

Viridian Group Investments Limited

Consolidated Financial Statements
31 March 2017



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GROUP FINANCIAL HIGHLIGHTS

Underlying Business Results¹

- Group pro-forma Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) was £107.2m (2016 - £97.1m)
- Group pro-forma operating profit was £84.9m (2016 - £76.4m)

IFRS Results²

- Revenue was £1,317.6m (2016 - £1,320.9m)
- Operating profit before exceptional items and certain remeasurements was £84.4m (2016 - £80.7m)

¹ Based on regulated entitlement and before exceptional items and certain remeasurements as outlined in note 4.

² Before exceptional items and certain remeasurements.

STRATEGIC AND DIRECTORS' REPORT

OPERATING REVIEW

All references in this document to 'Group' denote Viridian Group Investments Limited and its subsidiary undertakings and to 'Company' denote Viridian Group Investments Limited, the parent company.

Business Model and Principal Activities

The Group is a leading integrated Irish energy business with substantial businesses in both Northern Ireland and the Republic of Ireland (RoI). The Group operates through the Energia and Power NI brands. As at 31 March 2017 Energia supplied electricity and gas to 202,400 customer sites (2016 – 176,900) across Northern Ireland and the RoI and Power NI supplied electricity to 517,000 customer sites (2016 – 545,000) in Northern Ireland.

The principal activity of the Company is that of a holding company. The Group's operating businesses and principal activities comprise:

- Energia Group - a vertically integrated energy business consisting of competitive electricity supply to business and residential customers in the RoI and business customers in Northern Ireland through Energia, its retail supply business, backed by electricity generation from its two Huntstown combined-cycle gas turbine (CCGT) plants, and long term Power Purchase Agreements (PPAs) with third-party renewable generators (including wind generation assets in which the Group has an equity interest) and generation from wholly owned wind generation assets. The Energia Group also supplies natural gas to business and residential customers, principally in the RoI;
- Power NI - supply of electricity primarily to residential customers in Northern Ireland; and
- PPB - procurement of power under contract with the Ballylumford power station in Northern Ireland.

Strategy

The Group's strategy is focused on leveraging its integrated business model to maintain and enhance its position as a leading independent all-island energy utility and to capture available margin arising in all parts of the value chain in all its businesses, both regulated and unregulated. The Group continually seeks opportunities for margin improvement and will look for growth through complementary acquisition opportunities. Management continues to focus on five strategic objectives which underpin Viridian's strategy:

- improve profitability and maintain stable cash flows;
- maintain high availability of generation plants;
- continue to drive organic growth through expansion principally in renewables;
- focus on profitable customer retention and look for opportunities to diversify our customer base; and
- maintain active engagement with regulators and key lobby groups.

Change of Control

On 29 April 2016 I Squared Capital an independent global infrastructure investment manager completed its acquisition of 100% of the share capital of the Company's parent Viridian Group Holdings Limited (VGHL) from Arcapita. At the same time, I Squared provided equity to the Company's parent to enable the discharge of its Junior Facility A of £148.9m.

Merger

On 28 June 2016 VGIL merged with its immediate parent VGHL, with VGIL becoming the surviving entity. As a result of the merger the Group's Junior bank facility asset and shareholder loan were waived and extinguished in full.

Private Equity Owners

Following the merger noted above on 28 June 2016, the Company was 100% owned by ISQ Viridian Holdings L.P., a limited partnership incorporated in the Cayman Islands, which is owned by the ISQ Global Infrastructure Fund ("the Fund") and ISQ Viridian Co-Invest L.P., a co-investment vehicle for the Fund. The Fund is managed by I Squared Capital.

On 27 April 2017, I Squared Capital completed the divestment of a minority interest in the Viridian Group. The divestment involved the insertion of a new entity, Viridian TopCo Limited, as the parent of the Company. Viridian TopCo Limited is majority owned by ISQ Viridian Holdings L.P..

I Squared Capital is an independent global infrastructure investment manager with more than \$4 billion of assets under management and is focused on energy, utilities and transport in North America, Europe and select high growth economies. I Squared Capital has offices in New York, Houston, London, New Delhi, Hong Kong and Singapore.

Key Performance Indicators

The Group has determined that the following key performance indicators (KPIs), covering both financial and operational performance, are the most effective measures of progress towards achieving the Group's objectives.

Financial KPIs

The financial KPIs are:

- Energia Group (excluding renewable assets) EBITDA and operating profit (pre exceptional items and certain remeasurements);
- Energia renewable assets EBITDA and operating profit (pre exceptional items and certain remeasurements);
- Power NI EBITDA and operating profit based on regulated entitlement (pre exceptional items and certain remeasurements); and
- PPB EBITDA and operating profit based on regulated entitlement (pre exceptional items and certain remeasurements).

Financial KPIs are based on regulated entitlement and before exceptional items and certain remeasurements as outlined in note 4.

Financial KPIs (continued)

The Group's financial KPIs are shown below:

	EBITDA ¹		Operating Profit ¹	
	2017 £m	2016 £m	2017 £m	2016 £m
Energia Group (excluding renewable assets)	65.1	58.9	48.9	43.7
Energia renewable assets	4.9	5.3	1.8	2.7
Power NI	32.2	31.6	29.6	29.0
PPB	4.0	4.0	4.0	4.0

¹ As shown in note 4 to the accounts

Energia Group (excluding renewable assets) EBITDA (pre exceptional items and certain remeasurements) increased to £65.1m (2016 - £58.9m) primarily reflecting favourable foreign exchange due to the strengthening of Euro to Sterling compared to last year, higher residential earnings (associated with continued growth in the RoI domestic market), the revaluation of distillate oil stock to current market price (last year reflected a reduction in that valuation) and higher contributions from renewable PPAs (due to the commissioning of renewable generation capacity, partly offset by lower market prices and lower wind factors), partly offset by lower availability of both Huntstown plant associated with the outages during the year (including higher operating costs).

Energia Group (excluding renewable assets) operating profit (pre exceptional items and certain remeasurements) increased to £48.9m (2016 - £43.7m) primarily reflecting the increase in EBITDA outlined above.

Energia renewable assets EBITDA decreased to £4.9m (2016 - £5.3m) and operating profit decreased to £1.8m (2016 - £2.7m) reflecting development costs in respect of renewable development projects and lower wind factors together with last year benefitting from the sale of surplus connection capacity to a wind farm developer, partly offset by the commissioning of new wind farms in March 2017 (95MW Meenadreen extension, 15MW Gortfinbar and 7MW Eshmore).

Power NI EBITDA increased to £32.2m (2016 - £31.6m) and operating profit increased to £29.6m (2016 - £29.0m) primarily reflecting lower operating costs together with higher contributions from small scale renewable PPAs partly offset by lower unregulated margin.

PPB EBITDA and operating profit remained flat at £4.0m (2016 - £4.0m).

Operational KPIs

The operational KPIs are:

Energia Group (excluding renewable assets)

- generation plant availability (the percentage of time Huntstown CCGTs are available to produce full output);
- generation plant unconstrained utilisation (the indicative dispatch of the available Huntstown CCGTs assuming no constraints i.e. restrictions imposed by the Single Electricity Market Operator (SEMO) on the availability of the Huntstown CCGTs to dispatch electricity or physical limitations of dispatching such electricity);
- generation plant incremental impact of constrained utilisation (the indicative dispatch of the available Huntstown CCGTs assuming constraints imposed by SEMO);
- non-residential and residential customer sites;
- the volume of electricity sales (TWh) by Energia in Northern Ireland and the RoI;
- the volume of gas sales (million therms) by Energia in Northern Ireland and the RoI;
- the number of complaints the Consumer Council for Northern Ireland (CCNI) (Stage 2 complaints) and the Commission for Energy Regulation (CER) takes up on behalf of customers; and
- the average annual and year end capacity (MW) of contracted renewable generation in operation in Northern Ireland and the RoI.

Energia renewable assets

- availability (the percentage of time wind generation assets are available to produce full output); and
- wind factor (the indicative output of the available wind generation assets).

Power NI

- the number of complaints which the CCNI takes up on behalf of customers (Stage 2 complaints);
- the volume of electricity sales (TWh) in Northern Ireland;
- market share (by GWh sales) of electricity sales in Northern Ireland;
- non-residential and residential customer sites; and
- the average annual and year end capacity (MW) of deregulated contracted renewable generation in Northern Ireland.

Operational KPIs and commentary on business performance are set out in the relevant Business Review.

The Group also regards the lost time incident rate (LTIR) as a KPI in respect of employee safety; details are set out in the Workplace section of the Corporate Social Responsibility (CSR) Report.

Business Reviews

Energia Group (excluding renewable assets)

Background information

The Energia Group (excluding renewable assets) operates as a vertically integrated energy business consisting of competitive electricity supply to business and residential customers in the RoI and business customers in Northern Ireland through Energia, its retail supply business, backed by electricity generation from its two Huntstown CCGT plants and long term PPAs with third-party renewable generators (including wind generation assets in which the Group has an equity interest). The Energia Group also supplies natural gas to business and residential customers, principally in the RoI.

Huntstown 1, a 343MW CCGT plant on the Huntstown site north of Dublin, was commissioned in November 2002 and Huntstown 2, a 404MW CCGT plant adjacent to Huntstown 1, was commissioned in October 2007.

Financial performance

Revenues increased to £874.4m (2016 - £833.0m) primarily reflecting the favourable impact of foreign exchange translation (with the strengthening of Euro to Sterling compared to last year) and higher residential sales volumes, partly offset by lower non-residential revenue (associated with lower gas prices), lower interconnector revenue, lower Huntstown plant revenues (due to lower utilisation of Huntstown 1 partly offset by higher utilisation of Huntstown 2; and lower availability of both plant) and lower renewable PPA revenues (associated with lower wind factors).

EBITDA (pre exceptional items and certain remeasurements) increased to £65.1m (2016 - £58.9m) primarily reflecting favourable foreign exchange due to the strengthening of Euro to Sterling compared to last year, higher residential earnings (associated with continued growth in the RoI domestic market), the revaluation of distillate oil stock to current market price (last year reflected a reduction in that valuation) and higher contributions from renewable PPAs (due to the commissioning of renewable generation capacity, partly offset by lower market prices and lower wind factors), partly offset by lower availability of both Huntstown plant associated with the outages during the year (including higher operating costs).

Certain remeasurements

Certain remeasurements were a £1.6m gain (2016 - £1.3m loss) reflecting the recognition of the fair value of derivatives.

Operational performance

KPIs	2017	2016
Availability (%)		
- Huntstown 1	89.3	95.8
- Huntstown 2	91.1	97.5
Unconstrained utilisation (%)		
- Huntstown 1	8.1	1.0
- Huntstown 2	29.0	2.9
Incremental impact of constrained utilisation (%)		
- Huntstown 1	9.7	25.4
- Huntstown 2	13.2	30.1
Customer sites (number)		
- Non-residential		
- electricity	51,800	53,800
- gas	5,300	5,500
	57,100	59,300
- Residential		
- electricity	106,900	81,700
- gas	38,400	35,900
	145,300	117,600
Energia electricity sales (TWh)	4.8	4.6
Energia gas sales (million therms)	81.0	80.6
Complaints to the CCNI and CER (number)	4	3
Contracted renewable generation capacity in operation in Northern Ireland and the RoI (MW)		
- average during the year	849	797
- at 31 March	1,013 ¹	802

¹ Included in operating capacity at 31 March 2017 is 51MW of capacity for which all turbines had been energised and became fully operational by 18 April 2017.

Huntstown 1 availability was 89.3% (2016 – 95.8%) primarily reflecting a 31 day outage which commenced on 14 June 2016. The outage was extended by 7 days from the agreed planned outage of 24 days to complete additional works required to the gas turbine and steam turbine.

Huntstown 2 availability was 91.1% (2016 – 97.5%) reflecting a 29 day outage which commenced on 15 August 2016. The outage was extended by 9 days from the agreed planned outage of 20 days to complete additional works required to the gas turbine. Work to carry out a necessary repair on the high pressure stop valve is expected to be undertaken during the summer period. The cost of repair is estimated at £0.4m (excluding loss of market revenue) and is estimated to take around 5 weeks to complete. In the meantime the plant remains fully available.

Huntstown 1 unconstrained utilisation was 8.1% (2016 – 1.0%). Huntstown 2 unconstrained utilisation was 29.0% (2016 – 2.9%).

The incremental impact of constrained utilisation for Huntstown 1 was an increase of 9.7% (2016 – 25.4%). The incremental impact of constrained utilisation for Huntstown 2 was an increase of 13.2% (2016 – 30.1%).

During the year Huntstown 1 and 2 successfully completed work to reduce their minimum generation levels from 171MW to 120MW for Huntstown 1 and 170MW to 121MW for Huntstown 2. This provides more flexibility for the plant to the Transmission System Operator (TSO) Eirgrid.

Based on data published by the CER and the Utility Regulator, Energia supplies c19% (2016 – c22%) of the non-residential electricity market by volume on an all-island basis and c15% (2016 – c16%) of the non-residential natural gas market by volume in the RoI (excluding power generation).

Non-residential electricity customer sites reduced to 51,800 (2016 – 53,800) reflecting competition in the market. Non-residential gas customer sites were 5,300 (2016 – 5,500).

Operational performance (continued)

Residential electricity and gas customer sites increased to 145,300 (2016 – 117,600) reflecting the continued growth in the RoI residential electricity and gas markets.

Total electricity sales volumes were 4.8TWh (2016 – 4.6TWh) and gas sales volumes were 81.0m therms (2016 – 80.6m therms) reflecting continued growth in the RoI residential markets.

During the year Energia received four (2016 – three) complaints which were referred to the CCNI and CER.

Renewable PPA portfolio

Energia Group's renewable portfolio primarily consists of offtake contracts with third party-owned wind farms (including wind generation assets in which the Group has an equity interest) and a development pipeline of wind farm projects owned by the Energia Group.

Energia has entered into contracts with developers under which it has agreed to purchase the long term output of a number of wind farm projects and with generators from other renewable sources as shown below:

MW	Operating	Under construction	Total
NI	454 ¹	14	468
RoI	559	24	583
	1,013	38	1,051

¹ Included in operating capacity at 31 March 2017 is 51MW of capacity for which all turbines had been energised and became fully operational by 18 April 2017.

The average contracted renewable generation capacity in operation during the year was 849MW (2016 - 797MW) with 31 March 2017 operating capacity increasing to 1,013MW (2016 – 802MW).

During the year the operating capacity under contract in Northern Ireland increased to 454MW (2016 - 338MW) and the RoI operating capacity increased to 559MW (2016 - 464MW) as new wind farms were commissioned. 14MW of contracted capacity in Northern Ireland and 24MW of contracted capacity in the RoI relates to wind farms which are currently under construction.

Energia renewable assets

Background information

Energia renewable assets comprises generation from wholly owned wind generation assets.

Financial performance

Revenues increased to £7.7m (2016 - £7.0m) primarily reflecting revenues from the newly constructed wind farms commissioned in March 2017 (95MW Meenadreen extension, 15MW Gortfinbar and 7MW Eshmore) partly offset by lower wind factors.

EBITDA decreased to £4.9m (2016 - £5.3m) reflecting development costs in respect of renewable development projects and lower wind factors together with last year benefitting from the sale of surplus connection capacity to a wind farm developer, partly offset by the contribution from newly constructed wind farms commissioned in March 2017 (95MW Meenadreen extension, 15MW Gortfinbar and 7MW Eshmore).

Operational performance

KPIs	2017	2016
Availability (%)	97.3	97.3
Wind factor (%)	25.9	32.2

Energia renewable assets availability was 97.3% (2016 – 97.3%) with a wind factor of 25.9% (2016 – 32.2%).

Operational performance (continued)

The Group currently owns wind farm projects with the following forecast generation capacity as at 31 March 2017:

MW	Operating	Under construction	Total
NI	98 ¹	64	162
RoI	104	-	104
	202	64	266

¹ Included in operating capacity at 31 March 2017 is 51MW of capacity for which all turbines had been energised and became fully operational by 18 April 2017.

At 31 March 2017, the Energia Group had a direct investment in 98MW (2016 - 25MW) of operating wind generation capacity in Northern Ireland and 104MW (2016 - 9MW) of operating wind generation in the RoI. The Energia Group also had a direct investment in 64MW (2016 - 73MW) of wind generation capacity in Northern Ireland under construction at 31 March 2017.

The Energia Group also has a further pipeline of wind generation projects with capacity of 31MW which are in various stages of obtaining planning permission.

During the year the Group completed the acquisition of three fully consented wind farm development projects (Rathsherry, Cornavarrow and Slieveglass) in Northern Ireland with combined capacity of 64MW. The total cash flows on acquisition were £12.5m and at 31 March 2017, discounted contingent liabilities of £16.5m have been recognised (£19.0m undiscounted).

In April 2017, the Group completed the acquisition of the 11MW Teiges wind farm development project in Northern Ireland.

In June 2016, non-recourse project finance facilities of up to £7.9m were put in place in respect of the 7MW Eshmore wind farm for which commissioning occurred in March 2017. In February 2017, non-recourse project finance facilities of up to £18.4m were put in place in respect of the Altamuskin 14MW wind farm for which commissioning took place in April 2017. Project financing for the remaining 75MW of capacity in construction (including Teiges) is expected to be put in place with commissioning expected by the end of 2018.

The Energia Group also retains a minority share of 25% in the RoI wind farm projects and 20% in the Northern Ireland wind farm projects of which a majority was sold to the Irish Infrastructure Fund in June 2012.

Power NI

Background information

Power NI is the regulated electricity supplier in Northern Ireland. The number of customers supplied at 31 March 2017 reduced to 517,000 (2016 - 545,000) primarily reflecting continued competition in the residential market.

Power NI purchases the majority of its wholesale requirements from the SEM pool and hedges its exposure to pool price volatility through a combination of contracts for differences (CfDs) with PPB, ESB Power Generation and other independent generators and tariffs for certain larger customers which are partly or fully indexed to pool price.

Price control

The price control provides Power NI an allowance in respect of its operating costs plus a margin and with the pass through to customers of its wholesale energy costs subject to compliance with its economic purchasing obligation and the cost of market levies and payments for use of the transmission system and the distribution system.

On 17 November 2016, the Utility Regulator published a paper setting out their final decision on a two year extension of the current price control from 1 April 2017 to 31 March 2019 (with Power NI agreeing to share with customers the benefits of efficiency gains made during the current price control period) and an alteration to the scope by confirming the removal of the remaining price controls for the non-residential sector (i.e. SME customers with annual consumption of less than 50MWh) on 1 April 2017.

On 18 December 2016, the Utility Regulator revoked the licence of the domestic supplier Open Electric Ltd (Open Electric) after it went into administration. All Open Electric's customers (c.1,100) were successfully transferred to Power NI as Power NI is designated as SoLR. All costs incurred by Power NI, as a result of the SoLR event are fully recoverable through an adjustment to its regulatory entitlement.

Financial performance

Revenues (based on regulated entitlement) reduced to £335.0m (2016 - £373.4m) primarily due to the reduction in residential and non-residential customer numbers, together with lower consumption per customer and the 10.3% reduction in tariffs effective 1 April 2016.

EBITDA increased to £32.2m (2016 - £31.6m) primarily reflecting lower operating costs together with higher contributions from small scale renewable PPAs, partly offset by lower unregulated margin.

Operational performance

KPIs	2017	2016
Complaints to the CCNI (number)	4	3
Market share of Northern Ireland electricity sales (%)		
- Residential	58 ¹	63
- Non-residential	18 ¹	18
Customer sites (number)		
- Residential	483,000	510,000
- Non-residential	34,000	35,000
	517,000	545,000
Electricity sales (TWh)	2.5	2.7
Contracted renewable generation capacity in operation (deregulated)		
- average during the year (MW)	112	89
- at 31 March 2017 (MW)	127	101

¹ Based on data published by the Utility Regulator at 31 December 2016

Operational performance (continued)

During the year Power NI received four (2016 - three) complaints which were referred to the CCNI. The number of complaints continues to compare favourably with best practice in Great Britain and represents best practice in the Northern Ireland residential electricity supply market.

Power NI's deregulated renewable PPA portfolio consists of contracts with small to medium scale renewable generation sites primarily from wind, anaerobic digestion and biomass technologies. The average contracted generation capacity in operation during the year was 112MW (2016 – 89MW) with 31 March 2017 capacity increasing to 127MW (2016 – 101MW).

Residential customer numbers decreased to 483,000 at 31 March 2017 (2016 – 510,000) with market share by volume 58% (2016 – 63%). Non-residential customer numbers decreased to 34,000 (2016 – 35,000) with market share by volume 18% (2016 – 18%).

Electricity sales were 2.5TWh (2016 – 2.7TWh) reflecting the reduction in residential and non-residential customer numbers together with lower average consumption per customer.

PPB

Background information

PPB's primary role is to administer the contracted generation capacity from the Ballylumford power station in Northern Ireland under legacy generating unit agreements which were originally established in 1992 when the Northern Ireland electricity industry was restructured, and to sell this wholesale electricity into the SEM pool. PPB also offers CfDs to suppliers and sells ancillary services to SONI Limited (SONI). To the extent that the revenue PPB receives from trading in the SEM (including any CfD revenues) and from ancillary services payments is insufficient to cover its costs of procuring wholesale supplies of electricity plus the regulated allowance to cover its own costs, PPB is entitled to recover any shortfall via public service obligation (PSO) charges payable by suppliers (in practice Northern Ireland Electricity Limited (NIE) makes payments to PPB equal to the shortfall and recovers the cost of those payments through its PSO charges). Likewise, PPB is required to return any surplus revenue.

As at 31 March 2017 the generation capacity remaining under contract to PPB comprised 600MW with AES Ballylumford. In September 2016, PPB exercised its option with AES Ballylumford to extend the term of the Generating Unit Agreement covering the 600MW of CCGT capacity by five years from September 2018 to September 2023.

Price Control

PPB's price control ended on 31 March 2017 and discussions in respect of an extension are ongoing.

Financial performance

Revenues (based on regulated entitlement) decreased to £111.7m (2016 - £114.7m) and EBITDA remained flat at £4.0m (2016 - £4.0m).

SUMMARY OF FINANCIAL PERFORMANCE

Revenue

Revenue from continuing operations decreased to £1,317.6m (2016 - £1,320.9m). The breakdown by business is as follows:

Year to 31 March	2017 £m	2016 £m
Energia Group (excluding renewable assets)	874.4	833.0
Energia renewable assets	7.7	7.0
Power NI (based on regulated entitlement)	335.0	373.4
PPB (based on regulated entitlement)	111.7	114.7
Adjustment for (under)/over-recovery	(0.5)	4.3
Inter business elimination	(10.7)	(11.5)
Total revenue from continuing operations	1,317.6	1,320.9

Energia Group (excluding renewable assets) revenue increased to £874.4m (2016 - £833.0m) primarily reflecting the favourable impact of foreign exchange translation (with the strengthening of Euro to Sterling compared to last year) and higher residential sales volumes, partly offset by lower non-residential revenue (associated with lower gas prices), lower interconnector revenue, lower Huntstown plant revenues (due to lower utilisation of Huntstown 1 partly offset by higher utilisation of Huntstown 2 and lower availability of both plant) and lower renewable PPA revenues (associated with lower wind factors).

Energia renewable assets revenue increased to £7.7m (2016 - £7.0m) reflecting revenues from the newly constructed wind farms commissioned in March 2017 (95MW Meenadreen extension, 15MW Gortfinbar and 7MW Eshmore), partly offset by lower wind factors.

Power NI revenue (based on regulated entitlement) reduced to £335.0m (2016 - £373.4m) primarily due to the reduction in residential and non-residential customer numbers together with lower consumption per customer and the 10.3% reduction in tariffs effective 1 April 2016.

PPB revenue (based on regulated entitlement) decreased to £111.7m (2016 - £114.7m).

During the year the Power NI Energy regulated businesses under-recovered against their regulated entitlement by £0.5m (2016 – over-recovery £4.3m) and at 31 March 2017 the cumulative over-recovery against regulated entitlement was £14.9m. The over-recovery of regulated entitlement reflects the phasing of tariffs.

Operating costs

Operating costs (pre exceptional items and certain remeasurements) decreased to £1,233.2m (2016 - £1,240.2m) and include energy costs, employee costs, depreciation and amortisation and other operating charges.

Energy costs include the cost of wholesale energy purchases from the SEM pool, capacity payments made to the SEM, the cost of natural gas and fixed and variable natural gas capacity costs for the Huntstown plants, emissions costs, use of system charges and costs for third party renewable PPAs. Energy costs decreased to £1,137.8m (2016 - £1,151.7m) primarily reflecting lower market prices (due to lower gas prices), lower Power NI sales volumes, lower interconnector volumes, lower utilisation of Huntstown 1 and lower PPA costs (associated with lower wind factors), partly offset by the impact of foreign exchange translation (with the strengthening of Euro to Sterling compared to last year), higher residential sales volumes and higher utilisation of Huntstown 2.

