	-	1,910
At 31 December 2017	3,318	11,409	4,902	193	19,822
Depreciation					
At 1 January 2017	1,499	10,971	4,902	-	17,372
Charge for the year	39	30	-	-	69
At 31 December 2017	1,538	11,001	4,902	-	17,441
Net book value					
At 31 December 2017	1,780	408	-	193	2,381
At 31 December 2016	38	309	-	193	540

8 Debtors

	2017	2016
	£'000	£'000
Amounts owed by group companies	1,934	3,162
Prepayments and other income	169	500
	2,103	3,662

The amounts owed by group companies are repayable on demand and no interest is charged on outstanding balances.

9 Creditors: amounts falling due within one year

	2017	2016
	£'000	£'000
Trade creditors	9	9
Amounts owed to group undertakings	515	1,175
Taxation and social security costs	-	11
Accruals and deferred income	23	450
	547	1,645

The amounts owed to group companies are repayable on demand and no interest is charged on outstanding balances.

10 Provisions for liabilities

	2017	2016
	£'000	£'000
Decommissioning costs		
At 1 January 2017	2,574	2,439
Reassessment of decommissioning provision	1,781	-
Unwinding of discount to profit and loss account	142	135
At 31 December 2017	4,497	2,574

Provision has been made for the discounted cost of restoring the plant and pipelines on the Company's wellsites and at the main generating station to a condition acceptable to the relevant authorities, which is not anticipated to happen until 35 years after the year end. The Company commissioned Well Decom Limited to calculate the current cost of decommissioning the wellsites, in the unlikely event that decommissioning was required immediately, and they reported in August 2018. The Directors have estimated the cost of restoring the cost of the plant and pipelines. Both of these calculations have been adopted in these financial statements. Actual decommissioning costs will ultimately depend on the future cost of decommissioning which in turn will be affected by market conditions and regulations at the time. Furthermore, the timing of decommissioning will depend on the date the fields cease to produce at commercial rates which is influenced by factors such as future gas prices, which are inherently uncertain.

11 Called up share capital

	2017	2016
Ordinary shares of £1 each	No	No
Authorised	1,000	1,000
	£	£
Allotted, issued and fully paid	1	1

12 Statement of movement on reserves

	Profit and loss account
	£'000
At 1 January 2017	6
Loss for the financial year	(560)
At 31 December 2017	(554)

13 Reconciliation of movement in shareholders' funds

	2017	2016
	£'000	£'000
Opening shareholders funds	6	1,168
Loss for the financial year	(560)	(1,162)
Closing shareholders' funds	(554)	6

14 Operating lease commitments

Total future minimum lease payments under non-cancellable operating leases relating to land and buildings are as follows:

	2017	2016
	£'000	£'000
Within one year	7	7
Within two to five years	29	29
After five years	18	25
	54	61

During the year £7,000 was recognised as an expense in the profit and loss account in respect of operating leases (2016: £7,000).

15 Guarantees and other financial commitments

The company is a member of a VAT group and the net potential liability under the group registration as of 31 December 2017 was £nil (2016: £nil).

16 Related party transactions

The Company has taken advantage of the exemption under FRS 102.33.1A not to disclose transactions between itself and other wholly owned Group companies.

17 Ultimate parent company

The immediate parent company is Third Energy Onshore Limited.

The smallest and largest group into which the Company is consolidated is Third Energy Holdings Limited. Copies of the accounts of Third Energy Holdings Limited can be obtained from Knapton Generating Station, East Knapton, Malton, North Yorkshire YO17 8JF.

In the opinion of the directors, the ultimate parent company of Third Energy Holdings Limited is Barclays PLC. There is no ultimate controlling party.