Operating costs (continued)

Employee costs include salaries, social security costs and pension costs. Employee costs increased to £25.4m (2016 – £22.0m) primarily reflecting the impact of foreign exchange translation (with the strengthening of Euro to Sterling compared to last year) and an increase in headcount.

Depreciation and amortisation increased to £22.3m (2016 – £20.7m) primarily due to the impact of foreign exchange translation (with the strengthening of Euro to Sterling compared to last year) and higher depreciation of renewable assets which became operational in March 2017.

Other operating charges include costs such as operating and maintenance costs, insurance, local business taxes, consultancy, marketing, licence fees and Information Technology (IT) services. Other operating charges increased to £47.7m (2016 - £45.8m) primarily reflecting the impact of foreign exchange translation (with the strengthening of Euro to Sterling compared to last year), higher operating costs associated with the outages in Huntstown 1 and Huntstown 2 and higher operating costs associated with the continued growth in the RoI domestic market, partly offset by the removal of the Arcapita management fee and lower Power NI operating costs.

Group operating profit

Operating profit (pre exceptional items and certain remeasurements) increased to £84.4m (2016 - £80.7m) primarily reflecting an increase in Energia Group (excluding renewable assets) operating profit, partly offset by an under-recovery of regulated entitlement of £0.5m (2016 – over-recovery £4.3m).

Year to 31 March	2017 £m	2016 £m
Energia Group (excluding renewable assets)	48.9	43.7
Energia renewable assets	1.8	2.7
Power NI	29.6	29.0
PPB	4.0	4.0
Other	0.6	(3.0)
Group pro-forma operating profit	84.9	76.4
(Under)/over-recovery of regulated entitlement	(0.5)	4.3
Operating profit	84.4	80.7

All of the above amounts are pre exceptional items and certain remeasurements as shown in note 4 to the accounts

Group pro-forma operating profit (pre exceptional items and certain remeasurements) increased to £84.9m (2016 - £76.4m) reflecting an increase in Energia Group (excluding renewable assets) operating profit from £43.7m to £48.9m, an increase in other Viridian holding companies operating profit from £3.0m loss to £0.6m profit and an increase in Power NI operating profit from £29.0m to £29.6m, partly offset by a decrease in Energia renewable assets operating profit from £2.7m to £1.8m.

Energia Group (excluding renewable assets) operating profit (pre exceptional items and certain remeasurements) increased to £48.9m (2016 – £43.7m) primarily reflecting favourable foreign exchange (due to the strengthening of Euro to Sterling compared to last year), higher residential earnings (associated with continued growth in the RoI domestic market), the revaluation of distillate oil stock to current market price (last year reflected a reduction in that valuation) and higher contributions from the renewable PPAs (due to the commissioning of renewable generation capacity, partly offset by lower market prices and lower wind factors), partly offset by lower availability of both Huntstown plant associated with the outages during the year (including higher operating costs).

Energia renewable assets operating profit decreased to £1.8m (2016 - £2.7m) primarily reflecting development costs in respect of renewable development projects and lower wind factors together with last year benefitting from the sale of surplus connection capacity to a wind farm developer, partly offset by the contribution from newly constructed wind farms commissioned in March 2017 (95MW Meenadreen extension, 15MW Gortfinbar and 7MW Eshmore).

Power NI operating profit increased to £29.6m (2016 – £29.0m) primarily reflecting lower operating costs together with higher contributions from small scale renewable PPAs, partly offset by lower unregulated margins.

Group operating profit (continued)

PPB operating profit remained flat at £4.0m (2016 – £4.0m).

Other operating profit increased to £0.6m (2016 - £3.0m loss) primarily reflecting the removal of the Arcapita management fee.

Group EBITDA

The following table shows the Group pro-forma EBITDA (pre exceptional items and certain remeasurements) by business:

Year to 31 March	2017 £m	2016 £m
Energia Group (excluding renewable assets)	65.1	58.9
Energia renewable assets	4.9	5.3
Power NI	32.2	31.6
PPB	4.0	4.0
Other	1.0	(2.7)
Group pro-forma EBITDA	107.2	97.1

All of the above amounts are pre exceptional items and certain remeasurements as shown in note 4 to the accounts

Group pro-forma EBITDA (pre exceptional items and certain remeasurements) increased to £107.2m (2016 – £97.1m) primarily reflecting an increase in EBITDA at Energia Group (excluding renewable assets), other Viridian holding companies and Power NI, partly offset by a decrease in EBITDA in Energia renewable assets.

Energia Group (excluding renewable assets) EBITDA (pre exceptional items and certain remeasurements) increased to £65.1m (2016 – £58.9m) for the same reasons as described above for the increase in operating profit.

Energia renewable assets EBITDA decreased to £4.9m (2016 - £5.3m) for the same reasons as described above for the decrease in operating profit.

Power NI EBITDA increased to £32.2m (2016 – £31.6m) for the same reasons described above for the increase in operating profit.

PPB EBITDA remained flat at £4.0m (2016 – £4.0m).

Other EBITDA increased to £1.0m (2016 - £2.7m loss) for the same reasons described above for the increase in operating profit.

Net finance costs

Net finance costs (pre exceptional items and certain remeasurements) decreased from £38.4m to £27.2m primarily reflecting the extinguishment of the subordinated shareholder loan following the VGHL merger in June 2016, partly offset by an increase in the Senior secured notes interest charge (with the strengthening of Euro to Sterling compared to last year).

Exceptional items

Exceptional costs of £2.4m in 2017 primarily relate to costs associated with acquisitions whether successful or unsuccessful.

Certain remeasurements

Certain remeasurements gain of £14.8m (2016 – £9.0m) reflect fair value movements of derivatives as outlined in note 6 to the accounts.

Tax (charge)/credit

The total tax charge (pre exceptional items and certain remeasurements) was £1.0m (2016 – £6.4m credit). A detailed analysis of the tax charge is outlined in note 10 to the accounts.

Cash flow before acquisitions, disposals, interest and tax

Group cash flow before acquisitions, disposals, interest and tax of continuing operations is summarised in the following table:

Year to 31 March	2017 £m	2016 £m
Group pro-forma EBITDA¹	107.2	97.1
Defined benefit pension charge less contributions paid	(1.3)	(2.3)
Net movement in security deposits	8.5	(8.5)
Changes in working capital ²	4.1	16.5
(Under)/over-recovery of regulated entitlement	(0.5)	4.3
Exceptional items	(2.4)	-
Foreign exchange translation	2.0	1.2
Cash flow from operating activities	117.6	108.3
Net capital expenditure ³	(147.6)	(63.5)
Net proceeds/(expenditure) from sale and purchases of other intangibles	0.8	(2.1)
Cash flow before acquisitions, disposals, interest and tax	(29.2)	42.7

¹ Includes EBITDA of renewable wind farm assets of £4.9m (2016 - £5.3m)

² Includes changes in working capital of renewable wind farm assets of £1.0m increase (2016 - £0.1m decrease)

³ Includes capital expenditure on renewable wind farm assets of £132.3m (2016 - £58.8m including intangible development expenditure of £2.0m) and software expenditure of £2.9m (2016 - £0.4m)

Group cash flow from operating activities increased to £117.6m (2016 - £108.3m) primarily reflecting an increase in EBITDA from £97.1m to £107.2m, a decrease in security deposits of £8.5m (2016 - £8.5m increase), partly offset by a lower decrease in working capital of £4.1m (2016 - £16.5m) and under-recovery of regulated entitlement of £0.5m (2016 - over-recovery of £4.3m) and exceptional items of £2.4m (2016 - nil).

Net movement in security deposits

The net movement in security deposits was a £8.5m decrease (2016 - £8.5m increase) reflecting the replacement of security deposits with letters of credit. As at 31 March 2017 there were £2.4m of security deposits in place (2016 - £10.9m).

Changes in working capital

Working capital consists of inventories plus trade and other receivables (primarily retail energy sales including unbilled consumption, wholesale energy income, capacity payment income and Renewable Obligation Certificate (ROC) sales), prepayments and accrued income less trade and other creditors (primarily wholesale energy costs, capacity payments, natural gas and fixed natural gas capacity costs, renewable PPA costs, ROC costs, emission costs and use of system charges), payments received on account, accruals and tax and social security.

Working capital decreased by £4.1m (2016 - £16.5m) due to a decrease in the working capital requirements of Energia Group (excluding renewable assets), Power NI and PPB, partly offset by an increase in working capital requirements of Energia renewable assets and other Viridian holding companies.

Energia Group (excluding renewable assets) working capital decreased by £4.7m (2016 - increased by £0.4m) primarily due to an increase in trade creditors and accruals (primarily reflecting higher PPA creditors due to higher capacity and higher market prices and higher interconnector trading) and a decrease in trade debtors and accrued income (primarily reflecting a decrease in the REFIT debtor for Rol renewable PPAs, partly offset by an increase in volumes associated with Energia's continued growth in the Rol residential market), partly offset by an increase in stock (due to the revaluation of Huntstown distillate oil stock to current market price).

Energia renewable assets working capital increased by £1.0m (2016 - decreased by £0.1m) primarily reflecting an increase in trade debtors and accrued income reflecting higher output associated with the commissioning of new wind farms in March 2017 (95MW Meenadreen extension, 15MW Gortfinbar and 7MW Eshmore).

Changes in working capital (continued)

Working capital at Power NI decreased by £3.1m (2016 - £12.8m) primarily due to a decrease in trade debtors (primarily reflecting lower sales volumes associated with lower customer numbers and the tariff decrease effective 1 April 2016) and an increase in ROC creditors (associated with the higher ROC obligation), partly offset by a decrease in payments received on account and a decrease in trade creditors and accruals (primarily due to settlement timing differences).

Working capital at PPB increased by £2.1m (2016 – decrease of £4.3m) primarily reflecting a decrease in trade creditors and accruals (primarily due to settlement timing differences) and a higher VAT debtor, partly offset by a decrease in trade debtors and accrued income (due to lower Ballylumford output).

Working capital at other Viridian holding companies increased by £0.6m (2016 – £0.3m).

Over-recovery of regulated entitlement

As noted previously the regulated businesses of Power NI and PPB under-recovered against their regulated entitlement by £0.5m (2016 – over-recovered by £4.3m) and at 31 March 2017 the cumulative over-recovery against regulated entitlement was £14.9m. The over-recovery of regulated entitlement reflects the phasing of tariffs.

Capital expenditure

Net capital expenditure in respect of tangible fixed assets and intangible software assets increased to £147.6m (2016 - £63.5m).

Net capital expenditure at Energia Group (excluding renewable assets) increased to £10.6m (2016 - £3.3m) primarily reflecting capital expenditure in relation to the hot gas path inspection outage for Huntstown 1.

Net capital expenditure at Energia renewable assets increased to £132.3m (2016 - £58.8m) reflecting the ongoing construction of the wind farm asset portfolio.

Net capital expenditure at Power NI increased to £3.2m (2016 - £1.3m) primarily reflecting capital expenditure on the billing system upgrade which went live in May 2017.

Net capital expenditure at other Group companies increased to £1.6m (2016 - £0.1m) primarily reflecting capital expenditure on network infrastructure.

Other cash flows*Net interest paid*

Net interest paid (excluding exceptional finance costs) increased to £48.6m (2016 - £43.2m) primarily reflecting higher interest costs on the Senior secured notes reflecting the impact of foreign exchange due to the strengthening of Euro to Sterling compared to last year and higher interest costs on project finance debt associated with the ongoing construction and development of the wind farm asset portfolio.

Acquisition of subsidiary undertakings

Acquisition of subsidiary undertakings of £13.9m (2016 - £14.4m) reflects the acquisition of three fully consented wind farm development projects in Northern Ireland in July and October 2016 together with deferred consideration associated with the acquisition of a wind farm project in July 2015 as outlined in note 15 of the accounts.

Dividends

Equity dividends paid were £nil (2016 - £nil). No final dividend for 2016/17 is proposed.

Net debt

The Group's net debt decreased by £57.7m from £654.9m at 31 March 2016 to £597.2m at 31 March 2017 primarily reflecting the extinguishment of the subordinated shareholder loan and the Junior bank facility asset as part of the VGHL and VGIL merger, partly offset by an increase in project finance debt (associated with the ongoing construction and development of the wind farm asset portfolio) and the adverse impact of foreign exchange translation.

Net Debt at 31 March 2017 includes project finance net debt of £193.8m (2016 - £65.0m). Excluding project financed net debt, net debt was £403.4m (2016 - £589.9m).

Including the fair value of the foreign exchange forward contracts of €225.0m on the Senior secured notes (2016 - €150.0m), net debt was £573.7m (2016 - £644.6m) including project finance net debt and £379.9m (2016 - £579.6m) excluding project finance net debt.

Defined benefit pension liability

The pension liability in the Group's defined benefit scheme under IAS 19 decreased to nil at 31 March 2017 (2016 – £0.1m).

The last actuarial valuation of the Viridian Group Pension Scheme (VGPS) was as at 31 March 2015. Under the terms of the recovery plan agreed with the trustees, the Group will make good the £7.9m funding shortfall through annual deficit repair contributions of £1.25m for seven years. The third deficit repair contribution made under the recovery plan was paid on 29 March 2017.

REGULATION AND LEGISLATION

Northern Ireland

The electricity industry in Northern Ireland is governed principally by the Electricity (Northern Ireland) Order 1992 (the 1992 Order) and by the conditions of the licences which have been granted under the 1992 Order. The 1992 Order has been amended by subsequent legislation including the Energy (Northern Ireland) Order 2003 (the 2003 Order), the Electricity Regulations (Northern Ireland) 2007, the Electricity (Single Wholesale Market) (Northern Ireland) Order 2007 (the SEM Order), the Gas and Electricity (Internal Markets) Regulations (Northern Ireland) 2011, the Electricity and Gas (Market Integrity and Transparency) (Enforcement etc.) Regulations (Northern Ireland) 2013 and most recently the Energy Efficiency Regulations (Northern Ireland) 2015 and the Gas and Electricity Licence Modification and Appeals Regulations (Northern Ireland) 2016.

Regulators

The Northern Ireland Authority for Utility Regulation (Utility Regulator) and the Department for the Economy (DfE) are the principal regulators. Each is given specific powers, duties and functions under the relevant legislation. The functions of the Utility Regulator include licensing (pursuant to a general authority given by DfE) and the general supervision and enforcement of the licensing regime. DfE's functions include licensing, the giving of consents for new power stations and overhead lines, fuel stocking, the encouragement of renewable generation and the regulation of matters relating to the quality and safety of electricity supply.

Regulators' objectives and duties

The principal objective of both the Utility Regulator and DfE in carrying out their functions in relation to electricity is to protect the interests of consumers of electricity, wherever appropriate, by promoting effective competition between those engaged in, or in commercial activities connected with, the generation, transmission or supply of electricity. Each of the Utility Regulator and DfE has a duty to carry out its functions in the manner which it considers is best calculated to further this principal objective, having regard to a number of factors, including the need to ensure that all reasonable demands for electricity are met and that licensees are able to finance their authorised activities. In performing that duty, they are required to have regard to the interests of individuals whose circumstances include being disabled, chronically sick or of pensionable age or having low incomes or residing in rural areas. They must also have regard to the effect of the industry's activities on the environment and their role includes promoting energy efficiency.

The 2003 Order gives the CCNI responsibility for representing electricity consumers and dealing with their complaints. The CCNI has powers to investigate matters relating to the interests of consumers regarding their electricity supply and to obtain information from electricity licence holders.

Competition in electricity generation and supply

All wholesale electricity (with limited exceptions) is bought and sold across the island of Ireland through the Single Electricity Market (SEM) which was established in November 2007. The SEM is based on a gross mandatory pool. Generators make offers to sell their electricity into the pool and are dispatched centrally on the basis of their bids. Suppliers purchase all their wholesale requirements from the pool.

The retail market in Northern Ireland is fully open to competition. Based on data published by the Utility Regulator for 31 December 2016, approximately 82% (2016 – 82%) of non-residential consumption is supplied by competitors of Power NI and approximately 42% (2016 – 37%) of residential consumption is supplied by competitors of Power NI.

During the year the Utility Regulator consulted upon and decided to remove the remaining price regulation threshold in the non-domestic sector. This decision became effective on 1 April 2017. The Utility Regulator has also committed to furthering its work on the domestic regulatory framework recognising the deepening of competition in the domestic sector and the need for a broader framework.

Licences

There are four types of electricity licence: participation in transmission; supply; generation and SEM operation. Taken together, these licences: regulate the economic behaviour of licensees; set a framework for competition in generation and supply; underpin the arrangements relating to security of supply; protect the technical integrity of the system; and provide for certain types of customer services.

Licences (continued)

Energia, the Energia Group's competitive energy supply business, holds a supply licence. Energia renewables wind farms greater than 10MW hold generation licences. Power NI Energy holds a supply licence which also covers PPB's activities.

Energia

Energia's supply licence requires it to:

- comply with specified industry codes and agreements;
- be managerially and operationally independent from Power NI Energy;
- provide the Utility Regulator with information and comply with valid directions; and
- comply with the regulatory rules for trading in the SEM and the rules governing the submission of commercial offers to the SEMO when acting as an intermediary.

Energia renewable assets

Wind farms greater than 10MW in Northern Ireland require a generation licence. Energia renewables wind farms which hold generation licences include Altamuskin Windfarm Limited, Cornavarrow Windfarm Ltd, Gortfinbar Windfarm Limited, Long Mountain Wind Farm Limited, Thornog Windfarm Ltd and Wheelhouse Energy (NI) Limited.

The generation licences requires the licensee to:

- comply with specified industry codes;
- submit all available generation sets to central dispatch by the transmission system operator (TSO) in Northern Ireland in providing energy and ancillary services;
- comply with the regulatory rules for trading in the SEM; and
- provide the Utility Regulator with information and comply with valid directions.

Power NI Energy (incorporating Power NI and PPB)

Power NI Energy's licence covers the activities of both Power NI and PPB, and requires Power NI to:

- purchase wholesale supplies efficiently (the economic purchasing obligation);
- act as supplier of last resort (SoLR) if directed to do so by the Utility Regulator;
- comply with specified industry codes and agreements;
- set its prices having regard to the tariff methodology statement which sets out the policy for calculating and setting its prices, as approved by the Utility Regulator;
- comply with codes of practice on: payment of bills; services for vulnerable customers; the efficient use of electricity; complaint handling and services for customers with prepayment meters;
- be managerially and operationally independent from Energia; and
- comply with various conditions governing supply to residential customers in the competitive market including a prohibition of discrimination in supply where the licensee (together with its affiliates) is in a dominant position.

Licence conditions applicable to PPB require it to:

- contract for electricity at the best effective price reasonably obtainable, having regard to the sources available, and keep its commitments under review (PPB's economic purchasing obligation);
- enter into and comply with arrangements which facilitate PPB bidding into the SEM the capacity contracted to it under long term generating contracts;
- comply with the regulatory rules for trading in the SEM and the rules governing the submission of commercial offers to the SEMO; and
- comply with separate interface arrangements which govern PPB's relationships with SONI and NIE.

Power NI Energy (incorporating Power NI and PPB) (continued)

Power NI Energy's licence requires it to establish, and at all times maintain, the full managerial and operational independence of PPB from other businesses within the Group. PPB's compliance plan sets out the practices, procedures, systems and rules of conduct to ensure compliance with this licence condition.

Licence compliance, modification, termination and revocation

The Utility Regulator has statutory powers to enforce compliance with licence conditions. The 2003 Order provides for the Utility Regulator to levy a financial penalty (up to 10% of the licensee's revenue) for breach of a relevant condition.

The Utility Regulator may modify the conditions of licences in accordance with the procedures set out in the relevant legislation, which include due notice, public consultation and consideration of any representations and objections. From February 2015 the Utility Regulator has the power following due consultation to impose licence modifications which are subject to appeal by specified parties, including the licensee affected, to the Competition and Markets Authority (CMA). The CMA may direct that, pending the determination of an appeal, the decision of the Utility Regulator is not to have effect. Proposed modifications can be vetoed by DfE. Modifications of licence conditions may also be made by statutory order as a consequence of a reference under the Competition Act 1998.

Licences may be terminated by not less than 25 years' notice given by DfE and are revocable in certain circumstances including: where the licensee consents to revocation; where the licensee fails to comply with an enforcement order made by the Utility Regulator; or where specified insolvency procedures are initiated in respect of the licensee or its assets.

Price controls

Power NI and PPB are subject to price controls, defined in formulae set out in Power NI Energy's licence, which limit the revenues they may earn and the prices they may charge. The principles of price regulation employed in the relevant licence conditions reflect the general duties of the Utility Regulator and DfE under the relevant legislation. These include having regard to the need to ensure that licensees are able to finance their authorised activities.

If the amount of revenue recovered in any one year exceeds or falls short of the amount allowed by the relevant price control formula, a correction factor operates in the following year to give back any surplus with interest, or to recover any deficit with interest, as appropriate. A surplus is referred to as an over-recovery and a deficit as an under-recovery.

Competition in gas supply

Within Northern Ireland, the gas market of Greater Belfast (the Phoenix licensed area) was fully opened to competition on 1 January 2007 and the gas market beyond Greater Belfast (the Firmus licensed area) was fully opened to competition on 1 April 2015. The principal rules for shipping natural gas in Northern Ireland are contained in the Phoenix Distribution Code, the Firmus Distribution Code, and the Premier Transmission Limited Transportation Code. Energia and Power NI hold gas supply licences.

Renewable energy

The Northern Ireland Assembly has a target of sourcing 40% of Northern Ireland's electricity from renewable sources by 2020, as reflected in the Strategic Energy Framework (SEF) 2010-2020. The SEF is currently under review and this is due to be completed in 2017. Currently there is 1,275MW of renewable generation connected to the Northern Ireland system, of which 999MW is onshore wind. It is estimated that this will need to increase to approximately 1,684MW by 2020, of which 1,325MW is onshore wind, to meet the 40% target.

The United Kingdom (UK) Renewable Obligation (RO) scheme applies in Northern Ireland. The RO scheme is designed to incentivise the generation of electricity from renewable sources. The scheme places an obligation on suppliers to source a portion of their electricity from renewable sources (14.2% in Northern Ireland for 2016/17 increasing to 16.7% by 2017/18).

Under the RO scheme, eligible renewable generators receive Renewable Obligation Certificates (ROCs) for each MWh of electricity generated. ROCs are freely tradeable and can be sold to suppliers in order to fulfil their obligation. Suppliers can either present ROCs to cover their obligation or pay a buy-out fee of £44.77/MWh (2016/17), £45.58/MWh (2017/18) for any shortfall. All proceeds from buy-out fees are recycled to the holders of ROCs.

Renewable energy (continued)

The Renewable Obligation Closure Order (Northern Ireland) 2016 came into effect on 17 March 2016. This legislation closed the Northern Ireland Renewable Obligation (NIRO) to new large (above 5MW) onshore wind generating stations from 1 April 2016. The NIRO Closure Order 2016 introduced various grace periods for stations to enable them to qualify for ROCs notwithstanding that they would otherwise be affected by the early closure. The grace periods relate to investment freeze, brought about by delays in the legislation to implement the early closure process and uncertainty as to its final form and/or grid and/or radar connection delays. If grace period conditions are met generating capacity can gain accreditation under the NIRO between 1 April 2016 and 31 December 2018. Similar legislation came into force for small scale onshore wind generating capacity on 29 June 2016.

On 11 May 2017 the Office of Gas and Electricity Markets (OFGEM) issued a further limited consultation on the NIRO and RO investment freeze and grid delay grace period declaration templates in order to provide greater clarity to allow generators to satisfy the accreditation criteria where reliance on the investment freeze and grid delay grace periods is required. The consultation closes on 12 June 2017.

The closure of the NIRO for all other technologies is covered in the Renewables Obligation Closure Order (Northern Ireland) 2016 and generating stations cannot accredit after 31 March 2017 except if it qualifies for the 12 month grid or radar grace period.

ROC benefit rights will be grandfathered to projects that accredit under the NIRO following its closure. Generation accrediting under the NIRO will receive full support under the RO until 2037. From 2027 fixed price certificates will be issued, in place of ROCs, to projects qualifying for RO support until the end of the RO mechanism in 2037. Fixed price certificates will be set at the 2027 buyout price, plus 10% and will be inflation linked.

Republic of Ireland

The principal legislative instruments governing the regulation of the energy sector in the RoI are the Electricity Regulation Act 1999 (the 1999 Act), the European Communities (Internal Market in Electricity) Regulations 2000 and 2005, the Gas (Interim) (Regulation) Act 2002 (the 2002 Act), the European Communities (Internal Market in Natural Gas) (No. 2) Regulations 2004, the Energy (Miscellaneous Provisions) Act 2006, the Electricity Regulation (Amendment) (Single Electricity Market) Act 2007 (the 2007 Act) and the Energy Act 2016.

Regulators

Overall policy responsibility for the energy sector lies with the Minister for Communications, Climate Action and Environment (the Minister). In this capacity, the Minister is advised by the Department of Communications, Climate Action and Environment (DCCAE) and other statutory bodies including the CER and the Sustainable Energy Authority of Ireland. CER was established as the regulator of the electricity sector by the 1999 Act and was subsequently vested with regulatory authority over the downstream gas sector by the 2002 Act.

Regulators' objectives and duties

The principal objective of CER in carrying out its functions in relation to energy is to protect the interests of energy consumers, wherever appropriate by promoting effective competition between persons engaged in, or in commercial activities connected with, the generation, transmission or supply of electricity and the transportation and supply of natural gas. CER has a duty to carry out its functions in a manner which does not discriminate between market participants.

The functions of CER include: advising the Minister; licensing market participants; the general supervision and enforcement of the licensing regime; the regulation of third party access and network tariffs in both the gas and electricity sectors; the setting of gas and electricity market rules; regulation of gas and electricity markets and residential gas tariffs and regulating safety in electricity and gas supply to final customers. DCCAE's functions include drafting legislation, advising the Minister on issues of energy policy and promoting renewable energy.

Competition in electricity generation and supply

As noted above, all wholesale electricity (with limited exceptions) is bought and sold across the island of Ireland through the SEM. Electricity Supply Board (ESB) is the incumbent electricity utility in the RoI and its network functions are ring-fenced from its generation and supply interests. EirGrid is the independent TSO and also owns the East/West Interconnector.

Competition in electricity generation and supply (continued)

The retail market in the RoI is fully open to competition and all customers may choose their supplier. In April 2011, ESB's previously regulated supply business was fully deregulated and rebranded as Electric Ireland. Approximately 59% (2016 – 61%) of non-residential consumption and 48% (2016 – 45%) of residential consumption is supplied by suppliers who compete with Electric Ireland.

Great Island CCGT

SSE completed the construction of a 460MW CCGT at Great Island in Co. Wexford and the plant was commissioned on 17 April 2016.

Licences

There are seven types of electricity licence: transmission system operation; transmission asset ownership; distribution system operation; distribution asset ownership; SEM operation; supply; and generation. Licences regulate the economic behaviour of licensees; set a framework for competition in generation and supply; underpin the arrangements relating to security of supply; and protect the technical integrity of the system. Huntstown 1 and 2 hold generation licences and Energia holds a supply licence.

Huntstown

The generation licences require Huntstown 1 and 2 to:

- comply with specified industry codes;
- submit to central dispatch by the TSO in the RoI in providing energy and ancillary services to the electricity system;
- appoint a competent operator;
- comply with the rules governing the submission of commercial offers to SEMO; and
- provide CER with information and comply with valid directions.

Energia

Energia's supply licence requires it to:

- comply with specified industry codes;
- comply with the relevant licence conditions of generators (where acting as an intermediary for generators such as wind farms) in submitting commercial offers; and
- provide CER with information and comply with valid directions.

Energia renewable assets

All wind farms in the RoI require a generation licence. Energia renewables hold generation licences through Windgeneration Ireland Limited (Meenadreen extension wind farm) and Holyford Windfarm Limited.

The generation licence requires the licensee to:

- comply with specified industry codes;
- submit to central dispatch by the TSO in the RoI in providing energy and ancillary services to the electricity system;
- appoint a competent operator;
- comply with the rules governing the submission of commercial offers to SEMO; and
- provide CER with information and comply with valid directions.

Competition in gas supply

The gas market in the RoI was fully opened to competition on 1 July 2007. The principal rules for shipping natural gas in the RoI are contained in the Gas Networks Ireland (formerly Gaslink) Code of Operations. Energia holds a gas shipping and gas supply licence.

Energy Efficiency Obligation

The Energy Efficiency Obligation Scheme in the RoI places obligations on energy suppliers to achieve specific annual energy savings targets across the residential, business and energy poverty sectors. In December 2016, Energia received its new Energy Efficiency Notices from the DCCAE for the calendar years 2017 to 2020 and its obligation for 2017 is 71.4GWh (2016 - 74.7GWh) increasing to 79.9GWh for 2018 to 2020 with a higher proportion allocated to the residential market from the business market in comparison to the 2014 to 2016 requirement. On 20 March 2017 Energia secured leave from the High Court to bring judicial review proceedings against the Minister challenging the Energy Efficiency Notices.

Renewable energy

The Renewable Energy Feed-In Tariff scheme (REFIT) is designed to encourage renewable generation in the RoI. Under REFIT, suppliers and renewable energy generators enter into a PPA for a minimum of 15 years. In return for entering into the PPA, the supplier receives a supplier balancing payment equal to 15% of the base REFIT tariff for large scale wind. The supplier is also entitled to compensation if the market price of electricity falls below the REFIT tariff. The REFIT tariff for large scale wind generation is set at €69.72/MWh for 2017, and is indexed annually to the Consumer Price Index (CPI) in the RoI and only adjusted where there is positive inflation.

In February 2012, a REFIT 3 support scheme was introduced for Biomass technologies and in March 2012, a REFIT 2 support scheme was introduced for onshore wind, hydro and biomass landfill gas technologies. The structure of the schemes is similar to REFIT 1, but the supplier balancing payment is unindexed and will be recovered where market prices exceed the REFIT reference prices.

The existing primary supports, REFIT 2 and REFIT 3, closed for new applications on 31 December 2015 and required projects to be built and operational by 31 December 2017 however, this has been extended to allow projects to be connected by 31 December 2019 with the necessary information requirements to be confirmed by 31 December 2017. The backstop date remains unchanged at 31 December 2032. The RoI Government is currently consulting on a new support scheme for a range of renewable technologies in the electricity sector. The scheme will be subject to the new rules on public support for projects in the field of energy, adopted by the European Commission in 2014, which seek to promote a gradual move to market based support for renewable energy. The final scheme will be subject to the receipt of State Aid clearance from the EU Commission.

The RoI Government has a target for 40% of electricity consumption to come from renewable sources by 2020, as was restated in the White Paper on Energy published in December 2015. Currently there is approximately 2,851MW of renewable generation connected to the RoI system. It is estimated that this will need to increase to between 3,900MW and 4,300MW by 2020 to meet the 40% target.

Single Electricity Market

The Utility Regulator and CER (the Regulatory Authorities (RAs)) work together in the exercise of their statutory functions in relation to the SEM.

Decisions in relation to SEM matters are taken by the SEM Committee which was established in accordance with the SEM Order (in Northern Ireland) and the 2007 Act (in the RoI). DfE and the Minister have appointed members to the SEM Committee from the RAs together with an independent member and a deputy independent member. The voting rights and quorum rules for the SEM Committee are set out in the SEM legislation.

Oversight arrangements discharged by senior management from the RAs include a committee to receive delegations of authority from the SEM Committee to carry out certain functions including: management of resources across both RAs; coordinating and developing proposals for consideration by the SEM Committee; and the management of key regulatory functions. The four key regulatory functions for which a designated manager has been assigned are: management of the trading rules; monitoring the market; modelling the market; and regulation of SEMO.

On non-SEM matters, the Utility Regulator and CER exercise their statutory functions separately in their own jurisdictions.

Single Electricity Market (continued)

The process of European electricity market integration is underpinned by the European Union (EU) Third Energy Package. This set in place provisions for the implementation of the European Electricity Target Model (EU Target Model). The EU Target Model is a set of harmonised arrangements for the cross-border trading of wholesale electricity across Europe. EU Member states will have the responsibility to comply with the requirements of the EU Target Model. Unlike the SEM's mandatory gross pool structure with central dispatch, most electricity markets in Europe are bilateral markets and are broadly compatible with the EU Target Model design. The Governments of Northern Ireland and the RoI have charged the SEM Committee with responsibility for revising the SEM, through the creation of a new integrated Single Electricity Market (I-SEM), so that trading arrangements for the island of Ireland are compliant with EU requirements.

The SEM Committee published its final I-SEM High Level Design (HLD) decision on 17 September 2014. The HLD is a new, centralised, primary energy market, the Day Ahead Market (DAM), intended to bring about greater integration among European energy markets. The DAM will provide the initial market position for participants in the energy market, with those positions then able to be refined through optional participation in an intra-day electricity market (IDM). Participation in the I-SEM balancing market is mandated and that market will set the single clearing price for settling imbalances as compared to the positions held in the DAM and IDM.

The SEM Committee's HLD decision also confirmed that a capacity remuneration mechanism (CRM) is to be incorporated in the I-SEM. The CRM for the I-SEM will be quantity-based in the form of "reliability options", which are financial call options issued to capacity providers by a centralised party through a competitive auction. The reliability options will have to be backed by physical capacity.

Commencement of I-SEM had been scheduled for 1 October 2017. However, in response to the recommendations of a project "stock-take" report commissioned by the SEM Committee, the I-SEM project has been re-profiled and is now scheduled for go-live on 23 May 2018.

During the year the Group continued to fully participate in all areas of the I-SEM project. On 23 March 2017, the SEM Committee published its information paper on DS3 System Services Future Programme Approval. The approach centres on putting in place a tariff based procurement process with clarity on future expenditure and an emphasis on consumer benefit. The SEM Committee also confirmed that transition to the €235m DS3 expenditure cap by 2020 will be on a straight line glide path.

On 10 April 2017, the SEM Committee published its decision on CRM Parameters and Auction Timings. The decisions were primarily in line with proposals consulted on however, in respect of system constraints, the SEM Committee has recognised the need for further consideration of mechanisms to address local security of supply requirements.

The SEM Committee published a consultation on CRM Locational Capacity Constraints Methodology on 13 April 2017 and are expected to provide further information on proposed mechanisms over the coming months. The SEM Committee also confirmed that the first CRM transitional auction will take place on 15 December 2017 and will cover capacity delivery over the period from I-SEM go-live to 30 September 2019.

RISK MANAGEMENT AND PRINCIPAL RISKS AND UNCERTAINTIES

The Group operates a structured and disciplined approach to the management of risk. Its approach is to conduct business in a manner which balances costs and risks while taking account of all its stakeholders and protecting the Group's performance and reputation by prudently managing the risks inherent in the businesses. Management regularly identifies and considers the risks to which the businesses are exposed. Management's assessment of the key risks and the associated controls and actions required to mitigate these risks are recorded in business risk registers. Each risk is regularly assessed for the severity of its impact on the business and for the effectiveness of the controls in place. The risk environment is reviewed continually in order to identify new or emerging potential risks.

The Group's Audit Committee, which meets quarterly, plays a key role in internal control and risk management. The Audit Committee monitors the Group's financial reporting processes and the effectiveness of the internal control and risk management systems; reviews and appraises the activities of the internal and external auditors; and provides an open channel of communication among the internal and external auditors, senior management and the Board.

The Group's Risk Management Committee (RMC) comprises a number of senior managers from across the Group and meets bi-monthly to oversee the management of risks and ensure that adequate and timely action is taken to mitigate and manage risk. The RMC reviews individual business and functional risk registers and reports to the Audit Committee on a quarterly basis.

The emphasis on sound management structures and policies and procedures is backed up by operational and financial review mechanisms and an externally resourced internal audit function.

The directors acknowledge that they have responsibility for the Group's systems of internal control and risk management and monitoring their effectiveness. The purpose of these systems is to manage, rather than eliminate, the risk of failure to achieve business objectives, to provide reasonable assurance as to the quality of management information and to maintain proper control over the income, expenditure, assets and liabilities of the Group. No system of control can, however, provide absolute assurance against material misstatement or loss. Accordingly, the directors have regard to those specific controls, which in their judgement, are appropriate to the Group's business given the relative costs and benefits of implementing them.

The principal risks and uncertainties that affect the Group are described below but are not intended to be an exhaustive analysis of all the risks that may arise in the ordinary course of business or otherwise.

Competition in generation and supply of electricity

There is a risk that increased competition in generation and supply will reduce margins. Under the SEM, the system marginal price (SMP) is received by all generators and reflects the marginal cost of the last generating unit called to meet demand. Generators also receive capacity payments for their available capacity. The commissioning of new generating capacity may reduce the SMP and lead to lower capacity payments, subject to the impact of plant retirements and overall levels of demand.

The new I-SEM is due to go-live on 23 May 2018. Under the I-SEM the capacity remuneration mechanism (CRM) will be quantity-based in the form of "reliability options" and issued through a competitive auction. The first transitional auction will take place on 15 December 2017 and cover the period from go-live to 30 September 2019. Capacity payments earned under the I-SEM CRM are likely to be lower than that currently earned under the SEM capacity mechanism and may not be compensated by other income streams available to generators in I-SEM.

The main competitors in the electricity supply markets in Northern Ireland are SSE Airtricity, Electric Ireland, Budget Energy and Go Power. The main competitors in the electricity supply markets in the RoI are Electric Ireland, Bord Gáis Energy, SSE Airtricity and PrePay Power. Certain of the Group's competitors may be able to offer lower prices or incentives that may attract customers away from the Group thereby reducing its market share, which in turn, may have a material adverse effect on margins achieved.

Wholesale electricity price

All electricity (with limited exceptions) bought and sold across the island of Ireland is traded through the SEM. The Group manages wholesale electricity price risk as follows:

- Gas price exposure is hedged when fixed price customer contracts are signed. Energia also has the ability to hedge against the electricity demand of fixed price contract customers through its contracted wind capacity and a range of market sources of capacity such as CfDs with other market participants and purchases of power over the interconnectors. In some of Energia's customer contracts, the electricity price payable by the customer varies according to the price of gas;
- Power NI's price control allows it to pass through the costs of wholesale electricity subject to compliance with its economic purchasing obligation, which it discharges by hedging wholesale electricity prices in line with policies agreed with the Utility Regulator; and
- PPB is entitled to receive additional revenues from PSO charges to the extent that the revenue it receives from the pool, CfDs and ancillary services is insufficient to cover its regulated entitlement.

Huntstown plant and owned wind farm availability

Energia Group runs the risk of interruptions to the availability of Huntstown 1 and 2 and its owned wind farms.

For the Huntstown plants, this risk is managed by having long term maintenance agreements in place with the plants' original manufacturers, Siemens and Mitsubishi. Energia Group operates the plants to the manufacturers' guidelines within a suite of International Organization for Standardization (ISO) approved operation, maintenance and safety policies and procedures. The plant designs incorporate industry accepted levels of redundancy for critical plant components and there is regular testing of back up services and standby equipment.

The availability of owned wind farm assets is managed through maintenance contracts with the original turbine manufacturers and third parties.

Health and safety

The Group is committed to ensuring a safe working environment. The risks arising from inadequate management of health and safety matters are the exposure of employees, contractors and third parties to the risk of injury, potential liability and/or loss of reputation. These risks are closely managed by the Group through the employment of a Health and Safety Manager, the use of the services of an external health and safety advisor, the promotion of a strong health and safety culture, training for all staff and well defined health and safety policies. There is a strong focus on the audit of work sites and the reporting and reviewing of near miss incidents. The Group's approach to health and safety issues is described more fully in the CSR Report.

Regulation and legislation

The markets in which the Group operates are subject to regulatory and legislative intervention at both domestic and EU level.

Energia Group is exposed to the impact of regulatory decisions as well as changes in legislation which impact its generation and supply activities. Through its senior management, Energia Group maintains regular interaction with the Utility Regulator, CER, the SEM Committee, DfE and DCCAE. A pro-active approach is taken to the RAs' consultations on all SEM-related matters. The Governments of Northern Ireland and the RoI have charged the SEM Committee with responsibility for revising the SEM, through the creation of the new I-SEM, so that trading arrangements for the island of Ireland are compliant with EU requirements. Whilst the detailed market design phase of the project is ongoing the full extent of the modifications to the SEM is not yet fully known, such changes may have an adverse effect on the Group's businesses. In addition, I-SEM changes will require PPA counterparties to agree contractual amendments to enable PPAs to operate in the new market. In the RoI, the majority of counterparties are awaiting the publication of DCCAE's REFIT options paper for clarity on how REFIT will interact with I-SEM. In Northern Ireland and for a small number of non-REFIT contracts in the RoI, the new form of capacity payments in I-SEM is likely to mean a reduction in capacity income for wind farms and other I-SEM changes will require amendments to PPAs. It is anticipated that negotiations with counterparties will commence in the current financial year. While the outcome of negotiations are not yet known there is a risk that a reduction in capacity income and contractual amendments to the PPAs could have an adverse effect on the Group's businesses.

Regulation and legislation (continued)

Power NI and PPB are exposed to regulatory risk in respect of their price controls. The Group's approach to price control reviews is to be pro-active in promoting arrangements that will lead to an agreed outcome. This includes adherence to relevant precedent and best practice. There is regular reporting to the Utility Regulator and DfE on a wide range of financial and other regulatory matters including licence compliance. PPB is also exposed to regulatory decisions in respect of its contracted generation capacity which could impact its business activities. Regulatory relationships are managed by senior management through frequent meetings, informed dialogue and formal correspondence.

On 23 June 2016 the UK electorate voted to leave the EU, and on 29 March 2017, the UK Government formally notified the EU of its intention to leave thereby commencing negotiations on the terms of its exit. Exit from the EU will have wide consequences for the UK and therefore Northern Ireland, however as the SEM operates on an all-island basis it is expected that the market would continue to operate and that there would not be a significant impact on the implementation of I-SEM.

Development of wind farm assets

Through the development of wind farm assets, Energia Group is exposed to various risks including technical, commercial, contractor, planning, financing and economic risks. Such risks could delay the construction of wind farm projects or the commencement of commercial operations. In addition the Energia Group is exposed to regulatory risks surrounding the accreditation of newly constructed wind farms in Northern Ireland under the NIRO within the permitted grace periods. Experienced senior staff operate appropriate project management controls to manage the project risks with appropriate management reporting up to the Board.

Business continuity

The Group has measures in place to manage the risk that one or more of its businesses sustains a greater than necessary financial impact through inability to carry on its operations either for a short or prolonged period. Energia Group has business interruption insurance in place for both Huntstown 1 and 2 and the owned wind farm assets. There is an IT disaster recovery plan which covers the whole Group and centrally co-ordinated Business Continuity Plans are in place covering the various locations where each business operates.

Outsourcing

The Group outsources a range of important ICT from Capita. Voice and data telecoms services are provided by Eir through a contract managed by Capita. There is a risk of disruption to the Group if there are service delivery failures. Comprehensive business continuity and disaster recovery plans are maintained to manage this risk.

Social, environmental and ethical factors

The Group has in place measures to protect against financial and reputational risk from any failure to manage social, environmental and ethical (SEE) factors. In general, SEE factors are managed through embedding CSR into the Group's management processes and core business activities. Environmental risk, in particular, is managed through: business risk registers; environmental action plans; certified environmental management systems; and identification of potential environmental exposures.

Taxation

The Group pays taxes primarily in the UK and the RoI (the jurisdictions in which it has trading operations). Good relationships are maintained with HM Revenue & Customs (HMRC) and the Irish Revenue Commissioners based on trust and co-operation. The Group's policy is to manage its tax liabilities in an efficient manner and in compliance with all relevant legislation.

Pensions

The VGPS has two sections: a money purchase section and a defined benefit section. The defined benefit section is closed to new entrants and at 31 March 2017 there were 74 members comprising 40 active members, 1 deferred member and 33 pensioners. There is also a money purchase arrangement for employees in the RoI known as 'Choices'. Most employees of the Group are members of VGPS or Choices. There is a risk that the cost of funding the defined benefit section could increase if investment returns are lower than expected, mortality rates improve or salary or benefit increases are higher than expected. The VGPS trustees seek the advice of professional investment managers regarding the scheme's investments. The last actuarial valuation of the scheme was as at 31 March 2015 and under the recovery plan agreed with the trustees, the Group will make good the £7.9m funding shortfall through annual deficit repair contributions of £1.25m for seven years.

IT security and data protection

Failure to maintain adequate IT security measures could lead to the loss of data through malicious attack on the Group's IT systems or employee negligence. Loss of Group or customer data could damage the Group's reputation, adversely impact operational performance or lead to a loss of income. The Group has an IT Security Forum and a Data Protection Forum which both comprise of a number of relevant IT Security, Data Protection and operational managers from across the Group. These forums meet bi-monthly and report to the RMC. Through the forums, the Group actively promotes awareness of IT security and data protection and targeted controls and procedures are in place to mitigate the risks including the use of the services of external IT security and data protection advisors. During the year the Group re-tendered its contracts for the provision of IT Security and Data Protection advisory services. The outcome of these exercises resulted in the appointment of new advisors for both IT Security and Data Protection. The Group also appointed a dedicated Data Protection Officer during the year.

Financial control

Strong financial and business controls are necessary to ensure the integrity and reliability of financial and other information on which the Group relies for day-to-day operations, external reporting and for longer term planning. The Group exercises financial and business control through a combination of: appropriately qualified and experienced personnel; rigorous business planning processes; detailed performance analysis; an integrated accounting system; and clearly defined approval limits. The internal auditors test the effectiveness of financial and business controls. The external auditors provide advice on specific accounting and tax issues. Investment decisions are accompanied by detailed analysis, both short and long term, of the markets in which the Group operates.

Treasury risks

The Group's treasury function manages liquidity, funding, investment and the Group's financial risk, including risk from volatility in currency, interest rates, commodity prices and counterparty credit risk. The treasury function's objective is to manage risk at optimum cost in line with Group policies and procedures approved by the Board. The treasury function employs a continuous forecasting and monitoring process to manage risk and to ensure that the Group complies with its financial and operating covenants.

An analysis of the Group's net debt is as follows:

At 31 March	2017 £m	2016 £m
Investments	1.4	1.4
Cash and cash equivalents	106.8	67.8
Senior secured notes	(507.6)	(468.5)
Interest accruals – Senior secured notes	(3.2)	(3.0)
Other interest accruals	(0.8)	(0.7)
Subordinated shareholder loan	-	(386.8)
Junior bank facility asset	-	199.4
Amounts due from fellow subsidiary	-	0.5
Net debt excluding project finance facilities	(403.4)	(589.9)
Project finance cash	13.4	8.7
Project finance bank facility (RoI)	(103.6)	(38.9)
Project finance bank facility (NI)	(103.6)	(34.7)
Project finance interest accruals	-	(0.1)
Net debt	(597.2)	(654.9)
Foreign exchange forward contracts on Senior secured notes	23.5	10.3
Pro-forma net debt	(573.7)	(644.6)

Treasury risks (continued)

The maturity profile of the Group's loans and borrowings at 31 March 2017 is as follows:

Facility	£m	Maturity
Senior secured notes	(507.6)	March 2020
Senior revolving credit facility	-	October 2019
Project finance facilities	(207.2)	2027-2034
Interest accruals – Senior secured notes	(3.2)	
Other interest accruals	(0.8)	
	(718.8)	

Maturity analysis of loans and other borrowings is:

At 31 March	2017 £m	2016 £m
In one year or less or on demand	(17.6)	(5.3)
In more than one year but less than two years	(9.2)	(6.1)
In more than two years but less than five years	(539.6)	(865.2)
In more than five years	(152.4)	(56.1)
	(718.8)	(932.7)

Junior bank facility A repayment

On 29 April 2016, I Squared provided equity to the Company's parent undertaking Viridian Group Holdings Limited to enable the discharge of the Junior bank facility A in full, including all accrued interest and fees. Following successful consent processes, the Senior secured notes and the RCF remain in place with existing terms, including maturities.

Subordinated shareholder loan and Junior bank facility asset

On 28 June 2016, VGIL merged with its immediate parent VGHL, with VGIL becoming the surviving entity. As a result of this merger the Group assumed VGHL's Junior bank facility B liability at its fair value of £225.5m, and in doing so fully extinguished this liability against the Junior bank facility asset held by the Group of £213.1m. In addition, this merger resulted in the full extinguishment of the shareholder loan of £399.6m owed by the Group to VGHL. The net gain of £186.5m arising from this merger has been recognised within equity.

Project finance bank facilities

During the year non-recourse project finance facilities of up to £26.3m were put in place in respect of two wind farms in Northern Ireland with combined capacity of 21MW. This brings the total non-recourse project finance facilities for the five wind farms newly commissioned in Northern Ireland (Altamuskin, Eshmore, Glenbuck, Gortfinbar and Long Mountain) with a combined capacity of 73MW to £90.4m. Project financing for the remaining 75MW of capacity (including Teiges) in construction is expected to be put in place and it is intended that future wind farm projects will also be financed on a non-recourse basis.

Analysis of undrawn committed project finance bank facilities:

At 31 March	2017 £m	2016 £m
Project finance bank facilities	232.0	199.0
Draw down	(222.3)	(85.0)
Undrawn committed project finance facilities	9.7	114.0

All of the above amounts exclude project finance facilities in relation to working capital

Liquidity and capital resources

The Group is financed through a combination of retained earnings, medium term bond issuance and both medium term and long term bank facilities. A summary of the Group's net debt is set out above and in note 28. Liquidity, including short term working capital requirements, is managed through committed Senior revolving credit bank facilities together with available cash resources.

The Group can have significant movements in its liquidity position due to working capital variations such as the movements in commodity prices, the seasonal nature of the business and regulatory under-recoveries. Short term liquidity is reviewed daily by the treasury function and Group cash forecasts, covering a rolling two year period, are reviewed monthly. This monitoring includes reviewing the minimum EBITDA covenant and, from September 2016, the drawn Senior secured net leverage financial covenant, required to be reported quarterly under the Senior revolving credit facility, to ensure sufficient headroom is maintained. The project financed facilities have one main covenant, a debt service cover ratio, which measures available cash against the debt service requirements on an historic annual basis.

At 31 March 2017, the Group had letters of credit issued out of the Senior revolving credit facility of £94.4m resulting in undrawn committed facilities of £130.6m (2016 - £145.5m). There were no cash drawings under the Senior revolving credit facility at 31 March 2017 (2016 - £nil).

During the year the Group has met all required financial covenants in the Senior revolving credit facility and project finance facilities.

At 31 March 2017, there was £13.4m (2016 - £8.7m) of restricted cash in the project financed wind farms which is subject to bi-annual distribution debt service requirements.

Interest rate risk

The majority of the Group's borrowings bear interest at fixed rates with its €600.0m Senior secured notes bearing interest at a fixed rate coupon of 7.5%.

The Group's only exposure to interest rate risk is in respect of drawings on the Senior revolving credit facility, which were undrawn at 31 March 2017 and 31 March 2016 and to a minor portion of its project financed facilities which are based on Libor / Euribor rates but which are largely fixed through the use of interest rate swaps. As a result, at 31 March 2017, 95.9% of the Group's total borrowings were on a fixed rate basis and therefore not subject to any interest rate risk.

At 31 March	2017 £m	2016 £m
Loans and other borrowings fixed/floating analysis:		
Fixed rate debt	(689.4)	(709.1)
Variable rate debt	(29.4)	(15.2)
Non interest bearing	-	(208.4)
	(718.8)	(932.7)

The estimated fair value of the Group's interest rate derivative financial instruments is disclosed in note 25 to the accounts.

Foreign currency risk

Most of the Group's debt is denominated in Euro. The Group has not designated a hedging relationship between the Euro-denominated assets on the Group's balance sheet and the Group's Euro borrowings in the current year.

At 31 March	2017 £m	2016 £m
Loans and other borrowings currency analysis:		
Euro	(620.8)	(517.5)
Sterling	(98.0)	(415.2)
	(718.8)	(932.7)

Foreign currency risk (continued)

In June 2016 the Group put in place an additional €75.0m foreign exchange forward contracts to hedge the foreign exchange risk on the Euro denominated Senior secured notes associated with the forecast sterling cash generation of the Group. The total foreign exchange forward contracts in place at 31 March 2017 was €225.0m (2016 - €150.0m).

Energia Group receives income and incurs expenditure in Euro. Energia Group is also exposed to currency movements in respect of its gas and some of its power purchases denominated in Sterling. The Group's policy is to identify foreign exchange exposures with a value equivalent to or greater than £0.5m with the percentage level of hedging dependent on the specific project. Exchange rate exposures are identified, monitored and hedged through the use of financial instruments (mainly forward currency contracts and swap arrangements).

Power NI is exposed to currency movements in respect of its Euro-denominated CfDs with ESB Power Generation. These exposures are hedged in accordance with a policy agreed with the Utility Regulator.

The estimated fair value of the Group's foreign currency derivative financial instruments is disclosed in note 25 to the accounts.

Commodity risk

Energia Group employs commodity swaps to hedge gas price exposures and forward purchase contracts to hedge its shortfall of carbon dioxide (CO₂) emission allowances. Energia Group's policy is to hedge its exposure to changes in the price of gas and CO₂ emission allowances in line with retail electricity sales contracts.

PPB is exposed to commodity price fluctuations in respect of its generation contracts. These exposures are hedged through the use of commodity swaps and forward purchase contracts in accordance with a policy agreed with the Utility Regulator.

Energia Group, Power NI and PPB enter into SEM CfDs to manage their exposure to pool price volatility.

The estimated fair value of the Group's commodity derivative financial instruments is disclosed in note 25 to the accounts.

Credit risk

The Group's credit risk is primarily attributable to its trade receivables. Provisions are made based on previous experience and identifiable events which indicate a reduction in the recoverability of cash flows. Energia and Power NI are not exposed to major concentrations of credit risk in respect of their trade receivables, with exposure spread over a large number of customers. Energia takes out credit insurance in respect of certain trade receivables. Energia and PPB also receive security from certain suppliers in the form of letters of credit, parent company guarantees or cash collateral.

The Group may be exposed to credit-related loss in the event of non-performance by bank counterparties. The Group manages this credit risk by establishing and monitoring counterparty exposure limits which are adjusted and tightened when necessary. The Group actively manages its banking exposures on a daily basis and cash deposits are placed for periods not exceeding six months to provide maximum flexibility. During the year the Group did not suffer any bank counterparty exposure loss.

Going concern

The Group's business activities, together with principal risk and uncertainties likely to affect its future performance are described above.

The Group's forecasts and projections, taking into account possible changes in trading performance, show that the Group will have adequate financial resources to enable it to continue to trade for the foreseeable future. Accordingly, the Directors continue to adopt the going concern basis in preparing the annual report and accounts.

CORPORATE SOCIAL RESPONSIBILITY REPORT

The Group is committed to operating in a socially, environmentally and ethically responsible manner. It aims to be recognised as transparent and ethical in its dealings and to contribute to the general economic and social well-being and development of the communities in which it operates.

The Group recognises the importance of engaging with a wide range of stakeholders including: its shareholders; customers; employees; the wider community; those tasked with protecting the environment; and suppliers. It does this through many channels including working closely with: industry regulators; consumer representative groups; various environmental bodies; various health and safety bodies; trade unions; business representatives; elected representatives and politicians; contractors; and landlords.

The Group has defined a number of principal CSR themes and priorities relevant to the management of SEE-related risks that may impact upon the short and long term value of the Group. These are classified below under the headings of Workplace, Environment, Marketplace and Community.

Workplace

The Group had 627 employees at 31 March 2017 (2016 – 535) with 515 employed in Northern Ireland (2016 – 427) and 112 in the RoI (2016 – 108).

Health and safety

A CSR priority for the Group is to ensure the safety of employees, contractors and the general public through the promotion of a positive health and safety culture and adherence to legislation and recognised safety standards. The Group's health and safety policy aims to promote high standards and is supported by specific safety principles, rules, policies and procedures. Contractors must adhere to the same safety rules and requirements as employees.

The Group health and safety management system is based upon the internationally recognised OHSAS 18001 'Occupational Health and Safety Management' which sets out the requirements for occupational health and safety management best practice. The Group's approach to employment-related performance, such as safety and sickness absence, is to set targets in line with best practice. The Group regularly engages with relevant organisations including the Health and Safety Executive for Northern Ireland as well as the Health and Safety Authority in the RoI. The Group employs a dedicated internal safety professional and retains the services of an external health and safety consultant who both provide advice and recommendations to management on a range of health and safety matters. An external audit is carried out on every part of the organisation at least once a year.

Excluding third party contractors there were no reportable incidents or lost time incidents during the year (2016 – two). Including third party contractors there were eight reportable incidents or lost time incidents during the year (2016 – six). Formal processes for incident investigation and analysis are in place.

KPI	2017 Number	2016 Number
LTIR (per 100 employees)	-	0.37

Huntstown 1 and 2 continue to be accredited to OHSAS 18001:2007 for their occupational health and safety management systems.

Employment

The Group is committed to a working environment: in which personal and employment rights are upheld; which ensures equality of opportunity for all employees and job applicants; and which enables employees to realise their maximum potential and to be appropriately challenged and fully engaged in the business, with opportunities for personal development.

Equal opportunities

The Group is pro-active in implementing human resource policies and procedures to ensure compliance with fair employment, sex discrimination, equal pay, disability discrimination, race discrimination, sexual orientation and age discrimination legislation. The Group's equal opportunities policy commits it to providing equality of opportunity for all employees and job applicants and it regularly monitors its actions to promote compliance with legislation and to ensure that it provides equality of opportunity in all its employment practices. Equal opportunity measures and statistics in respect of the relevant businesses are reported formally to the Equality Commission for Northern Ireland.

Disability

It is Group policy to provide people with disabilities equal opportunities for employment, training and career development, having regard to aptitude and ability. Any member of staff who becomes disabled during employment is given assistance and re-training where possible.

Dignity at Work

The Dignity at Work policy and procedures underline the Group's commitment to equality and dignity at work for all, and ensure an environment free from bullying and harassment.

Remuneration

The Group operates fair and visible remuneration policies which are externally benchmarked to ensure that employees are paid an appropriate salary for the work they undertake. The Group seeks to align employee interests with those of other key stakeholders through an effective approach to recognition and reward, based on business and individual performance. Various reward schemes are in place including bonus schemes, excellence awards, reward and recognition bonuses and skills progression arrangements.

Learning and development

The Group aims to align its human resources policies with key business drivers, which include performance improvement; cost reduction; business growth and innovation; and excellence in customer service. These policies are supported by clearly defined values and behaviours, a robust talent and performance management process, a strong commitment to employee and management development and organisational competence built upon appropriate capabilities and skills.

The Group's People Strategy ensures continuity with its strategic aims. The four key strategic areas are: talent management and learning and development, employee engagement, organisational effectiveness and recognition and reward.

The Group's Talent Management strategy aims to establish an integrated talent management system by ensuring an effective pipeline of leadership and scarce skills to ensure robust succession planning and protect business continuity, increase awareness of leadership and career development opportunities and accelerated development of high potential and scarce skill resources.

The Talent Management Programme includes a unified Competency Framework which identifies the key values and competencies of the business and how they are expected to be demonstrated by employees at various levels within the business. During the year the framework was further developed by including behavioural indicators for each competency.

This Competency Framework underpins the annual Performance and Development Review (PDR) process, which evaluates the performance of each individual against defined and agreed targets and objectives and how they demonstrate each of the key competencies. This approach has been designed to ensure consistency and transparency in the process and is supported by a PDR system which incorporates the competencies. During the year all managers received refresher training in the PDR process with a particular focus on the setting of SMART objectives. Performance management guidelines for managers and employees were also prepared and rolled out to all staff.

Learning and development (continued)

Learning and development needs are also identified through the PDR process to ensure that all employees have a development plan in place which is aligned to their development needs.

The Talent Management Programme also includes Talent Forums for each company within the Group and key functional areas across the business, to ensure that key skills and potential are identified in areas such as leadership, management, scarce skills, areas of specialism, etc. and that appropriate succession and development plans are in place. This also provides a consistent and transparent approach, offering a mechanism to develop employees to meet their fullest potential and to plan and manage their careers.

As part of its commitment to develop talent, the Group launched several programmes including Aspire (High Potential Programme), Evolve (First Line Manager Programme) and Ignite (Student Placement Programme). These programmes are complemented by the Group's Learning and Development Calendar, which is available to all employees. In the coming year the Group will launch its LEAP Programme which is designed to be offered to future leaders as part of succession planning for senior roles.

Policies

The Group has a number of formal policies in place including employee complaint and grievance procedures, Code of Conduct and Disciplinary policies. The Group also has a wide range of family-friendly working arrangements including enhanced maternity and paternity provisions, adoption, parental and dependant leave. These policies are regularly reviewed and updated on an ongoing basis.

All policies are available to employees via the Group's intranet.

Wellbeing

The Group takes the wellbeing of its employees seriously and in recent years Viridian was named 'Best Large Private Sector Employer for Family Friendly Working' and an 'Employer of Choice' for family-friendly approaches at the Childcare Works Awards, as well as having a health and wellbeing programme highly commended by the Chartered Institute of Personnel and Development.

The Group's Wellbeing Programme during the year included flu vaccines, Couch to 5K, employee health checks, resilience challenge, lunch & learns on various topics (including Managing Stress, Mood & Food, etc.), mindfulness, financial management and pensions clinics. During the year the Group also launched a Cycle to Work scheme for all eligible employees.

The Group offers Private Medical Insurance to eligible employees and, from October 2016, introduced a Health Cash Plan to employees who are not eligible for Private Medical Insurance. The Health Cash Plan enables employees to receive money back for everyday healthcare including dental, optical and physiotherapy treatments and allows fast access to private consultations and scans.

External occupational health and counselling services are also available for employees if required.

Sickness absence

The Group believes that the pro-active management of illness and absenteeism is to the mutual benefit of the Group and its employees. The sickness absence for the Group was 3.39% (2016 – 2.74%).

Employee participation and external engagement

In 2015 the Group received the CORE Award – the standard for Responsible Business. CORE provided the Group with a framework for identifying and measuring corporate responsibility activity and performance under the People, Planet and Place themes alongside the three essential requirements that business must consider: Marketplace Responsibility, Stakeholder Engagement and Responsible Leadership.

Employee communications occur through team briefings, communication and involvement groups, project groups, electronic communications and through interaction, consultation and negotiation with trade unions. Employee relations in all businesses are positive and constructive. There is a well-established arrangement for consultation and involvement throughout the Group and for negotiation with the relevant trade unions in Power NI.

Employee participation and external engagement (continued)

In order to further enhance engagement the Group has appointed an Internal Communications and Employee Engagement Manager and has commenced planning for its 2017 Employee Engagement Survey. The survey will be carried out every two years with pulse surveys completed annually.

The Group engages with relevant external organisations including the Confederation of British Industry Employment Affairs Committee, the Equality Commission for Northern Ireland, the Labour Relations Agency, Business in the Community, The Prince's Trust, and the Irish Business and Employers' Confederation. The Group also maintains links with the education sector and in particular with the two universities in Northern Ireland. A total of 16 student placements were offered for the current academic year across a range of functions and departments.

Diversity

The Group recognises the value of a diverse workforce and looks to offer equal opportunities to everyone. The Group has an excellent gender balance, with overall 49% (2016 – 49%) of its employees, senior management and directors being female and 51% (2016 – 51%) being male.

	2017		2016	
	Male Number	Female Number	Male Number	Female Number
VGIL Board ¹	1	-	4	-
Viridian Group Limited Board ²	10	1	9	1
Senior Management ³	6	3	6	3
Other Employees	308	310	264	262

¹ Directors appointed to the Board of the Company are not employed by the Group and are not included in the employee numbers shown in Note 8 to the financial statements

² The Board of Viridian Group Limited (VGL) is the main operational Board for the Group. Non-Executive directors appointed to the Board of VGL are not employed by the Group and are not included in the employee numbers shown in Note 8 to the financial statements. Three Executive directors of VGL (two males and one female) are also members of the Viridian Group Management Board (VGMB) and also included in the numbers for Senior Management

³ Senior Management comprises members of the VGMB and includes those senior managers who regularly attend VGMB meetings

Human Rights

Protecting human rights is important and the Group believes in the dignity and individual rights of every human being. The Group protects the rights of its employees by adopting suitable employment practices such as those described above. The Group also aims to act ethically in all its business dealings.

Environment

Environmental CSR priorities within the Group are focused on a number of key areas:

- operation of the Huntstown plants in compliance with legal and regulatory requirements and having a robust environmental management system in place;
- direct investment in, and contracting with, a range of renewable generators for the production of low carbon electricity which can be supplied to customers of the Group's retail supply businesses; and
- the promotion of energy-saving ideas to its customers through the provision of energy efficiency advice, grants and other value-added services.

The Group's environmental policy commits the Group to protecting the environment and is designed to ensure compliance with all relevant legislative and regulatory requirements.

Where practical and economically viable, the Group seeks to develop standards in excess of such requirements. Areas of particular focus include the responsible management of emissions, waste and recycling, measures to protect against pollution and the promotion of energy efficiency.

Energia Group

Huntstown 1 and 2 operate in compliance with their Industrial Emissions licences. Emissions of NO_x, SO₂ and CO are measured by onsite Continuous Emissions Monitoring Systems, CO₂ is calculated as per greenhouse gas permit requirements. Emissions for calendar year 2016 and 2015 are as set out below:

Calendar year 2016

Tonnes	NO _x	SO ₂	CO	CO ₂
Huntstown 1	133	6.8	766	263,862*
Huntstown 2	306	1.3	492	530,389*

* Calculated value

Calendar year 2015

Tonnes	NO _x	SO ₂	CO	CO ₂
Huntstown 1	153	11.0	1,035	329,204*
Huntstown 2	284	4.1	207	467,046*

* Calculated value

The emissions reflect the utilisation of the Huntstown plants and the type of load operation.

Through the operation of their respective Industrial Emissions licences, Huntstown 1 and 2 comply with the emission limits for NO_x, SO₂ and dust under the EU's Industrial Emissions Directive.

Huntstown 1 and 2 continue to operate in accordance with the Environmental Management System ISO: 14001.

Energia is a significant contributor to the sustainable energy agenda in both Northern Ireland and the RoI. Its renewable portfolio currently generates 2,157GWh offsetting the emission of over 794,000 tonnes of CO₂ per annum.

Group staff are actively involved in energy industry policy and advisory bodies in Ireland and Europe. In Ireland, staff hold the Chair positions of the Electricity Association of Ireland and the committees of the Energy Efficiency Groups in both Northern Ireland and the RoI and are also representatives on other sub groups. In Europe, Energia staff represent Ireland on the Eurelectric Energy Efficiency Group. Group staff are also active on the Better Energy Workplace Governance Group, CER's Smart Metering Steering Group and the Energy Institute (NI) Committee.

During the year, through the Energy Efficiency Obligation Scheme (EEOS) in the RoI, approved by the Sustainable Energy Authority of Ireland (SEAI), Energia provided funding for energy efficiency projects of €4.31m (2015/16 - €2.95m) implementing a total of 697 projects (2015/16 – 311 projects) with estimated annual energy savings of 172.8 GWh Primary Electrical Energy (PEE) (2015/16 – 116.4 GWh PEE). This represents an estimated annual saving of 34,500 tonnes (2015/16 - 23,200 tonnes) of CO₂ savings and annual customer benefits of over €6.9m (2015/16 - €4.7m).

Through the Domestic EEOS in the RoI, approved by the SEAI, Energia provided funding for energy efficiency projects of €1.16m excl. VAT (€775k Domestic, €381k Fuel Poor) implementing a total of 4,306 projects with estimated annual energy savings of 8.5 GWh PEE. This represents an estimated annual savings of 1,697 tonnes of CO₂ savings and annual customer benefits of over €340k.

In Northern Ireland, through the Northern Ireland Sustainable Energy Programme Scheme (NISEP) approved by the Utility Regulator, in 2017 Energia managed a £757k (2016 - £635k) energy efficiency programme implementing a total of 334 projects (2016 – 176 projects) with estimated lifetime reductions of 294GWh (2016 – 268GWh) in energy demand. This represents an estimated 203,000 tonnes (2016 – 170,000 tonnes) of CO₂ savings and customer benefits of over £66m (2016 - £42m) over the lifetime of these measures.

Energia continue to pursue new and innovative services aimed at increasing awareness and offering customers energy efficiency solutions. In addition to gas boiler servicing, Energia offers customers a smart thermostat that enables control of the heating system from a smartphone, tablet or PC resulting in the ability to make real energy savings. Energia's Energy Centre offers customers a range of energy efficiency products such as roof and cavity wall insulation, boiler upgrades and solar panels.

Energia Group (continued)

Energia continues to run customer information programmes particularly aimed at energy efficiency for all industrial and commercial customers. These programmes include; customer energy conferences; energy efficiency training programmes; energy awareness days and shows; energy audits and energy efficiency literature/brochures.

Energia regularly updates its web site, www.energia.ie, to provide a wide range of information and advice and also promote energy efficiency products and services on all social media platforms, thereby enhancing the click through rate to the website.

Power NI

An Energy Services team within Power NI oversees sustainable energy activities and considers business opportunities.

During the year Power NI managed a £2.4m (2016 - £2.1m) energy efficiency programme aimed at reducing CO₂ emissions and alleviating fuel poverty in Northern Ireland. Funded by the NISEP, a total of 7 energy efficiency schemes (2016 – 6 schemes) were implemented with estimated lifetime reductions of 262 GWh (2016 – 247 GWh) in energy demand. This represents an estimated 162,000 tonnes of CO₂ savings (2016 – 149,000 tonnes) and customer benefits in excess of £36m (2016 – £32m) over the lifetime of these measures.

Over the period of its 3 year price control, Power NI had an obligation to deliver 128 GWh of customer lifetime savings through investment in energy efficiency. During the year ended 31 March 2017, 52.75GWh of customer lifetime savings were delivered towards that target and the obligation was successfully achieved. Over 8,200 customers (2016 – 8,900 customers) use 'EcoEnergy', Power NI's 'green' electricity tariff.

Power NI continues to offer a renewable microgeneration tariff which offers customer rewards for the value of ROCs and electricity generated and exported to the network. Over 8,600 customers, representing over 11,900 sites, use this service and Power NI acts as an Ofgem Agent on behalf of more than 9,000 sites.

The 'Products and Services' section of Power NI's website www.powerni.co.uk provides a wide range of information and advice on energy efficiency and renewable energy. An online Home Energy Check (HEC) was launched in October 2016 on the Power NI website to give customers an indicative energy rating for their home. At the end of March nearly 200 customers had completed the HEC.

An online billing service is also available from the Power NI website. The service, called Energy Online has 92,300 domestic and commercial customers (2016 – 82,000 customers) registered to view their bills, submit their meter readings and view their electricity consumption online.

Power NI provides a comprehensive portfolio of products and value added services for its customers such as home insulation, boiler servicing, boiler replacement, solar water heating and solar photovoltaics. Trials were initiated during the year with the aim of offering smart home products - such as heating controls, smart plugs and smart lighting - to customers in the near future.

Marketplace

A CSR priority is to maintain a highly ethical approach to regulatory responsibilities, obligations under licences, public positioning and marketing of products and services. The Group aims to be transparent and ethical in all its dealings with third parties and has a number of policies in place to underpin this objective. Policies include anti-corruption and bribery, anti-slavery and human trafficking, Code of Conduct and 'whistleblowing' procedures as well as the Group's corporate governance arrangements.

The Group's procurement policy is to source equipment, goods and services from a wide range of suppliers throughout the EU and beyond in accordance with commercial practices based on fairness and transparency.

Where applicable the Group adheres to the required tender procedures of the EU Procurement Directive as it relates to Utilities. The Group recognises the important role that suppliers play in its business, and works to ensure that payments are made to them in accordance with agreed contractual terms.

As a major purchaser, the Group recognises that it has an opportunity to encourage suppliers of materials and services to deliver good environmental and safety performance and to maintain responsible practices towards their employees and the communities in which they operate.

Community

Through its mainstream business activities and its community involvement policy, the Group seeks to make a positive impact on the communities in which it operates.

Power NI offers a 'For Your Benefit' service for its customers which includes a benefit entitlement check, budgeting and energy advice for particularly vulnerable customers. In the year, 106 customers availed of the service.

Power NI offers a number of services to its customers that are promoted through its codes of practice (produced in several different languages) and through various advice providers, including Citizens Advice Bureaux and Advice NI. Power NI aims to assist its customers with special needs through a number of these services. Over 2,200 customers (2016 – 1,900 customers) with special requirements benefit from a range of services through Power NI's special needs register.

The Group recognises the social dimension of debt prevention and management and Power NI continues to offer a wide range of payment options and debt prevention measures. Approximately 161,460 residential customers (2016 – 172,684) use 'Keypad' meters. These pay-as-you-go meters enable customers to budget for their electricity payments, while Power NI offer a 2.5% discount off the standard price of electricity, and provide user-friendly credit and consumption information.

Power NI engages with a wide range of organisations in the voluntary, public and private sectors focusing on social action and energy saving. In the year, Dementia NI provided training to customer facing staff on how to communicate more effectively with people living with dementia. The training was delivered partly by people living with dementia and highlighted some of the challenges they face.

Energia operates several Community Benefit Funds around wind farm sites on the island. In Northern Ireland, these are managed by the Community Foundation for Northern Ireland which distributed £97,750 of grants. Most of this sum was distributed to community and voluntary groups in Co. Tyrone with the remainder around the Long Mountain and Glenbuck wind farm sites in Co. Antrim where a construction fund was operated. An additional £2,500 to sponsor the Killeter and District fair held in the vicinity of the Church Hill and Crighshane wind farms was also paid during the year.

In the RoI, the Interim Meenadreen Community Fund is managed by the Community Foundation for Ireland and has distributable funds of €22,500 per year. The scheme was launched in October 2015 for two years during construction and the full Meenadreen Community Fund will be available in 2017/18

In 2017/18 interim schemes will operate around four wind farm development sites in NI while in construction with a further five sites, now operational, operating full Community Benefit Funds.

Sponsorship and charitable donations

Each year Power NI and Energia choose a charity as the main focus of their fundraising activities although the Group also supports various local good causes nominated by staff. The Group also partially matches staff's own fundraising.

The Group seeks to support charities which its people, customers and suppliers can relate to, and where we can make a difference by raising public awareness as well as money. This year Power NI has chosen to sponsor Macmillan Cancer Support and Energia will sponsor Foyle Down Syndrome Trust and Down Syndrome Ireland.

Power NI also operates a 'Helping Hands in the Community' Scheme which is available for all employees to obtain support of up to £250 for an organisation/charity that they are involved with.

In addition to sponsorship of organisations of £169,700 (2016 - £145,000), the Group's donations to charities in the year were £21,500 (2016 - £53,500). There were no contributions for political purposes.

DIRECTORS

The directors of the Company who held office during the period were as follows:

Ronald Schweizer (appointed 29 April 2016)
Alfred Miranda (appointed 29 April 2016 and resigned 15 February 2017)
Richard Sorbo (appointed 29 April 2016 and resigned 24 August 2016)
William Campbell (appointed 29 April 2016 and resigned 24 August 2016)
Essa Zainal (resigned 29 April 2016)
Martin Tan (resigned 29 April 2016)
Mohammed Chowdhury (resigned 29 April 2016)
Salah Al-Shaikh (resigned 29 April 2016)

Ronald Schweizer is a representative of I Squared Capital.

Ronald Schweizer

Ronald Schweizer is Chief Financial Officer at I Squared Capital and joined the Board on 29 April 2016 following the acquisition of the Group by I Squared Capital. He has over 16 years' experience in private equity and investment banking. Prior to I Squared Capital, Ronald served as Senior Vice President & Head of Alternative Investment Finance at PineBridge Investments where he was responsible for the accounting and operations for PineBridge's alternative investments products and oversight of all investment valuations. Ronald has also served as Controller at Strategic Value Partners where he was responsible for the financial, operational, treasury and valuation aspects of two private equity funds. Earlier in his career, Ronald worked at J.P. Morgan Partners as a Vice President in Funds Management and at Morgan Stanley as a Manager. Ronald began his career at Ernst & Young LLP where he spent six years in their Audit & Assurance group.

The Director considers the strategic and director's report and financial statements to comply with all aspects of the Guidelines for Disclosure and Transparency in Private Equity.

The Director's Report, as set out on pages 4 to 40 has been approved by the Board and signed on its behalf by:

Ronald Schweizer
Director

Registered office:
PO Box 309
Ugland House
Grand Cayman
KY1-1104
Cayman Islands

Registered Number: 192375

23 May 2017

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

The directors are responsible for preparing the Group financial statements and have elected to prepare those accounts in accordance with IFRS as adopted by the EU and applicable law.

Accordingly, the directors are required to prepare Group financial statements which give a true and fair view of the financial position, the financial performance and cash flows of the Group and in preparing the Group financial statements, to:

- select suitable accounting policies in accordance with IAS 8: *Accounting Policies, Changes in Accounting Estimates and Errors* and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS as adopted by the EU is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance; and
- state whether the Group financial statements have been prepared in accordance with IFRS as adopted by the EU.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group.

INDEPENDENT AUDITORS' REPORT

To the members of Viridian Group Investments Limited

We have audited the Group financial statements of Viridian Group Investments Limited for the year ended 31 March 2017 approved on 23 May 2017 which comprise the Consolidated Income Statement, Consolidated Statement of Other Comprehensive Income, Consolidated Balance Sheet, Consolidated Statement of Changes in Equity, Consolidated Statement of Cash Flows and the related notes 1 to 33. The financial reporting framework that has been applied in their preparation is International Financial Reporting Standards (IFRS) as adopted by the European Union.

This report is made solely to the Company's members as a body in accordance with our engagement letter dated 13 February 2017. Our audit work has been undertaken so that we might state to the Company's members those matters we are required under International Standards on Auditing (UK and Ireland) to state to them in an auditors' 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's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 41 the Company's directors are responsible for the preparation of the Group Financial Statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the accounts in accordance with International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Strategic and Directors' Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion

In our opinion the Group Financial Statements:

- give a true and fair view, of the state of the Group's affairs as at 31 March 2017 and of its profit for the year then ended; and
- have been properly prepared in accordance with IFRS as adopted by the European Union.

Ernst & Young LLP
Belfast

24 May 2017

CONSOLIDATED INCOME STATEMENT
for the year ended 31 March 2017

		Results before exceptional items and certain remeasure- ments 2017 £m	Exceptional items and certain remeasure- ments (note 6) 2017 £m	Total 2017 £m	Results before exceptional items and certain remeasure- ments 2016 £m	Exceptional items and certain remeasure- ments (note 6) 2016 £m	Total 2016 £m
Continuing operations	Notes						
Revenue	4	1,317.6	-	1,317.6	1,320.9	-	1,320.9
Operating costs	5	(1,233.2)	(0.8)	(1,234.0)	(1,240.2)	(1.3)	(1,241.5)
Operating profit/(loss)	4	84.4	(0.8)	83.6	80.7	(1.3)	79.4
Finance costs	9	(36.8)	13.2	(23.6)	(69.8)	10.7	(59.1)
Finance income	9	9.6	-	9.6	31.4	-	31.4
Net finance (cost)/income		(27.2)	13.2	(14.0)	(38.4)	10.7	(27.7)
Share of loss in associates	14	(1.0)	-	(1.0)	(1.3)	-	(1.3)
Profit before tax		56.2	12.4	68.6	41.0	9.4	50.4
Taxation	10	(1.0)	(0.2)	(1.2)	6.4	0.2	6.6
Profit for the year		55.2	12.2	67.4	47.4	9.6	57.0

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME
for the year ended 31 March 2017

	Notes	2017 £m	2016 £m
Profit for the year		67.4	57.0
Items that will be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		(30.0)	(34.2)
Net gain/(loss) on cash flow hedges		2.5	(28.0)
Transferred loss from equity to income statement on cash flow hedges		3.5	13.8
Share of associates net gain on cash flow hedges		0.1	0.6
Income tax effect		(1.2)	1.4
		<u>4.9</u>	<u>(12.2)</u>
		<u>(25.1)</u>	<u>(46.4)</u>
Items that will not be reclassified to profit or loss:			
Remeasurement loss on defined benefit scheme	23	(1.1)	(1.6)
Income tax effect		0.2	0.4
		<u>(0.9)</u>	<u>(1.2)</u>
Other comprehensive expense for the year, net of taxation		<u>(26.0)</u>	<u>(47.6)</u>
Total comprehensive income for the year		<u><u>41.4</u></u>	<u><u>9.4</u></u>

CONSOLIDATED BALANCE SHEET
as at 31 March 2017

		31 March 2017 £m	31 March 2016 £m
ASSETS	Notes		
Non-current assets:			
Property, plant and equipment	11	497.9	336.1
Intangible assets	12	552.6	531.3
Investment in associates	14	6.2	6.2
Derivative financial instruments	25	20.0	11.1
Other non-current financial assets	17	0.1	199.5
Deferred tax assets	10	27.3	25.6
		<u>1,104.1</u>	<u>1,109.8</u>
Current assets:			
Inventories		4.8	3.6
Trade and other receivables	18	150.1	161.8
Derivative financial instruments	25	10.1	4.0
Other current financial assets	17	3.8	12.3
Cash and cash equivalents	19	120.2	76.5
		<u>289.0</u>	<u>258.2</u>
TOTAL ASSETS		<u>1,393.1</u>	<u>1,368.0</u>
LIABILITIES			
Current liabilities:			
Trade and other payables	20	(262.2)	(262.7)
Income tax payable		(1.7)	(1.2)
Financial liabilities	21	(17.6)	(6.6)
Derivative financial instruments	25	(9.6)	(15.7)
Deferred income	22	-	(0.3)
		<u>(291.1)</u>	<u>(286.5)</u>
Non-current liabilities:			
Financial liabilities	21	(717.7)	(927.5)
Derivative financial instruments	25	(11.4)	(11.2)
Net employee defined benefit liabilities	23	-	(0.1)
Deferred tax liabilities	10	(16.8)	(13.2)
Provisions	24	(11.4)	(12.7)
		<u>(757.3)</u>	<u>(964.7)</u>
TOTAL LIABILITIES		<u>(1,048.4)</u>	<u>(1,251.2)</u>
NET ASSETS		<u>344.7</u>	<u>116.8</u>
Equity			
Share capital	26	-	-
Share premium		660.6	510.0
Retained earnings		(401.7)	(457.8)
Capital contribution reserve		161.5	115.2
Hedge reserve		(13.9)	(18.8)
Foreign currency translation reserve		(61.8)	(31.8)
TOTAL EQUITY		<u>344.7</u>	<u>116.8</u>

The financial statements were approved by the Board and authorised for issue on 23 May 2017. They were signed on its behalf by:

Ronald Schweizer
Date: 23 May 2017

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 March 2017

		Share capital £m	Share premium £m	Retained earnings £m	Capital contribution reserve £m	Hedge reserve £m	Foreign currency translation reserve £m	Total equity £m
	Note							
At 1 April 2015		-	510.0	(513.6)	115.2	(6.6)	2.4	107.4
Profit for the year		-	-	57.0	-	-	-	57.0
Other comprehensive expense		-	-	(1.2)	-	(12.2)	(34.2)	(47.6)
<i>Total comprehensive income/(expense)</i>		-	-	55.8	-	(12.2)	(34.2)	9.4
At 31 March 2016		-	510.0	(457.8)	115.2	(18.8)	(31.8)	116.8
Profit for the year		-	-	67.4	-	-	-	67.4
Other comprehensive (expense)/income		-	-	(0.9)	-	4.9	(30.0)	(26.0)
<i>Total comprehensive income/(expense)</i>		-	-	66.5	-	4.9	(30.0)	41.4
VGIL/VGHL merger	33	-	150.6	(10.4)	46.3	-	-	186.5
At 31 March 2017		-	660.6	(401.7)	161.5	(13.9)	(61.8)	344.7

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 31 March 2017

	Notes	2017 £m	2016 £m
Cash generated from operations before working capital movements	27	103.0	99.1
<i>Working capital adjustments:</i>			
(Increase)/decrease in inventories		(1.2)	0.7
Decrease/(increase) in trade and other receivables		10.6	(0.5)
Decrease/(increase) in security deposits		8.5	(8.5)
(Decrease)/increase in trade and other payables		(5.3)	16.3
Effects of foreign exchange		2.0	1.2
		117.6	108.3
Interest received		0.2	0.2
Interest paid		(48.8)	(43.4)
Exceptional finance costs		-	(0.1)
		(48.6)	(43.3)
Income tax received/(paid)		0.1	(0.1)
Net cash flows from operating activities		69.1	64.9
Investing activities			
Purchase of property, plant and equipment		(144.7)	(63.1)
Purchase of intangible assets		(91.5)	(67.7)
Proceeds from sale of intangible assets		89.4	65.2
Return on other non-current financial assets		-	0.5
Disposal of subsidiary, net of cash disposed		(0.2)	(0.2)
Dividends received from associates		0.2	0.3
Interest received from associates		0.1	0.2
Acquisition of subsidiaries	15	(13.9)	(14.4)
Net cash flows used in investing activities		(160.6)	(79.2)
Financing activities			
Proceeds from issue of borrowings		144.1	45.4
Repayment of borrowings		(11.9)	(22.2)
Issue costs of new long term loans		(1.9)	(8.7)
Net cash flows from financing activities		130.3	14.5
Net increase in cash and cash equivalents		38.8	0.2
Net foreign exchange difference		4.9	3.8
Cash and cash equivalents at 1 April	19	76.5	72.5
Cash and cash equivalents at 31 March	19	120.2	76.5

1. CORPORATE INFORMATION

The Group Financial Statements of Viridian Group Investments Limited and its subsidiaries (collectively, the Group) for the year ended 31 March 2017 were authorised for issue in accordance with a resolution of the director on 23 May 2017. Viridian Group Investments Limited (the Company or the parent) is a limited company incorporated and domiciled in Cayman Islands. The registered office is located at PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. The Group's operations and its principal activities are set out earlier in the Report on pages 4 to 18.

2.1 BASIS OF PREPARATION

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS) as they apply to the financial statements of the Group for the year ended 31 March 2017.

The consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments, contingent consideration arising on business combinations and the assets of the Group's pension schemes that have been measured at fair value and the liabilities of the Group's pension schemes that are measured using the projected unit credit valuation method. The consolidated financial statements are presented in Sterling (£) with all values rounded to the nearest £m except where otherwise indicated.

Amendments to IAS 1: Disclosure Initiatives, IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation, IFRS 11: Accounting for Acquisitions of Interests in Joint Operations, IFRS Improvement 2011 – 2014 Cycle and IFRS Improvements 2012 -2015 Cycle were effective for periods beginning on or after 1 January 2016. None of these amendments or improvements have a material, if any, impact on the annual consolidated financial statements of the Group in 2016/17.

2.2 BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 March 2017. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- the contractual arrangement with the other vote holders of the investee;
- rights arising from other contractual arrangements; and
- the Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) *Business combinations and goodwill*

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of (i) the consideration transferred and measured at acquisition date fair value, and (ii) the amount of any non-controlling interests in the acquiree.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 *Financial Instruments: Recognition and Measurement*, is measured at fair value with changes in fair value recognised either in either profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units (CGU) that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. If a subsidiary is subsequently sold any goodwill arising on acquisition which has not been impaired is taken into account in determining the profit or loss on sale.

(b) *Investment in associates*

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The considerations made in determining significant influence are similar to those necessary to determine control over subsidiaries.

The Group's investments in its associate are accounted for using the equity method.

Under the equity method, the investment in an associate is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The Income Statement reflects the Group's share of the results of operations of the associate. Any change in other comprehensive income of those investees is presented as part of the Group's other comprehensive income. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The aggregate of the Group's share of profit or loss of an associate is shown on the face of the Income Statement outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Investment in associates (continued)

The financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, then recognises the loss as 'Share of profit of an associate' in the Income Statement.

(c) Current versus non-current classification

The Group presents assets and liabilities in the balance sheet based on current/non-current classification. An asset is current when it is:

- expected to be realised or intended to be sold or consumed in a normal operating cycle;
- held primarily for the purpose of trading;
- expected to be realised within twelve months after the reporting period; or
- cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- it is expected to be settled in a normal operating cycle;
- it is held primarily for the purpose of trading;
- it is due to be settled within twelve months after the reporting period; or
- there is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

(d) Fair value measurement

The Group measures financial instruments, such as, derivatives, at each balance sheet date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability; or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Fair value measurement (continued)

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- level 1 - quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- level 2 - valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; or
- level 3 - valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

(e) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, exclusive of value added tax and other sales related taxes.

The specific recognition criteria described below must also be met before revenue is recognised.

Energy supply

Revenue is recognised on the basis of energy supplied during the period. Revenue for energy supply includes an assessment of energy supplied to customers between the date of the last meter reading and the balance sheet date, estimated using historical consumption patterns.

Energy generation

Two key revenue streams are received by the Huntstown plant and PPB. Capacity revenue is recognised based upon the capacity (MW) provided to the SEM for the period. Energy revenue is recognised based upon electricity units generated during the period at market price, including an allowance for any anticipated resettlement within the SEM. Units are based on energy volumes recorded by SEMO and these units are reconciled to the units recorded on the plant systems to ensure accuracy.

Interest income

For all financial instruments measured at amortised cost, interest income is recorded using the effective interest rate (EIR). EIR is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in finance income in the income statement.

Dividend income

Dividend income is recognised on the date the Group's right to receive the payments is established.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Taxation

The tax charge represents the sum of tax currently payable and deferred tax. Tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the tax is also dealt with in equity.

Tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes both items of income or expense that are taxable or deductible in other years as well as items that are never taxable or deductible.

The Group's liability for current tax is calculated using tax rates (and tax laws) that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is the tax payable or recoverable on differences between the carrying amount of assets and liabilities in the accounts and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax is not recognised on temporary differences where they arise 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 nor loss.

Deferred tax is not recognised in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantially enacted by the balance sheet date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognised subsequently if new information about facts and circumstances change. The adjustment is either treated as a reduction in goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or recognised in profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) **Property, plant and equipment**

Property, plant and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in profit or loss as incurred. The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

Freehold land is not depreciated. Other tangible fixed assets are depreciated on a straight-line basis so as to write off the cost, less estimated residual value, over their estimated useful economic lives as follows:

Thermal generation assets - 12 to 30 years
Renewable generation assets - up to 20 years
Fixtures and equipment - up to 25 years
Vehicles and mobile plant - up to 5 years

(h) **Intangible assets**

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred. The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the income statement as the expense category that is consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the CGU level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

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 income statement when the asset is derecognised.

Emissions allowances, renewable and energy efficiency obligations

The Group recognises the allocation of CO₂ emissions allowances from government or a similar body at £nil value. Purchased CO₂ emissions allowances, ROCs, levy exemption certificates (LECs) and energy efficiency credits (EECs) are initially recognised at cost (purchase price) within intangible assets and subsequently written down to their recoverable amount at the balance sheet date should this be less than the purchase price. Self-generated ROCs are initially recorded at fair value within intangible assets with a corresponding credit to energy costs in the income statement, and subsequently written down to their recoverable amount at the balance sheet date should this be less than the fair value on initial recognition. No amortisation is recorded during the period as the intangible asset is surrendered at the end of the compliance period reflecting the consumption of economic benefit.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Intangible assets (continued)

The Group recognises liabilities in respect of its obligations to deliver emissions allowances to the extent that the allowances to be delivered exceed the level of allocation under the EU emissions trading scheme. Any liabilities recognised are measured based on the current estimates of the amounts that will be required to satisfy the obligation. A liability for the renewables obligation and the climate change levy is recognised based on the level of electricity supplied to customers. A liability for the energy efficiency obligation under the EEOS is recognised if energy saving minimum targets are not achieved by the end of the compliance period. Any such liability is recognised on the compliance date (31 December) and is calculated by reference to the relevant penalty rates for volumes not achieved.

Computer software

The cost of acquiring computer software is capitalised and amortised on a straight-line basis over the directors' estimate of its useful economic life which is between three and ten years. The carrying value of computer software is reviewed for impairment where events or changes in circumstances indicate that the carrying value may not be recoverable.

Development assets

Development assets arising from business combinations relate to value arising from the development of renewable projects which the Group believes will generate future economic benefits. Development assets are amortised from the date of commissioning of the renewable asset over its useful economic life which is twenty years.

At a point the project is no longer expected to reach construction the carrying amount of the project is impaired.

(i) Financial instruments – initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

Subsequent measurement

For purposes of subsequent measurement financial assets are classified in four categories:

- financial assets at fair value through profit or loss;
- loans and receivables;
- held-to-maturity investments; or
- available-for-sale financial investments.

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 or repurchasing in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39. The Group has not designated any financial assets at fair value through profit or loss. Financial assets at fair value through profit or loss are carried in the balance sheet at fair value with net changes in fair value presented as finance costs (negative net changes in fair value) or finance income (positive net changes in fair value) in the income statement.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) **Financial instruments – initial recognition and subsequent measurement (continued)**

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 profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Re-assessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using 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 income in the income statement. The losses arising from impairment are recognised in the income statement in finance costs for loans and in other operating charges for receivables.

This category generally applies to trade and other receivables. Trade receivables do not carry any interest and are recognised and carried at the lower of their original invoiced value and recoverable amount.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e. removed from the Group's consolidated balance sheet) when:

- the rights to receive cash flows from the asset has expired; or
- the Group 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 Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Impairment of financial assets

The Group assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event'), has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Financial instruments – initial recognition and subsequent measurement (continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

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

The Group's financial liabilities include trade and other payables, loans and borrowings and derivative financial instruments.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in the income statement. Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IAS 39 are satisfied. The Group has not designated any financial liability as at fair value through profit or loss.

Loans and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

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 as finance costs in the income statement.

This category generally applies to interest bearing loans and borrowings. This category also applies to trade and other payables which are not interest bearing and stated at their nominal amount.

Interest free loans receivable from or payable to the parent undertaking are recognised at fair value on initial recognition based on the market rate of interest for similar loans at the date of issue. In case of loans received from a parent undertaking the difference on initial recognition between the fair value and the loan amount is recorded as a capital contribution in equity. The difference arising between the amount of a loan made to a parent undertaking and its fair value is treated as a distribution to the parent and reflected within equity. Subsequently, an interest expense or receivable is recognised within the income statement using the effective interest method so that each loan is stated at the amount repayable or receivable at the redemption date.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Financial instruments – initial recognition and subsequent measurement (continued)

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires. When 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 the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the income statement.

(j) Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as forward currency contracts, interest rate swaps, contracts for differences and forward commodity contracts, to hedge its foreign currency risks, interest rate risks, electricity price risk and other commodity price risks, respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

The purchase contracts that meet the definition of a derivative under IAS 39 are recognised in the income statement as operating costs. Commodity contracts that are entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the Group's expected purchase, sale or usage requirements are held at cost.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to profit or loss, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income and later reclassified to profit or loss when the hedge item affects profit or loss.

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment;
- cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment; or
- hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges that meet the strict criteria for cash flow hedge accounting are accounted for, as described below:

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised in other comprehensive income in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the income statement in operating expenses.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) *Derivative financial instruments and hedge accounting (continued)*

The Group uses forward currency contracts as hedges of its exposure to foreign currency risk in forecast transactions and firm commitments, as well as forward commodity contracts for its exposure to volatility in the commodity prices. The ineffective portion relating to foreign currency and commodity contracts is recognised in operating costs.

Amounts recognised as other comprehensive income are transferred to profit or loss when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognised or when a forecast sale occurs. When the hedged item is the cost of a non-financial asset or non-financial liability, the amounts recognised as other comprehensive income are transferred to the initial carrying amount of the non-financial asset or liability.

If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover (as part of the hedging strategy), or if its designation as a hedge is revoked, or when the hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss previously recognised in other comprehensive income remains separately in equity until the forecast transaction occurs or the foreign currency firm commitment is met.

(k) *Impairment of non-financial assets*

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. Recoverable amount 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. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

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. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGU's to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. For longer periods, a long term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations, including impairment on inventories, are recognised in the income statement in expense categories consistent with the function of the impaired asset. The following assets have specific characteristics for impairment testing:

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Impairment of non-financial assets (continued)

Goodwill

Goodwill is tested for impairment annually and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

(l) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and short term bank deposits with a maturity of less than three months.

(m) Provisions

General

Provisions are recognised when (i) the Group has a present obligation (legal or constructive) as a result of a past event (ii) it is probable that an outflow of economic benefits will be required to settle the obligation and (iii) a reliable estimate can be made of the amount of the obligation. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is included within finance costs.

Decommissioning liability

Provision is made for estimated decommissioning costs at the end of the estimated useful lives of generation assets on a discounted basis based on price levels and technology at the balance sheet date. Changes in these estimates and changes to the discount rates are added to or deducted from the capitalised cost of the asset to which they relate. Capitalised decommissioning costs are depreciated over the estimated useful lives of the related assets. The unwinding of the discount is included within finance costs.

(n) Exceptional items and certain remeasurements

As permitted by IAS1 Presentation of Financial statements, the Group has disclosed additional information in respect of exceptional items on the face of the income statement to aid understanding of the Group's financial performance. An item is treated as exceptional if it is considered unusual by nature and scale and of such significance that separate disclosure is required for the financial statements to be properly understood. "Certain remeasurements" are remeasurements arising on certain commodity, interest rate and currency contracts which are not designated in hedge accounting relationships, and which are accounted for as held for trading in accordance with the Group's policy for such financial instruments. This excludes commodity contracts not treated as financial instruments under IAS 39 where held for the Group's own use requirements. Certain remeasurements arising from IAS 39 are disclosed separately to aid understanding of the underlying performance of the Group.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Pensions and other post-employment benefits

The Group has both defined benefit and defined contribution pension arrangements. The amount recognised in the balance sheet in respect of liabilities represents the present value of the obligations offset by the fair value of assets.

The cost of providing benefits under the defined benefit scheme is determined using the projected unit credit method.

Pension remeasurements, comprising of actuarial gains and losses, excluding net interest, and the return on plan assets (excluding net interest), are recognised immediately in the balance sheet with a corresponding debit or credit to retained earnings through other comprehensive income in the period in which they occur. Pension remeasurements are not reclassified to profit or loss in subsequent periods. Past service costs are recognised in profit or on the earlier of:

- the date of the plan amendment or curtailment; and
- the date that the Group recognises restructuring-related costs.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognises the following changes in the net defined benefit obligation under operating costs in the consolidated statement of profit or loss:

- service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements; and
- net interest expense or income.

Pension costs in respect of defined contribution arrangements are charged to the profit and loss account as they become payable.

(p) Inventories

Inventories are valued at the lower of average purchase price and net realisable value.

(q) Borrowing costs

Borrowing costs directly attributable to qualifying assets are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur.

(r) Operating lease contracts

Leases are classified as operating lease contracts whenever the terms of the lease do not transfer substantially all the risks and benefits of ownership to the lessee.

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the lease term.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Foreign currency translation

The Group's consolidated financial statements are presented in sterling, which is also the parent company's functional currency. For each entity the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date.

Differences arising on settlement or translation of monetary items are recognised in profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in other comprehensive income until the net investment is disposed of, at which time, the cumulative amount is reclassified to profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the spot rate of exchange at the reporting date.

On consolidation, the assets and liabilities of foreign operations are translated into sterling at the rate of exchange prevailing at the reporting date and their income statements are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognised in other comprehensive income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) Significant accounting judgements, estimates and assumptions

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities at the balance sheet date and the amounts reported for revenues and operating costs during the year. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

In the process of applying the Group's accounting policies, management has made the following key judgements and estimations of uncertainty, which have the most significant effect on the amounts recognised in the consolidated financial statements.

Revenue recognition

Revenue on energy sales include an estimate of the value of electricity or gas supplied to customers between the date of the last meter reading and the year end. This will have been estimated by using historical consumption patterns. At the balance sheet date, the estimated consumption by customers will either have been billed or accrued (estimated unbilled revenue). Management apply judgement to the measurement of the quantum and valuation of the estimated consumption. The judgements applied and the assumptions underpinning these judgements are considered to be appropriate. However a change in these assumptions would impact upon the amount of revenue recognised. Revenue recognised in the period has been outlined in note 4.

Impairment testing

The Group reviews the carrying amounts of its goodwill, other intangible assets and property, plant and equipment to determine whether there is any indication that the value of those assets is impaired. This requires an estimation of the value in use of the CGUs to which the assets are allocated which includes the estimation of future cash flows and the application of a suitable discount rate. Subsequent changes to these estimates or judgements may impact the carrying value of the assets within the respective CGUs. Impairment testing has been outlined in note 13.

Business combinations

Business combinations require a fair value exercise to be undertaken to allocate the purchase price to the fair value of the identifiable assets acquired and the liabilities assumed. The determination of the fair value of the assets and liabilities is based to a considerable extent on management's judgement. The amount of goodwill initially recognised as a result of a business combination is dependent on the allocation of this purchase price to the identifiable assets and liabilities with any unallocated portion being recorded as goodwill. Business combinations have been outlined in note 15.

Pensions and other post-employment benefits

The Group has both defined benefit and defined contribution arrangements. The cost of providing benefits under the defined benefit scheme is determined using the projected unit method. The key assumptions used in relation to the cost of providing post-retirement benefits are set after consultation with qualified actuaries. While these assumptions are considered to be appropriate, a change in these assumptions would impact the earnings of the Group. Pensions and other post-employment benefits have been outlined in note 23.

Exceptional items and certain remeasurements

The Group has disclosed additional information in respect of exceptional items on the face of the income statement to aid understanding of the Group's financial performance. An item is treated as exceptional if it is considered unusual by nature and scale and of such significance that separate disclosure is required for the financial statements to be properly understood. "Certain remeasurements" are remeasurements arising on certain commodity, interest rate and currency contracts which are not designated in hedge accounting relationships, and which are accounted for as held for trading in accordance with the Group's policy for such financial instruments. This excludes commodity contracts not treated as financial instruments under IAS 39 where held for the Group's own use requirements. Exceptional items and certain remeasurement have been outlined in note 6.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) Standard issued but not yet effective

At the date of authorisation of the Group's consolidated financial statements, the following new standards and interpretations which have not been applied in preparing these financial statements were in issue, but not yet effective, and in some cases have not yet been adopted by the EU. The Group intends to adopt these standards, if applicable, when they become effective.

International Accounting Standards (IAS / IFRSs)	Effective date
Amendments to IAS 7 - <i>Disclosure Initiative</i>	1 January 2017
Amendments to IAS 12 - <i>Recognition of Deferred Tax Assets for Unrealised Losses</i>	1 January 2017
Annual improvements to IFRS Standards 2014 – 2016 Cycle	1 January 2017
IFRS 9 - <i>Financial Instruments</i>	1 January 2018
IFRS 15 - <i>Revenue from Contracts with Customers</i>	1 January 2018
IFRIC Interpretation 22 <i>Foreign Currency Transactions and Advance Consideration</i>	1 January 2018
IFRS 16 - <i>Leases</i>	1 January 2019

IFRS 9 Financial Instruments

IFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. IFRS is effective from 1 January 2018.

The new hedge accounting rules will align the accounting for hedging instruments more closely with the Group's risk management practices. As a general rule, more hedge relationships may be eligible for hedge accounting, as the standard introduces a more principles-based approach. The Group has performed an initial assessment on the impact of IFRS 9, and it would appear that the Group's current hedge relationships would qualify as continuing hedges upon adoption of IFRS 9. Accordingly, the Group does not expect a significant impact on the accounting for its hedging relationships.

The new impairment model requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses as is the case under IAS 39 *Financial Instruments: Recognition and Measurement*. It applies to financial assets classified at amortised costs, contract assets under IFRS 15 *Revenue from Contracts with Customers*, lease receivables, loan commitments and certain financial guarantee contracts. While the Group has not yet completed a detailed assessment of how its impairment provisions would be affected by the new model, it may result in an earlier recognition of credit losses.

The new standard also introduces expanded disclosure requirements and changes in disclosures. These are expected to change the nature and extent of the Group's disclosures about its financial instruments, particularly in the first year of adoption of the new standard.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 outlines the principles an entity must apply to measure and recognise revenue. The core principle is that an entity will recognise revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer. The standard establishes a five-step model that will apply to revenue earned from a contract with a customer (with limited exceptions), regardless of the type of revenue transaction or the industry. The five steps relate to identifying the contract with a customer, identifying the separate performance obligations in the contract, determining the transaction price, allocating the transaction price to the separate performance obligations and recognising revenue when (or as) the entity satisfies the performance obligation under the contract. The standard also provides more detailed requirements than current IFRS, including for arrangements with multiple performance obligations, which may impact the timing of revenue recognition. The standard's disclosure requirements are also more extensive. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g. sales of property, plant and equipment or intangibles). At this time the Group continues to assess the impact of adopting IFRS 15, however the Group does not expect a significant impact on the accounting for revenue from contracts with customers.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) **Standard issued but not yet effective (continued)**

IFRS 16 - Leases

IFRS 16 replaces IAS 17 *Leases* and IFRIC 4 *Determining whether an Arrangement contains a Lease*. The new standard specifies the recognition, measurement, presentation and disclosure of leases. IFRS 16 provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases, unless the lease term is 12 months or less, or the underlying asset has a low value. The adoption of this standard will result in a material decrease in operating lease rental costs; material increases in depreciation and finance costs; and may result in a decrease in profit before and after tax; and rental increases payable and recognition of lease assets and liabilities. Refer to note 29 for current operating lease commitments.

IAS 7 - Disclosure Initiative – Amendments to IAS 7

The amendments to IAS 7 *Statement of Cash Flows* are part of the IASB's Disclosure Initiative and require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. On initial application of the amendment, entities are not required to provide comparative information for preceding periods. These amendments are effective for annual periods beginning on or after 1 January 2017, with early application permitted. Application of amendments will result in additional disclosure provided by the Group.

IAS 12 - Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognised in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact.

These amendments are effective for annual periods beginning on or after 1 January 2017, with early application permitted. If an entity applies the amendments for an earlier period, it must disclose that fact. These amendments are not expected to have any impact on the Group.

Although the Directors evaluation of the effect of adopting the other standards and interpretations has not yet been completed, it is not expected that their adoption will have a material impact on the Group's financial statements in the period of initial application.

4. SEGMENTAL ANALYSIS

For management purposes, the Group is organised into business units based on its products and services and has four reportable segments, as follows:

- the Energia Group (excluding renewable assets) operates as a vertically integrated energy business consisting of competitive electricity and gas supply to domestic and business customers in the RoI and to business customers in Northern Ireland through Energia, its retail supply business, backed by electricity generation from its two Huntstown CCGT plants, and long term PPAs with third-party renewable generators (including wind generation assets in which the Group has an equity interest);
- Energia renewable assets comprises generation from wholly owned wind generation assets;
- Power NI is the regulated electricity supplier in Northern Ireland; and
- PPB is a regulated business which administers the contracted generation capacity from the Ballylumford power station in Northern Ireland under legacy generating unit agreements which were originally established in 1992 when the Northern Ireland electricity industry was restructured.

The Group Board monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. The measure of profit used by the Group Board is pro-forma EBITDA which is before exceptional items and certain remeasurements (arising from certain commodity, interest rate and currency contracts which are not designated in hedge accounting relationships) and based on regulated entitlement (whereby the adjustment for (under)/over-recovery outlined in the segmental analysis below represents the amount by which the regulated businesses (under)/over-recovered against their regulated entitlement). The Group also monitors revenue on a regulated entitlement basis.

(a) Revenue by segment

	2017 £m	2016 £m
Energia Group (excluding renewable assets)	874.4	833.0
Energia renewable assets	7.7	7.0
Power NI	335.0	373.4
PPB	111.7	114.7
Inter-group eliminations	(10.7)	(11.5)
Group	1,318.1	1,316.6
Adjustment for (under)/over-recovery	(0.5)	4.3
Total	1,317.6	1,320.9

The adjustment for (under)/over-recovery represents the amount by which the regulated businesses (under)/over-recovered against their regulated entitlement.

4. **SEGMENTAL ANALYSIS** (continued)

(b) Operating Profit

	2017 £m	2016 £m
Segment Pro-Forma EBITDA		
Energia Group (excluding renewable assets)	65.1	58.9
Energia renewable assets	4.9	5.3
Power NI	32.2	31.6
PPB	4.0	4.0
Other	1.0	(2.7)
Group Pro-Forma EBITDA	107.2	97.1
Adjustment for (under)/over-recovery	(0.5)	4.3
Group EBITDA	106.7	101.4
Depreciation/amortisation		
Energia Group (excluding renewable assets)	(16.2)	(15.2)
Energia renewable assets	(3.1)	(2.6)
Power NI	(2.6)	(2.6)
Other	(0.4)	(0.3)
Group depreciation and amortisation	(22.3)	(20.7)
Operating profit pre exceptional items and certain remeasurements		
Energia Group (excluding renewable assets)	48.9	43.7
Energia renewable assets	1.8	2.7
Power NI	29.6	29.0
PPB	4.0	4.0
Other	0.6	(3.0)
Group Pro-Forma operating profit	84.9	76.4
Adjustment for (under)/over-recovery	(0.5)	4.3
Operating profit pre exceptional items and certain remeasurements	84.4	80.7
Exceptional items and certain remeasurements		
Energia Group (excluding renewable assets)	1.3	(1.3)
Energia renewable assets	(0.4)	-
Other	(1.7)	-
Group operating profit post exceptional items and certain remeasurements	83.6	79.4
Finance cost	(23.6)	(59.1)
Finance income	9.6	31.4
	(14.0)	(27.7)
Share of loss in associates	(1.0)	(1.3)
Profit on ordinary activities before tax	68.6	50.4

4. SEGMENTAL ANALYSIS (continued)

(c) Capital expenditure

	Capital additions to property, plant and equipment		Capital additions to intangible assets	
	2017 £m	2016 £m	2017 £m	2016 £m
Energia Group (excluding renewable assets)	5.5	2.7	43.8	39.1
Energia renewable assets	145.0	63.7	-	2.0
Power NI	3.5	1.6	52.3	37.7
Other	1.2	0.1	0.7	-
Total	155.2	68.1	96.8	78.8

(d) Geographic information

Revenue from external customers	2017 £m	2016 £m
UK	594.0	662.9
Rol	723.6	658.0
Total revenue per income statement	1,317.6	1,320.9

The revenue information above is based on the locations of the customers

Non-current operating assets	2017 £m	2016 £m
UK	400.0	288.5
Rol	650.5	578.9
Total	1,050.5	867.4

Non-current assets for this purpose consist of property, plant and equipment and intangible assets.

5. OPERATING COSTS

	2017	2016
	£m	£m
Operating costs are analysed as follows:		
Energy costs	1,137.8	1,151.7
Employee costs	25.4	22.0
Depreciation, amortisation and impairment	22.3	20.7
Other operating charges	47.7	45.8
Total pre exceptional items and certain remeasurements	1,233.2	1,240.2
<i>Exceptional costs and certain remeasurements:</i>		
Energy (credit)/charge	(1.6)	1.3
Other operating costs	2.4	-
Total exceptional costs and certain remeasurements	0.8	1.3
Total operating costs	1,234.0	1,241.5

5.1 Energy costs

	2017	2016
	£m	£m
Write down of inventories recognised as (income)/expense during the year:		
Reversal of write down of distillate oil stock	(0.9)	-
Write down of distillate oil stock	-	0.9

5.2 Depreciation, amortisation and impairment

	2017	2016
	£m	£m
Depreciation	18.7	17.2
Release of contributions in respect of property plant & equipment	(0.3)	(0.3)
Amortisation of intangible assets	3.9	3.8
	22.3	20.7

5.3 Other operating costs

	2017	2016
	£m	£m
Operating lease rentals recognised as an expense during the year:		
Land and buildings	0.9	0.6

6. EXCEPTIONAL ITEMS AND CERTAIN REMEASUREMENTS

	2017 £m	2016 £m
Exceptional items in arriving at profit from continuing operations:		
Acquisition costs ¹	(2.4)	-
Exceptional finance costs ²	<u>-</u>	<u>0.4</u>
	(2.4)	0.4
Certain remeasurements in arriving at profit		
Net profit/(loss) on derivatives at fair value through operating costs ³	1.6	(1.3)
Net profit on derivatives at fair value through finance costs ⁴	13.2	10.3
	<u>14.8</u>	<u>9.0</u>
Exceptional items and certain remeasurements before taxation	12.4	9.4
Taxation on exceptional items and certain remeasurements	<u>(0.2)</u>	<u>0.2</u>
Exceptional items and certain remeasurements after taxation	<u>12.2</u>	<u>9.6</u>

¹ Exceptional acquisition costs in 2017 of £2.4m relate to costs associated with acquisitions whether successful or unsuccessful.

² Exceptional benefit of £0.4m in 2016 primarily relates to costs attributable to the refinancing of the Group in 2015 which are no longer expected to occur.

³ Net profit on derivatives at fair value through operating costs of £1.6m (2016 - £1.3m loss) primarily relates to fair value movements in commodity swap contracts and foreign exchange forward contracts relating to commodity purchases.

⁴ Net profit on derivatives at fair value through finance costs of £13.2m (2016 - £10.3m) relates to fair value movements in foreign exchange forward contracts in respect of the Senior secured notes.

The tax (charge)/credit in the profit and loss account relating to exceptional items and certain remeasurements is:

	2017 £m	2016 £m
Fair valued derivatives through profit & loss	<u>(0.2)</u>	<u>0.2</u>

7. AUDITORS' REMUNERATION

The Group paid the following amounts to the Company's auditors or its associates in respect of the audit of the financial statements and for other services provided to the Group.

	2017 £'000	2016 £'000
Audit of these financial statements	61	45
Audit of subsidiaries pursuant to legislation	254	199
	315	244

Fees payable to the Company's auditor and its associates for other services:

Audit related assurance services	6	5
Taxation compliance services	52	49
Taxation advisory services	123	101
Corporate finance services	-	278
Total non-audit services	181	433

8. EMPLOYEES

	2017 £m	2016 £m
Salaries	24.3	20.2
Social security costs	2.6	2.1
Pension costs		
- defined contribution plans	1.7	1.3
- defined benefit plans	0.8	0.7
	29.4	24.3
Less salaries capitalised in property, plant and equipment and intangible assets	(4.0)	(2.3)
Charged to the income statement	25.4	22.0

	Actual headcount at 31 March		Average during the year	
	Number 2017	Number 2016	Number 2017	Number 2016
Energia Group (excluding renewable assets)	218	206	213	197
Energia renewable assets	13	13	13	12
Power NI	267	207	231	193
PPB	12	11	12	12
Other	117	98	111	85
	627	535	580	499

Directors' emoluments

No amounts were paid to the directors in respect of qualifying services or long term incentive plans during the year (2016 - £nil).

9. FINANCE COSTS/INCOME

	Results before exceptional items and certain remeasure- ments 2017 £m	Exceptional items and certain remeasure- ments 2017 £m	Total 2017 £m	Results before exceptional items and certain remeasure- ments 2016 £m	Exceptional items and certain remeasure- ments 2016 £m	Total 2016 £m
Finance costs						
Interest on external bank loans and borrowings	(10.1)	-	(10.1)	(8.0)	-	(8.0)
Interest on senior secured notes	(37.7)	-	(37.7)	(33.1)	-	(33.1)
Interest payable to parent undertaking	(5.9)	-	(5.9)	(23.7)	-	(23.7)
Total interest expense	(53.7)	-	(53.7)	(64.8)	-	(64.8)
Amortisation of financing charges	(2.0)	-	(2.0)	(2.2)	-	(2.2)
Unwinding of discount on decommissioning provision	(0.3)	-	(0.3)	(0.2)	-	(0.2)
Unwinding of discount on contingent liabilities	(0.5)	-	(0.5)	-	-	-
Unwinding of discount on shareholder loan	(7.3)	-	(7.3)	(25.6)	-	(25.6)
Other finance charges	(0.1)	-	(0.1)	(0.1)	0.4	0.3
Total other finance (charges)/income	(10.2)	-	(10.2)	(28.1)	0.4	(27.7)
Net exchange gain on net foreign currency borrowings	20.4	-	20.4	20.1	-	20.1
Net gain on financial instruments at fair value through profit or loss	-	13.2	13.2	-	10.3	10.3
Less interest capitalised in qualifying asset	6.7	-	6.7	3.0	-	3.0
Total finance costs	(36.8)	13.2	(23.6)	(69.8)	10.7	(59.1)
Finance income						
Interest income on loans to associates	0.9	-	0.9	0.8	-	0.8
Unwinding of discount on junior asset	8.5	-	8.5	30.4	-	30.4
Interest income on bank deposits	0.2	-	0.2	0.2	-	0.2
Total finance income	9.6	-	9.6	31.4	-	31.4

The average capitalisation rate applied in determining the amount of borrowing costs to be capitalised in the period was 4.3% (2016 – 5.9%).

10. INCOME TAX

The major components of the tax (charge)/credit for the years ended 31 March 2017 and 2016 are:

	Results before exceptional items and certain remeasure- ments 2017 £m	Exceptional items and certain remeasure- ments 2017 £m	Total 2017 £m	Results before exceptional items and certain remeasure- ments 2016 £m	Exceptional items and certain remeasure- ments 2016 £m	Total 2016 £m
Current tax:						
Current tax (charge)/credit	-	(0.2)	(0.2)	(0.3)	0.2	(0.1)
Adjustments in respect of prior years	(0.1)	-	(0.1)	-	-	-
Total current tax (charge)/credit	(0.1)	(0.2)	(0.3)	(0.3)	0.2	(0.1)
Deferred tax:						
Adjustments in respect of current year	1.8	-	1.8	7.5	-	7.5
Adjustments in respect of prior years	(2.2)	-	(2.2)	0.2	-	0.2
Effect of decreased rate on opening liability	(0.5)	-	(0.5)	(1.0)	-	(1.0)
Total deferred tax	(0.9)	-	(0.9)	6.7	-	6.7
Total taxation (charge)/credit	(1.0)	(0.2)	(1.2)	6.4	0.2	6.6

10. INCOME TAX (continued)

Consolidated Statement of Other Comprehensive Income

	2017 £m	2016 £m
Deferred tax related to items recognised in Other Comprehensive Income during the year:		
Net (gain)/loss on revaluation of cash flow hedges	(1.2)	1.4
Net loss on remeasurement of defined benefit scheme	0.2	0.4
Taxation (charged)/credited to Other Comprehensive Income	(1.0)	1.8

The tax (charge)/credit for the year can be reconciled to the profit per the income statement as follows:

	2017 £m	2016 £m
Accounting profit before income tax	68.6	50.4
At the statutory – income tax rate of 20% (2016 - 20%)	(13.7)	(10.1)
Impact of rate change on deferred tax	(0.9)	(1.0)
Non taxable foreign exchange on debt	6.5	7.2
Effect of lower tax rates on overseas earnings	8.4	4.4
Utilisation of tax losses on which no deferred tax asset was recognised	3.9	2.9
Movement in previously unrecognised temporary differences	-	3.5
Interest expense not paid in the period on which no deferred tax asset is recognised	(2.2)	-
Other	(0.9)	(0.5)
Adjustments in respect of previous years	(2.3)	0.2
Tax (charge)/credit	(1.2)	6.6

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as at 31 March 2017 (continued)

10. INCOME TAX (continued)

	Accelerated capital allowances £m	Losses available for offset against future taxable income £m	Loan interest £m	Pension obligation £m	Revaluation on cash flow hedges £m	Other £m	Total £m
As at 1 April 2015	(13.0)	9.3	6.6	-	1.2	0.4	4.5
Credit/(charge) to income statement	1.2	(0.1)	6.0	(0.4)	-	-	6.7
Credit to equity	-	-	-	0.4	1.4	-	1.8
Foreign exchange	(1.4)	0.2	0.7	-	-	(0.1)	(0.6)
As at 31 March 2016	(13.2)	9.4	13.3	-	2.6	0.3	12.4
(Charge)/credit to income statement	(0.7)	1.2	0.7	(0.2)	-	(1.9)	(0.9)
Credit/(charge) to equity	-	-	-	0.2	(1.2)	-	(1.0)
Foreign exchange	(1.3)	0.3	1.0	-	-	-	-
As at 31 March 2017	(15.2)	10.9	15.0	-	1.4	(1.6)	10.5

10. INCOME TAX (continued)

Certain deferred tax assets and liabilities have been offset. The following is an analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2017	2016
	£m	£m
Deferred tax assets	27.3	25.6
Deferred tax liabilities	(16.8)	(13.2)
Net deferred tax assets	10.5	12.4

Current and deferred tax have been calculated using standard rates of corporation tax in the UK being the prevalent rates of corporation tax of the Group. Deferred tax has been calculated at 17% as at 31 March 2017 reflecting HMRC enactment, in September 2016, of a reduction in the corporation tax rate effective from 1 April 2020.

A deferred tax asset of £37.1m (2016 - £41.4m) has not been recognised in relation to £189m (2016 - £210m) of tax losses carried forward and £35m (2016 - £21m) of interest on which no tax relief has yet been claimed, due to uncertainty regarding the quantum of future taxable profits in the companies concerned.

HM treasury have announced their intention to introduce new rules restricting the availability of loss relief and deductibility of interest charges. These rules are not enacted at the balance sheet date and so have not been taken into account when calculating UK deferred tax. The new rules may decrease the value of UK deferred tax assets un/recognised in respect of tax losses and interest at 31 March 2017.

11. PROPERTY, PLANT AND EQUIPMENT

	Thermal generation assets £m	Renewable generation assets £m	Freehold operational land £m	Fixtures and equipment £m	Total £m
Cost or valuation:					
At 1 April 2015	330.3	64.0	11.2	7.7	413.2
Exchange adjustment	35.5	2.6	1.1	0.1	39.3
Additions	2.4	63.7	-	2.0	68.1
Acquisitions of subsidiaries	-	8.0	-	-	8.0
At 31 March 2016	<u>368.2</u>	<u>138.3</u>	<u>12.3</u>	<u>9.8</u>	<u>528.6</u>
Exchange adjustment	32.2	5.2	0.9	0.1	38.4
Additions	4.9	145.0	-	5.3	155.2
Decrease in decommissioning provision	(4.1)	-	-	-	(4.1)
Acquisition of subsidiaries	-	8.9	-	-	8.9
At 31 March 2017	<u>401.2</u>	<u>297.4</u>	<u>13.2</u>	<u>15.2</u>	<u>727.0</u>
Depreciation and impairment:					
At 1 April 2015	148.9	1.3	-	5.6	155.8
Exchange adjustment	19.3	0.1	-	0.1	19.5
Depreciation charge for the year	13.8	2.5	-	0.9	17.2
At 31 March 2016	<u>182.0</u>	<u>3.9</u>	<u>-</u>	<u>6.6</u>	<u>192.5</u>
Exchange adjustment	17.7	0.1	-	0.1	17.9
Depreciation charge for the year	14.8	3.0	-	0.9	18.7
At 31 March 2017	<u>214.5</u>	<u>7.0</u>	<u>-</u>	<u>7.6</u>	<u>229.1</u>
Net book value:					
At 1 April 2015	<u>181.4</u>	<u>62.7</u>	<u>11.2</u>	<u>2.1</u>	<u>257.4</u>
At 31 March 2016	<u>186.2</u>	<u>134.4</u>	<u>12.3</u>	<u>3.2</u>	<u>336.1</u>
At 31 March 2017	<u>186.7</u>	<u>290.4</u>	<u>13.2</u>	<u>7.6</u>	<u>497.9</u>

- (i) Included in renewable generation assets are amounts in respect of assets under construction amounting to £91.2m (2016 - £88.8m) and capitalised interest of £13.0m (2016 - £5.9m).

12. INTANGIBLE ASSETS

	Software costs £m	Renewable development assets £m	Emission allowances, ROCs, LECs & EECs £m	Goodwill £m	Total £m
Cost:					
At 1 April 2015	28.3	8.3	34.4	463.7	534.7
Exchange adjustment	0.2	-	0.2	0.1	0.5
Additions	0.8	2.0	76.0	-	78.8
Disposals/surrenders in settlement of obligations	-	-	(65.2)	-	(65.2)
Acquisition of subsidiaries	-	5.8	-	-	5.8
At 31 March 2016	29.3	16.1	45.4	463.8	554.6
Exchange adjustment	0.2	0.2	0.6	0.3	1.3
Additions	4.9	-	91.9	-	96.8
Disposals/surrenders in settlement of obligations	-	-	(89.4)	-	(89.4)
Acquisition of subsidiaries	-	16.7	-	-	16.7
At 31 March 2017	34.4	33.0	48.5	464.1	580.0
Amortisation and impairment:					
At 1 April 2015	18.1	-	-	1.2	19.3
Exchange adjustment	0.1	-	-	0.1	0.2
Amortisation	3.7	0.1	-	-	3.8
At 31 March 2016	21.9	0.1	-	1.3	23.3
Exchange adjustment	0.1	-	-	0.1	0.2
Amortisation	3.8	0.1	-	-	3.9
At 31 March 2017	25.8	0.2	-	1.4	27.4
Net book value:					
At 1 April 2015	10.2	8.3	34.4	462.5	515.4
At 31 March 2016	7.4	16.0	45.4	462.5	531.3
At 31 March 2017	8.6	32.8	48.5	462.7	552.6

- (i) Included in Emission allowances, ROCs, LECs & EECs at 31 March 2017 is an amount of £1.3m (2016 - £0.8m) relating to self-generating ROCs which were initially recognised at fair value of £1.3m (2016 - £0.8m).

13. IMPAIRMENT TESTING OF GOODWILL AND INTANGIBLE ASSETS WITH INDEFINITE LIVES

The Group has five CGUs outlined below:

- Huntstown generation;
- Energia supply;
- Energia renewable assets;
- Power NI; and
- PPB.

The CGUs align to the Group operating and reportable segments as identified in note 4 with the exception of the Energia Group (excluding renewable assets) which has been split into two CGUs, Huntstown generation and Energia supply as the cash flows from Huntstown generation are largely independent of the cash flows of the Energia Supply CGU.

The carrying amount of goodwill is allocated to each of the CGUs as follows:

CGU	2017 £m	2016 £m
Energia supply	336.7	336.5
Power NI	126.0	126.0
Total goodwill	462.7	462.5

The recoverable amount of the goodwill allocated to Energia supply and Power NI together with the property, plant and equipment of each CGU, has been determined based on a value in use calculation using cash flow projections from the Group's five year business plan as approved by the Board together with a long term growth rate of 2% applied thereafter. The Group's business model is based on past experience and reflects the Group's forward view of market prices, risks and its strategic objectives. The recoverable amount is compared to the carrying amount of the CGU to determine whether the CGU is impaired.

Key assumptions used in value in use calculations

The key assumptions used for the value in use assumptions are as follow:

Discount rates

The pre-tax discount rate used in the calculation of the value in use for the CGUs was between 7.8% and 9.6% (2016 – 10.8%) reflecting management's estimate of the Weighted Average Cost of Capital post-tax rate required to assess operating performance and to evaluate future capital investment proposals.

These rates reflect market projections of the risk-free rate in the jurisdictions in which the Group operates, equity risk premiums and the cost of debt appropriate to the industry.

Energia supply CGU

The key assumptions on which the cash flow projections of this CGU are based are as follows:

- Retail supply revenues for electricity and gas are based on the expected market share derived from the market share at the time of the approval of the business model adjusted for forecasted growth. Growth in business customer numbers is modest and growth in respect of Energia's entry into the RoI domestic market is moderate with cash flows associated with increased customer service and customer acquisition incorporated accordingly;
- Retail supply margins are based on historic and projected gross margin percentages;

13. IMPAIRMENT TESTING OF GOODWILL AND INTANGIBLE ASSETS WITH INDEFINITE LIVES
(continued)

- Renewable PPA revenues are based on capacity in operation at the time of the approval of the business model adjusted for forecasted growth. Growth in capacity primarily reflects contracted PPAs and uncontracted growth is moderate; and
- Renewable PPAs margins are based on forecast electricity market prices and the underpinning support mechanisms of REFIT in the RoI and ROCs in Northern Ireland.

Outcome of Tests:

The recoverable amount of the Energia supply CGU exceeded the respective carrying value at the time of the impairment test. While cash flows are subject to inherent uncertainty, reasonable possible changes in the key assumptions applied in assessing the value in use would not cause a change to the conclusion reached.

Power NI CGU

The key assumptions on which the cash flow projections of this CGU are based are as follows:

- Regulated revenues and margins are underpinned by the regulatory price control in place to 31 March 2017 together with the terms of the agreed extension to 31 March 2019;
- Customer attrition is assumed however the nature of the price control with regulated entitlement 70% fixed and 30% variable reduces the impact of customer losses; and
- Unregulated retail supply margins for business customers are based on historic and projected gross margin percentages.

Outcome of Tests:

The recoverable amount of the Power NI CGU exceeded the respective carrying value at the time of the impairment test. While cash flows are subject to inherent uncertainty, reasonable possible changes in the key assumptions applied in assessing the value in use would not cause a change to the conclusion reached.

14. INVESTMENT IN ASSOCIATES

At 31 March 2016 and 2017 the Group had a 25% interest in Eco Wind Power Limited (EWP) and a 20% interest in IIF Cyclone NI Holdco Limited (IIF Cyclone) (collectively, the “Associates”).

EWP is incorporated in the Republic of Ireland and carries on the business of wind farm generation. IIF Cyclone is incorporated in Northern Ireland and carries on the business of wind farm generation. The Group’s interests in the Associates are accounted for using the equity method in the consolidated financial statements. Under their project finance facilities, distributions can only be made by the Associates when specific debt service cover ratio or other threshold levels have been achieved. The following table illustrates the summarised financial information of the Group’s investment in its associates:

Balance Sheet	As at 31 March 2017 £m	As at 31 March 2016 £m
Goodwill	8.2	7.8
Current assets	7.4	13.4
Non-current assets	83.5	87.2
Derivative liabilities	(6.0)	(6.7)
Current liabilities	(15.6)	(17.6)
Non-current liabilities	(110.5)	(114.7)
Equity	(33.0)	(30.6)
Proportion of the Group’s share of equity excluding goodwill	(11.1)	(9.5)
Goodwill	8.2	7.8
Loan to associates	9.1	7.9
Carrying amount of the investment	6.2	6.2
Income Statement	Year ended 2017 £m	Year ended 2016 £m
Revenue	14.9	15.7
Operating profit	3.1	5.0
Finance costs	(7.2)	(10.2)
Loss before tax	(4.1)	(5.2)
Taxation	-	0.2
Loss for the year	(4.1)	(5.0)
Other comprehensive income		
Net movement in cash flow hedges	0.6	2.3
Total comprehensive expense for the year	(3.5)	(2.7)
Group’s share of loss for the year	(1.0)	(1.3)
Group’s share of other comprehensive income for the year	0.1	0.6

15. BUSINESS COMBINATIONS AND DISPOSALS

Acquisitions in 2016/17

In July 2016, the Group acquired 100% of the shares of Wheelhouse Energy Limited (Rathsherry) and in October 2016 acquired 100% of the shares of Cornavarrow Windfarm Limited (Cornavarrow) and Slieveglass Wind Farm Limited (Slieveglass), all unlisted wind farm companies in Northern Ireland. Total consideration for the acquisitions was £3.7m cash and £13.5m discounted contingent consideration (£16.0m undiscounted).

Acquisitions post balance sheet

In April 2017, the Group acquired 100% of the shares of Teiges Mountain Wind Farm Limited (Teiges), an unlisted wind farm company in Northern Ireland. Total consideration for the acquisition comprised £1.6m discounted contingent consideration (£1.9m undiscounted).

The acquisitions contribute towards the Group's aim of growing its renewable generation business in Ireland.

Assets acquired and liabilities assumed

The combined fair values of the identifiable assets and liabilities of Rathsherry, Cornavarrow and Slieveglass acquired in 2016/17 and the identifiable assets and liabilities of Teiges acquired post 31 March 2017 were:

	Fair value recognised on acquisitions in 2016/17 £m	Fair value recognised on acquisitions post balance sheet £m
Assets		
Property, plant and equipment	8.9	3.4
Other receivables	0.4	0.2
	<u>9.3</u>	<u>3.6</u>
Liabilities		
Other payables	(0.7)	(2.2)
Other loans and borrowings	(8.1)	(1.4)
Total identifiable net assets at fair value	<u>0.5</u>	<u>-</u>
Intangible assets (development assets) arising on acquisition	16.7	1.6
Purchase consideration transferred	<u>17.2</u>	<u>1.6</u>
<i>Purchase consideration made up of:</i>		
Cash	3.7	-
Contingent consideration	13.5	1.6
	<u>17.2</u>	<u>1.6</u>
Analysis of cash flows on acquisition:		
Cash paid	3.7	-
Discharge of liabilities	8.8	2.3
Net cash flows on acquisition	<u>12.5</u>	<u>2.3</u>

Transaction costs of £0.4m were expensed in 2017 and are included in exceptional operating costs.

Rathsherry, Cornavarrow, and Slieveglass are currently under construction and have not generated any revenues or profit for the Group during the period. Teiges is not operational and is currently under construction.

Deferred consideration

Deferred consideration of £1.4m was paid in April 2016 in respect of the acquisition of Altamuskin Windfarm Limited in July 2015.

Contingent consideration

On acquisition of Cornavarrow and Slieveglass contingent consideration of £13.5m, was recognised and reflects the fair value of the maximum amount payable of £16.0m, with the minimum payable being £nil. On acquisition of Teiges contingent consideration of £1.6m was recognised and reflects the fair value of the maximum amount payable of £1.9m, with the minimum payable being £nil. Contingent consideration relates to the accreditation for Northern Ireland Renewable Obligation Certificates (NROCs) and earnouts relating to the capital expenditure incurred during the course of the construction of the wind farms and are anticipated to be paid in 2018/19.

16. GROUP INFORMATION

Principal investments in which the Group held 100% of ordinary shares at 31 March 2017 are listed below:

Name	Principal activities	Country of incorporation
Regulated businesses		
Power NI Energy Limited ^{1*}	Power procurement and supply of electricity	Northern Ireland
Energia Group (excluding renewable assets)		
Viridian Power and Energy Holdings Limited *	Holding company	Republic of Ireland
Viridian Power and Energy Limited *	Holding company	Northern Ireland
Power and Energy Holdings (Rol) Limited *	Holding company	Republic of Ireland
GenSys Power Limited (trading as GenSys) *	Operating and maintenance services	Republic of Ireland
Huntstown Power Company Limited *	Electricity generation	Republic of Ireland
Viridian Power Limited *	Electricity generation	Republic of Ireland
Viridian Energy Supply Limited (trading as Energia) *	Energy supply	Northern Ireland
Viridian Energy Limited (trading as Energia) *	Energy supply	Republic of Ireland
Energia renewable assets		
Viridian Renewables Company 1 Limited *	Holding company	Northern Ireland
Viridian Renewables Company 2 Limited*	Holding company	Northern Ireland
Viridian Renewables Company 3 Limited* ²	Holding company	Northern Ireland
Viridian Renewables Company 4 Limited*	Holding company	Northern Ireland
Clondermot Wind Limited ^{*2}	Renewable generation	Northern Ireland
Eshmore Ltd ^{*2}	Renewable generation	Northern Ireland
Gortfinbar Windfarm Limited* ²	Renewable generation	Northern Ireland
Thornog Windfarm Ltd ^{*2}	Renewable generation	Northern Ireland
Altamuskin Windfarm Limited* ²	Renewable development	Northern Ireland
Cornavarrow Windfarm Limited*	Renewable development	Northern Ireland
Lisglass Wind Ltd *	Renewable development	Northern Ireland
Long Mountain Wind Farm Limited ^{*2}	Renewable development	Northern Ireland
Mosslee Limited* ²	Renewable development	Northern Ireland
Slieveglass Wind Farm Limited*	Renewable development	Northern Ireland
Wheelhouse Energy (NI) Limited	Renewable development	Northern Ireland
Eshmore Wind Limited *	Holding company	Republic of Ireland
Viridian Renewables Development Limited *	Holding company	Republic of Ireland
Viridian Renewables Rol Limited *	Holding company	Republic of Ireland
Holyford Windfarm Limited ^{*2}	Renewable generation	Republic of Ireland
Windgeneration Ireland Limited ^{*2}	Renewable generation	Republic of Ireland
MD South Windfarm Limited *	Renewable development	Republic of Ireland
Whaplode Limited *	Renewable development	Republic of Ireland
Other		
Viridian Group Fundco I Limited	Holding company	Cayman Islands
Viridian Group Fundco II Limited *	Holding company	Cayman Islands
Viridian Group Fundco III Limited *	Holding company	Cayman Islands
EI Ventures Limited *	Holding company	Great Britain
ElectricInvest Acquisitions Limited *	Holding company	Great Britain
ElectricInvest Holding Company Limited *	Holding company	Great Britain
Viridian Group Limited *	Holding company	Northern Ireland
Viridian Group Holdco 1 Limited	Holding company	Northern Ireland
Viridian Group Holdco 2 Limited	Holding company	Northern Ireland
ElectricInvest (Cayman) Limited *	Holding company	Cayman Islands
ElectricInvest (Lux) Rol S.à.r.l.*	Holding company	Grand Duchy of Luxembourg
Viridian Capital Limited *	Holding company	Northern Ireland
Viridian Enterprises Limited *	Holding company	Northern Ireland
Viridian Properties Limited *	Property	Northern Ireland
Viridian Insurance Limited *	Insurance	Isle of Man

* held by a subsidiary undertaking

¹ consists of the operating businesses of Power NI and PPB

² Entities with project finance facilities with restricted cash which are subject to bi-annual distribution debt service requirements

16. GROUP INFORMATION (continued)

Ultimate parent undertaking, controlling party and related party transactions

Up to 29 April 2016 the ultimate parent undertaking of the Company and controlling party of the Group, as defined by IFRS 10, "Consolidated Financial Statements" was ElectricInvest Investments Limited a company incorporated in the Cayman Islands. On completion of the change of control noted on page 5, after 29 April 2016 the ultimate parent undertaking of the Company and controlling party of the Group, as defined by IFRS 10, "Consolidated Financial Statements" is ISQ Viridian Holdings L.P., a limited partnership incorporated in the Cayman Islands.

Up until 28 June 2016 the parent undertaking of the Company was Viridian Group Holdings Limited, a company incorporated in the Cayman Islands. On completion of the merger noted on page 5, after 28 June 2016 the parent undertaking of the Company was ISQ Viridian Holdings L.P., a limited partnership in the Cayman Islands.

Following the divestment of a minority interest noted on page 5, after 27 April 2017 the parent undertaking of the Company became Viridian TopCo Limited, a company incorporated in the Cayman Islands.

17. OTHER FINANCIAL ASSETS

	2017 £m	2016 £m
Other financial assets		
<i>Loans and receivables:</i>		
Security deposits	2.4	10.9
Short term managed funds	1.4	1.4
Total loans and receivables	3.8	12.3
<i>Financial instruments held to maturity:</i>		
Viridian Growth Fund	0.1	0.1
Investment in parent undertaking's junior bank facility	-	199.4
Total other financial assets	3.9	211.8
 Total non-current	 0.1	 199.5
Total current	3.8	12.3

Loans and receivables are held to maturity and generate a fixed or variable interest income for the Group. The carrying value may be affected by changes in the credit risk of the counterparties.

The Group's investment in parent undertaking's junior bank facility was fully extinguished following the merger with its immediate parent VGHL as outlined in note 33.

18. TRADE AND OTHER RECEIVABLES

	2017 £m	2016 £m
Trade receivables (including unbilled consumption)	124.2	125.1
Prepayments and accrued income	25.5	35.2
Other receivables	0.4	0.8
Amounts owed by fellow group undertaking	-	0.7
	150.1	161.8

Trade receivables are non-interest bearing and are generally on terms of 14 to 90 days.

See below for the movements in the provision for impairment of receivables.

	£m
At 1 April 2015	11.1
Foreign exchange adjustment	0.4
Charge for the year	3.7
Utilised	(2.9)
At 31 March 2016	12.3
Foreign exchange adjustment	0.5
Charge for the year	2.8
Utilised	(2.9)
At 31 March 2017	12.7

As at 31 March, the ageing analysis of trade receivables is as follows:

			Past due but not impaired			
	Total	Neither past	< 30	30-60	61-90	> 90
	£m	due nor	days	days	days	days
		impaired	£m	£m	£m	£m
		£m				
2016	125.1	94.2	20.2	5.2	2.6	2.9
2017	124.2	94.1	22.1	5.1	2.2	0.7

The credit quality of trade receivables that are neither past due nor impaired is assessed by reference to external credit ratings where available otherwise historical information relating to counterparty default rates combined with current knowledge of the counterparty is used.

19. CASH AND CASH EQUIVALENTS

	2017 £m	2016 £m
Cash at bank and on hand	33.4	27.9
Short-term bank deposits	86.8	48.6
	120.2	76.5

Cash at bank earns interest at floating rates based on daily bank deposit rates.

At 31 March 2017, the Group had available £130.6m (2016 - £145.5m) of undrawn committed borrowing facilities relating to the Senior revolving credit facility and £9.7m (2016 - £114.0m) of undrawn committed borrowing facilities relating to the project finance facilities. There were no cash drawings under the Senior revolving credit facility at 31 March 2017 (2016 - £nil). £13.4m (2016 - £8.7m) of cash was restricted in the project financed wind farms and is subject to bi-annual distribution debt service requirements.

20. TRADE AND OTHER PAYABLES

	2017 £m	2016 £m
Trade creditors	49.9	51.0
Other creditors	35.2	34.7
Amounts owed to associate	2.1	2.0
Payments received on account	24.7	27.4
Tax and social security	9.0	8.2
Accruals	141.3	139.4
	262.2	262.7

Trade creditors are non-interest bearing and are normally settled within 45 day terms.

21. FINANCIAL LIABILITIES

	2017 £m	2016 £m
Current financial liabilities:		
Senior secured notes interest payable	3.2	3.0
Other interest payable	0.8	0.7
Project financed bank facilities (NI)	3.8	1.1
Project financed bank facilities (RoI)	9.8	0.3
Project finance interest accruals	-	0.1
Deferred consideration	-	1.4
Total current financial liabilities	17.6	6.6
Non-current financial liabilities:		
Senior secured notes	507.6	468.5
Project financed bank facilities (NI)	99.8	33.6
Project financed bank facilities (RoI)	93.8	38.6
Contingent consideration	13.9	-
Other payables	2.6	-
Subordinated shareholder loan	-	386.8
Total non-current financial liabilities	717.7	927.5
Total current and non-current financial liabilities	735.3	934.1

Senior secured notes and Senior revolving credit facility

The Senior secured notes and Senior revolving credit facility are secured by way of fixed and floating charges over the assets of the Group's material non-regulated and intermediary holding company subsidiaries, together with first ranking share pledges over the shareholdings in the Group's material and intermediary holding company subsidiaries including the regulated subsidiaries Power NI Energy Limited and ElectricInvest (Cayman) Limited. On enforcement the Senior revolving credit facility would be repaid in advance of the Senior secured notes. The carrying value of the Senior secured notes include unamortised costs of £5.6m (2016 - £7.2m).

The Senior secured notes are denominated in Euro €600.0m (2016 - €600.0m) and interest, which is payable semi-annually, is charged at a fixed rate coupon of 7.5% (2016 - 7.5%). The Senior secured notes are repayable in one instalment on 1 March 2020.

In June 2016 the Group put in place a further €75.0m foreign exchange forward contracts to hedge the foreign exchange risk on the Euro denominated Senior secured notes associated with the forecast sterling cash generation of the Group. The total foreign exchange forward contracts in place at 31 March 2017 was €225.0m (2016 - €150.0m)

The Senior secured notes includes an option for the period to 1 September 2017 to redeem annually up to 10% of the original principal at a redemption price of 103%.

At 31 March 2017, the Group had letters of credit issued out of the Senior revolving credit facility of £94.4m resulting in undrawn committed facilities of £130.6m (2016 - £145.5m). There were no cash drawings under the Senior revolving credit facility at 31 March 2017 (2016 - £nil). Interest is charged under the Senior revolving credit facility at floating interest rates based on Libor and Euribor.

Other payables

On acquisition of Cornavarrow, a liability of £2.6m was recognised reflecting the fair value of the maximum amount payable of £3.0m, with the minimum payable being £nil. The liability relates to pre-acquisition services and is contingent on the accreditation for NIROCs and is anticipated to be paid in 2018/19.

21. FINANCIAL LIABILITIES (continued)

Subordinated shareholder loan

The VGIL/VGHL merger in June 2016 resulted in the extinguishment of VGIL's shareholder loan payable to VGHL at a carrying value of £399.6m as outlined in note 33.

Project financed bank facilities

The project financed bank loan facilities are repayable in semi-annual instalments to 2034 and are secured on a non-recourse basis over the assets and shares of the specific project finance companies. Interest on the project finance bank loan facilities has been predominantly fixed through interest rate swaps resulting in an effective rate of interest of 4.09% (2016- 5.89%) on project financed bank facilities NI and 2.72% (2016 – 3.49%) on the project financed bank facilities RoI.

22. DEFERRED INCOME

	2017 £m	2016 £m
At 1 April	0.3	0.6
Released to the income statement	(0.3)	(0.3)
At 31 March	<u>-</u>	<u>0.3</u>
Current	<u>-</u>	<u>0.3</u>

The deferred income arises from contributions in respect of certain property, plant and equipment assets.

23. PENSIONS AND OTHER POST- EMPLOYMENT BENEFIT PLANS

	2017 £m	2016 £m
<i>Net employee defined benefit liability (before deferred tax)</i>	<u>-</u>	<u>(0.1)</u>

The VGPS has two sections: a money purchase section (known as 'Options') and a defined benefit section (known as 'Focus'). The defined benefit section is closed to new entrants. There is also a money purchase arrangement for employees in the RoI known as 'Choices'. Most employees of the Group are members of VGPS Options or Choices.

The assets of the Focus section are held under trust and invested by the trustees on the advice of professional investment managers.

The regulatory framework in the UK requires the Trustees and Group to agree upon the assumptions underlying the funding target, and then to agree upon the necessary contributions required to recover any deficit at the valuation date. There is a risk to the Group that adverse experience could lead to a requirement for the Group to make further contributions to recover any deficit.

The Trustees regularly review the investment strategy of VGPS and target to maintain the mix of investments between 45% on-risk and 55% off-risk.

The last actuarial valuation of VGPS was as at 31 March 2015 and under the terms of the recovery plan agreed with the trustees, the Group will make good the £7.9m funding shortfall through annual deficit repair contribution of £1.25m for seven years.

23. PENSIONS AND OTHER POST-EMPLOYMENT BENEFIT PLANS (continued)

The following tables summarise the components of net benefit expense recognised in the income statement and the funded status and amounts recognised in the balance sheet for the VGPS:

VGPS Focus Section

Changes in the defined benefit obligation, fair value of Focus assets and unrecognised past service costs are as follows:

	2017	2016
	£m	£m
Market value of assets at 1 April	41.0	40.6
Interest income	1.3	1.3
Contributions from employer	2.0	3.0
Contributions from scheme members	0.1	0.1
Benefits paid	(1.1)	(2.6)
Return/(loss) on plan assets (excluding amounts in the net interest expense)	6.4	(1.4)
Market value of assets at 31 March	49.7	41.0
Actuarial value of liabilities at 1 April	41.1	40.6
Interest cost	1.3	1.3
Current service cost	0.7	0.7
Contributions from scheme members	0.1	0.1
Past service cost	0.1	-
Benefits paid	(1.1)	(2.6)
Actuarial loss arising from changes in financial assumptions	7.5	1.4
Actuarial gain arising from changes in demographic assumptions	-	(0.3)
Actuarial gain from experience	-	(0.1)
Actuarial value of liabilities at 31 March	49.7	41.1
Net pension liability	-	(0.1)
Analysis of amounts recognised in employee costs:		
Current service cost	(0.7)	(0.7)
Past service cost	(0.1)	-
	(0.8)	(0.7)
Analysis of amounts recognised in other comprehensive income:		
Return/(Loss) on plan assets (excluding amounts in the net interest expense)	6.4	(1.4)
Actuarial loss arising from changes in financial assumptions	(7.5)	(1.4)
Actuarial gain arising from changes in demographic assumptions	-	0.3
Decrease in IFRIC 14 liability	-	0.9
	(1.1)	(1.6)

23. PENSIONS AND OTHER POST-EMPLOYMENT BENEFIT PLANS (continued)

In accordance with IFRIC 14 – "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction" no liability (2016 - nil) has been recognised in 2017.

The actual return in Focus assets for 2017 amounted to £7.7m (2016 - £0.1m loss).

Past service costs of £0.1m in 2017 relate to a voluntary severance scheme in Energia.

The major categories of Focus assets of the fair value of the total plan assets are, as follows:

	VGPS Focus section	
	2017	2016
	£m	£m
Unquoted investments:		
- Equity investments	14.0	11.1
- Bonds	26.3	21.7
- Other	9.4	8.2
Total assets	49.7	41.0

The principal assumptions used in determining pension and post-employment medical benefit obligations for the VGPS Focus are shown below:

	2017	2016
Rate of increase in pensionable salaries	2.9% p.a.	2.7% p.a.
Rate of increase in pensions in payment	2.4% p.a.	2.2% p.a.
Discount rate	2.5% p.a.	3.2% p.a.
Inflation assumption (based on CPI)	2.4% p.a.	2.2% p.a.
Life expectancy:		
- current pensioners (at age 60) – males	25.9 years	25.9 years
- current pensioners (at age 60) – females	28.6 years	28.6 years
- future pensioners (at age 60) – males	27.8 years	27.8 years
- future pensioners (at age 60) – females	30.6 years	30.6 years

The life expectancy assumptions are based on standard actuarial mortality tables and include an allowance for future changes in life expectancy.

23. PENSIONS AND OTHER POST-EMPLOYMENT BENEFIT PLANS (continued)

A quantitative sensitivity analysis for significant assumptions as at 31 March is as shown below:

Assumptions	Sensitivity level	Impact on net defined benefit obligation Increase/(decrease)	
		2017 £m	2016 £m
Pensionable salaries	1% increase	1.4	1.3
	1% decrease	(1.3)	(1.3)
Pension payments	0.5% increase	4.0	3.0
	0.5% decrease	(3.6)	(2.7)
Discount rate	0.5% increase	(4.3)	(3.4)
	0.5% decrease	4.9	3.9
Inflation	1% increase	8.5	6.3
	1% decrease	(6.8)	(5.2)
Life expectancy of male pensioners	Increase by 1 year	0.8	0.6
	Decrease by 1 year	(0.8)	(0.6)
Life expectancy of female pensioners	Increase by 1 year	0.5	0.3
	Decrease by 1 year	(0.5)	(0.3)

The sensitivity analyses above have been determined based on a method that extrapolates the impact on net defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period.

The following payments are expected contributions to be made in the future years towards the defined benefit plan obligation:

	2017 £m	2016 £m
Within the next 12 months (next annual reporting period)	2.0	2.2
Between two and five years	8.1	8.8
Between five and ten years	3.9	6.1
Total expected payments	14.0	17.1

The average duration of the defined benefit plan obligation at the end of the reporting period is 20 years (2016 - 20 years).

24. PROVISIONS

	Decommissioning £m	Liabilities and damage claims £m	Total £m
At 1 April 2015	11.2	0.1	11.3
Foreign exchange adjustment	1.0	-	1.0
New plant commissioned	0.1	-	0.1
Unwinding of discount	0.2	-	0.2
Changes in the discount rate	0.1	-	0.1
At 31 March 2016	12.6	0.1	12.7
Foreign exchange adjustment	1.0	-	1.0
New plant commissioned	1.6	-	1.6
Decrease in decommissioning provision	(4.1)	-	(4.1)
Decrease in liability and damage claims	-	(0.1)	(0.1)
Unwinding of discount	0.3	-	0.3
At 31 March 2017	11.4	-	11.4
Non-current	11.4	-	11.4

Liability and damage claims

Notwithstanding the intention of the directors to defend vigorously claims made against the Group, liability and damage claim provisions have been made which represent the directors' best estimate of costs expected to arise from ongoing third party litigation matters and employee claims. These provisions are expected to be utilised within a period not exceeding four years.

Decommissioning

Provision has been made for decommissioning generation assets. The provision represents the present value of the current estimated costs of closure of the plants at the end of their useful economic lives. The provisions have been discounted using a weighted average rate of 2.154% (2016 – 2.032%) and are expected to be utilised within a period not exceeding twenty one years.

25. FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Derivative financial assets

	2017 £m	2016 £m
<i>Derivatives at fair value through other comprehensive income</i>		
Cash flow hedges:		
Foreign exchange forward contracts	1.5	2.3
Commodity swap contracts	1.2	-
Interest rate swap contracts	1.7	1.1
Total derivatives at fair value through other comprehensive income	4.4	3.4
<i>Derivatives at fair value through profit and loss</i>		
Derivatives not designated as hedges:		
Foreign exchange forward contracts	23.7	11.1
Commodity swap contracts	2.0	0.6
Total derivatives at fair value through profit and loss	25.7	11.7
Total derivative financial assets	30.1	15.1
Total non-current	20.0	11.1
Total current	10.1	4.0

Derivative financial liabilities

	2017 £m	2016 £m
<i>Derivatives at fair value through other comprehensive income</i>		
Cash flow hedges:		
Foreign exchange forward contracts	(3.2)	(4.7)
Commodity swap contracts	(2.0)	(7.8)
Interest rate swap contracts	(13.4)	(11.1)
Total derivatives at fair value through other comprehensive income	(18.6)	(23.6)
<i>Derivatives at fair value through profit and loss</i>		
Derivatives not designated as hedges:		
Foreign exchange forward contracts	(0.4)	(0.6)
Commodity swap contracts	(2.0)	(2.7)
Total derivatives at fair value through profit and loss	(2.4)	(3.3)
Total derivative financial liabilities	(21.0)	(26.9)
Total non-current	(11.4)	(11.2)
Total current	(9.6)	(15.7)

25. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

HEDGING ACTIVITIES AND DERIVATIVES

CASH FLOW HEDGES

Cash flow hedges are derivative contracts entered into to hedge a forecast transaction or cash flow risk generally arising from a change in interest rates, commodity rates or foreign currency exchange rates and which meets the effectiveness criteria prescribed by IAS 39. The Group's accounting policy for cash flow hedges is set out in note 3.

	2017 £m	2016 £m
Accumulated loss included in equity (excluding associates)	(14.2)	(20.2)

The table below summarises the maturity of cash flow hedges:

Derivative financial assets

In one year or less	2.0	2.3
In more than one year but less than five years	0.7	-
In more than five years	1.7	1.1

Gains through other comprehensive income

4.4	3.4
------------	-----

Derivative financial liabilities

In one year or less	(7.3)	(12.5)
In more than one year but less than five years	(8.3)	(8.5)
In more than five years	(3.0)	(2.6)

Losses through other comprehensive income

(18.6)	(23.6)
(14.2)	(20.2)

The table below summarises the gains and losses recognised during the year:

Net gain/(loss) due to remeasurements	2.5	(28.0)
Loss transferred from equity to the income statement in respect of:		
Completed hedges	(3.5)	(13.8)
	(3.5)	(13.8)
Recognised within:		
Operating costs	(5.5)	(12.9)
Finance costs	2.0	(0.9)
	(3.5)	(13.8)

FAIR VALUE THROUGH PROFIT AND LOSS

The Group has derivative contracts that are not accounted for as hedges under IAS 39. The table below summarises the gains and losses recognised on these contracts in the income statement during the year.

	2017 £m	2016 £m
Net gain due to remeasurements	14.8	9.0

25. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

HEDGE OF NET INVESTMENT IN FOREIGN OPERATIONS

Included in financial liabilities, loans and borrowings at 31 March 2017 was €600.0m (2016 - €600.0m) Euro denominated Senior secured notes. The Group has not designated a hedging relationship between the Euro-denominated assets on the Group's balance sheet and the Group's Euro borrowings in the current year.

FAIR VALUES

As indicated in note 3(d) the Group uses the hierarchy as set out in IFRS 7 Financial Instruments: Disclosures categorising financial instruments. A summary of the fair values of financial assets and liabilities of the Group, together with their carrying values shown in the balance sheet and their fair value hierarchy is as follows:

	2017 Carrying value £m	2017 Fair value £m	2016 Carrying value £m	2016 Fair value £m
Level 1				
Non-current liabilities				
Senior secured notes	(507.6)	(541.2)	(468.5)	(500.3)
Level 2				
Non-current assets				
Derivative financial instruments	20.0	20.0	11.1	11.1
Viridian Growth Fund	0.1	0.1	0.1	0.1
Investment in parent undertaking's junior bank facility	-	-	199.4	202.8
Current assets				
Trade and other receivables	150.1	150.1	161.8	161.8
Derivative financial instruments	10.1	10.1	4.0	4.0
Other current financial assets	3.8	3.8	12.3	12.3
Cash and cash equivalents	120.2	120.2	76.5	76.5
Current liabilities				
Trade and other payables (excluding tax and social security)	(253.2)	(253.2)	(254.5)	(254.5)
Financial liabilities (excluding contingent consideration)	(17.6)	(17.6)	(6.6)	(6.6)
Derivative financial instruments	(9.6)	(9.6)	(15.7)	(15.7)
Non-current liabilities				
Project financed bank facilities (NI)	(99.8)	(99.8)	(33.6)	(33.6)
Project financed bank facilities (RoI)	(93.8)	(93.8)	(38.6)	(38.6)
Derivative financial instruments	(11.4)	(11.4)	(11.2)	(11.2)
Subordinated shareholder loan	-	-	(386.8)	(387.5)
Level 3				
Non-current liabilities				
Financial liabilities (contingent consideration)	(13.9)	(13.9)	-	-
Other payables	(2.6)	(2.6)	-	-

The carrying value of cash, trade receivables, trade payables and other current assets and liabilities is equivalent to fair value due to the short term maturities of these items. Contingent consideration is estimated as the present value of future cash flows disclosed at the market rate of interest at the reporting date. Derivatives are measured at fair value. There have been no transfers between hierarchy.

The fair value of the Group's project financed bank facilities (RoI), project financed bank facilities (NI) and Senior revolving credit facility are determined by using discounted cash flows based on the Group's borrowing rate. The fair value of the Group's Senior secured notes are based on the quoted market price. The fair value of interest rate swaps, foreign exchange forward contracts, foreign exchange cross currency swaps and commodity contracts has been valued by calculating the present value of future cash flows, estimated using forward rates from third party market price quotations.

25. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

FAIR VALUES (continued)

The fair value of the Group's project financed bank facilities (RoI) and project financed bank facilities (NI) are a close approximation to their carrying value given that they bear interest at floating rates based on Libor/Euribor.

The subordinated shareholder loan at 31 March 2016 comprised a non-interest bearing loan from parent undertaking at a carrying value of £208.4m and an interest bearing loan from parent undertaking at a carrying value of £178.4m. The fair values of these loans at 31 March 2016 were estimated to be £209.7m and £177.8m, respectively. These fair values were estimated by discounting the cash flows arising under each loan at a rate based on the quoted market price of the parent undertaking's Junior bank facility A.

The fair value of the non-interest bearing asset due from the parent undertaking at 31 March 2016 was estimated by discounting the cash flows arising from the asset at a rate based on the quoted market price of the parent undertaking's Junior bank facility A.

The fair value of contingent consideration is considered by the Directors to fall within the level 3 fair value hierarchy and is measured using the present value of the pay-out associated with the accreditation for NIROCs and earnouts set out in the relevant purchase agreement. The carrying value of £13.9m is estimated to approximate to its fair value determined by using discounted cash flows based on the company's borrowing rate.

25. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

A summary of the Group's financial management objectives and policies is set out in the financial control section of the Risk Management and Principal Risks and Uncertainties report. The following table summarises the maturity profile of the Group's trade and other payables, financial liabilities and derivatives based on contractual undiscounted payments:

	Within one year £m	1 to 5 years £m	>5 years £m	Total £m	Carrying Value Total £m
Year ended 31 March 2017					
Trade and other payables (excluding tax and social security)	(253.2)	-	-	(253.2)	(253.2)
Financial liabilities	(58.2)	(673.0)	(194.1)	(925.3)	(735.3)
Derivatives at fair value through other comprehensive income	(7.3)	(8.4)	(3.2)	(18.9)	(18.6)
Derivative at fair value through profit and loss	(2.2)	(0.2)	-	(2.4)	(2.4)
	<u>(322.2)</u>	<u>(678.3)</u>	<u>(195.5)</u>	<u>(1,196.0)</u>	<u>(1,008.4)</u>
Year ended 31 March 2016					
Trade and other payables (excluding tax and social security)	(254.5)	-	-	(254.5)	(254.5)
Financial liabilities	(43.0)	(1,299.4)	(79.6)	(1,422.0)	(934.1)
Derivatives at fair value through other comprehensive income	(12.5)	(8.9)	(3.0)	(24.4)	(23.6)
Derivative at fair value through profit and loss	(2.9)	(0.4)	-	(3.3)	(3.3)
	<u>(312.9)</u>	<u>(1,308.7)</u>	<u>(82.6)</u>	<u>(1,704.2)</u>	<u>(1,215.5)</u>

The disclosed financial derivative instruments in the above table are the gross undiscounted cash flows. However, those amounts may be settled gross or net.

25. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

At 31 March 2017, the Group is exposed to future changes in the fair value of unsettled derivative financial instruments and certain other financial liabilities. The sensitivity analysis for the market risks showing the impact on profit before tax and equity is set out below. These sensitivities are based on an assessment of market rate movements during the year and each is considered to be a reasonably possible range.

	Sensitivity	Change	Impact on profit		Impact on equity	
			Increase £m	Decrease £m	Increase £m	Decrease £m
At 31 March 2017						
Foreign exchange forward contracts	Euro exchange rate	+/-10%	(18.6)	22.9	(6.9)	11.4
Gas swaps	price per therm	+/-10p	9.1	(9.1)	15.5	(15.5)
Interest rate swaps	Libor/ Euribor	+/- 0.25%	-	-	(4.8)	4.8
Project financed bank facilities	Libor/ Euribor	+/- 0.25%	0.2	(0.2)	0.2	(0.2)
Senior secured notes denominated in Euro	Euro exchange rate	+/-10%	46.7	(57.0)	46.7	(57.0)
At 31 March 2016						
Foreign exchange forward contracts	Euro exchange rate	+/-10%	(12.3)	15.0	(9.8)	13.5
Gas swaps	price per therm	+/-10p	3.6	(3.6)	(2.1)	2.1
Interest rate swaps	Libor/ Euribor	+/- 0.25%	-	-	3.7	(3.7)
Project financed bank facilities	Libor/ Euribor	+/- 0.25%	0.2	(0.2)	0.2	(0.2)
Senior secured notes denominated in Euro	Euro exchange rate	+/-10%	43.2	(52.9)	43.2	(52.9)

26. SHARE CAPITAL AND RESERVES

	Ordinary Shares Number	Ordinary shares £
Authorised share capital – ordinary shares of £1.00	50,000	50,000
At 31 March 2016 and 2017	50,000	50,000
	Ordinary Shares Number	Ordinary shares £
Allotted and fully paid		
Share capital issued – ordinary shares of £1.00		
At 1 April 2016	1,510	1,510
VGIL/VGHL merger	2,510	2,510
At 31 March 2017	4,020	4,020

Nature and purpose of reserves

Share capital and share premium

The balances classified as share capital and share premium represents the proceeds (both nominal value and share premium) on issue of the Company's equity share capital, comprising £1 ordinary shares.

Capital contribution reserve

This balance relates to capital contributed by the Company's parent undertaking other than through the proceeds of the issue of shares.

Hedge reserve

The hedge reserve is used to record the unrealised gains and losses incurred on derivatives designated as cash flow hedges.

Foreign currency reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries offset by exchange differences arising on monetary items that were, until 31 March 2015, designated as part of the hedge of the Group's net investment in foreign subsidiaries.

Reserves

Analysis by item recognised in other comprehensive income for each component of equity:

	Foreign currency reserve £m	Cash flow hedge reserve £m	Retained earnings £m	Total Equity £m
2017				
Actuarial loss on defined benefit pension schemes (net of tax)	-	-	(0.9)	(0.9)
Exchange loss on translation of foreign operations	(30.0)	-	-	(30.0)
Net gain on cash flow hedges (net of tax)	-	4.9	-	4.9
Other comprehensive expense for the year	(30.0)	4.9	(0.9)	(26.0)
2016				
Actuarial loss on defined benefit pension schemes (net of tax)	-	-	(1.2)	(1.2)
Exchange loss on translation of foreign operations	(34.2)	-	-	(34.2)
Net loss on cash flow hedges (net of tax)	-	(12.2)	-	(12.2)
Other comprehensive income/(expense) for the year	(34.2)	(12.2)	(1.2)	(47.6)

27. NOTES TO GROUP CASH FLOW STATEMENT

	2017	2016
	£m	£m
<i>Operating activities</i>		
Profit before tax from continuing operations	68.6	50.4
<i>Adjustments to reconcile profit before tax to net cash flows:</i>		
Depreciation and impairment of property, plant and equipment	18.7	17.2
Amortisation and impairment of intangible assets	3.9	3.8
Amortisation of contributions in respect of property, plant and equipment	(0.3)	(0.3)
Derivatives at fair value through income statement	(14.8)	(9.0)
Net finance costs	27.2	38.4
Defined benefit charge less contributions paid	(1.3)	(2.3)
Share of loss in associates	1.0	1.3
Exceptional finance costs	-	(0.4)
<i>Cash generated from operations before working capital movements</i>	<u>103.0</u>	<u>99.1</u>

Net cash flows from operating activities in 2017 include exceptional cash outflows of £2.4m in respect of the payment of acquisition costs.

28. ANALYSIS OF NET DEBT

	Cash and cash equivalents £m	Short term managed funds £m	Debt due within one year £m	Debt due after more than one year £m	Junior bank facility asset £m	Total £m
At 1 April 2015	72.5	1.4	(5.8)	(817.8)	162.6	(587.1)
Net decrease in cash and cash equivalents	0.2	-	-	-	-	0.2
Proceeds from issue of borrowings	-	-	-	(45.4)	-	(45.4)
Repayment of borrowings	-	-	2.9	19.3	-	22.2
Issue costs on new long term loans	-	-	0.4	7.3	-	7.7
Decrease/(increase) in interest accruals	-	-	0.9	(0.2)	-	0.7
Amortisation	-	-	(0.5)	(1.7)	-	(2.2)
Reclassifications	-	-	(2.6)	2.6	-	-
Capitalisation of interest on subordinated shareholder loan	-	-	-	(23.5)	-	(23.5)
Translation difference	3.8	-	-	(42.5)	6.4	(32.3)
Unwinding of discount on shareholder loan	-	-	-	(25.6)	-	(25.6)
Unwinding of discount on junior facility asset	-	-	-	-	30.4	30.4
At 31 March 2016	76.5	1.4	(4.7)	(927.5)	199.4	(654.9)
Net increase in cash and cash equivalents	38.8	-	-	-	-	38.8
Proceeds from issue of borrowings	-	-	-	(144.1)	-	(144.1)
Repayment of borrowings	-	-	11.9	-	-	11.9
Issue costs on new long term loans	-	-	-	1.8	-	1.8
(Increase)/decrease in interest accruals	-	-	(0.2)	1.2	-	1.0
Amortisation	-	-	(0.4)	(1.6)	-	(2.0)
Reclassifications	-	-	(23.7)	23.7	-	-
Capitalisation of interest on subordinated shareholder loan	-	-	-	(7.1)	-	(7.1)
Translation difference	4.9	-	(0.1)	(40.3)	4.5	(31.0)
Unwinding of discount on shareholder loan	-	-	-	(7.3)	-	(7.3)
Unwinding of discount on junior facility asset	-	-	-	-	8.5	8.5
Merger with VGHL	-	-	(0.4)	400.0	(212.4)	187.2
At 31 March 2017	120.2	1.4	(17.6)	(701.2)	-	(597.2)

29. LEASE OBLIGATIONS

Operating lease commitments — Group as lessee

The Group has entered into operating lease arrangements for the hire of equipment and buildings as these arrangements are a cost efficient way of obtaining the short term benefits of these assets. The Group has also entered into operating lease arrangements for land relating to the renewable asset portfolio. The Group rental charges in respect of these arrangements are disclosed in note 5. The Group's annual commitment under these leases is disclosed below:

Future minimum rentals payable under non-cancellable operating leases as at 31 March are, as follows:

	2017	2016
	£m	£m
Within one year	1.3	0.8
After one year but not more than five years	5.1	3.8
More than five years	21.2	14.7
	<u>27.6</u>	<u>19.3</u>

Availability payments to generators

The Group has also entered into generating contracts with generating companies in Northern Ireland to make payments for the availability of generating capacity as well as for the purchase of electricity generated. The contracts are with AES Ballylumford Limited.

Estimated availability payments to generators, which are dependent on the availability of the generators and are therefore variable in nature are as follows:

	2017	2016
	£m	£m
Within one year	25.4	25.3
After one year but not more than five years	107.3	38.4
	<u>132.7</u>	<u>63.7</u>

In September 2016, PPB exercised its option with AES Ballylumford to extend the term of the Generating Unit Agreements covering 600MW of CCGT capacity by five years to September 2023.

30. COMMITMENTS AND CONTINGENT LIABILITIES

(i) Capital commitments

At 31 March 2017 the Group had contracted future capital expenditure in respect of tangible fixed assets of £18.6m (2016 - £105.0m).

(ii) Contingent liabilities

Protected persons

The Group has contingent liabilities in respect of obligations under the Electricity (Protected Persons) Pensions Regulations (Northern Ireland) 1992 to protect the pension rights in respect of certain of its employees who were employees of NIE plc at privatisation. Those Group employees who remain protected by the regulations have their pension rights provided through the Group's occupational pension scheme.

Generating contracts

Under the terms of the PPB generating contracts, where modifications to generating equipment are necessary as a result of a change in law and a generator is unable to procure the necessary financing, PPB must either provide such finance or pay the costs incurred by the generator in carrying out such modifications. The costs incurred by PPB in meeting these obligations are recoverable under the applicable provisions of the Power NI Energy licence, but would require to be financed by PPB until such recovery is achieved. The Group does not anticipate any liability for modifications which require financing and no provision has been made.

Liability and damage claims

In the normal course of business the Group has contingent liabilities arising from claims made by third parties and employees. Provision for a liability is made (as disclosed in note 24) when the directors believe that it is probable that an outflow of funds will be required to settle the obligation where it arises from an event prior to the year end. The Group does not anticipate that any material liabilities will arise other than those recognised in the accounts.

31. DISTRIBUTIONS MADE AND PROPOSED

No dividends have been paid or proposed for the year ended 31 March 2017 (2016: £nil).

32. RELATED PARTY TRANSACTIONS

Note 16 above, provides the information about the Group's structure including the details of the subsidiaries and the holding company. The following table provides the total amount of transactions that have been entered into with related parties for the relevant financial year.

32. RELATED PARTY TRANSACTIONS (continued)

		Services to related parties £m	Purchase from related parties £m	Amounts owed to related parties £m
Associates:	2017	0.8	(10.8)	(2.0)
	2016	0.7	(11.7)	(2.0)
		Interest receivable £m	Amounts owed by related parties £m	
Loans to related parties:				
Associate: Eco Wind Power Limited	2017	0.8		13.0
	2016	0.7		11.3
Associate: IIF Cyclone NI Holdco Limited	2017	0.1		1.5
	2016	0.1		1.6

Transactions with associates

The Group has two associate undertakings, EWP and IIF Cyclone.

As part of the sale and purchase transactions relating to the associates in March 2012 and June 2012 the Group acquired loans owing by these associates. These loans remain outstanding at 31 March 2017 and are included as part of the Group's overall investment in associates as disclosed in note 14 to the accounts. The contractual amount of the loan including interest owed by EWP is £13.0m at 31 March 2017 (2016 - £11.3m), however the carrying value reflected in the Group's balance sheet reflects the Directors expectations regarding the level of recovery of this amount.

Transactions with key management personnel

Compensation of key management personnel of the Group

	2017 £m	2016 £m
Short term employee benefits	6.3	2.0
Post employment pension and medical benefits	0.2	0.2
Total compensation to key management personnel	6.5	2.2

The amounts disclosed in the table are the amounts recognised as an expense during the reporting period related to key management personnel.

33. MERGER

On 28 June 2016 VGIL merged with its immediate parent VGHL, with VGIL becoming the surviving entity. As a result of this merger the Group assumed VGHL's Junior bank facility B liability at its fair value of £225.5m, and in doing so fully extinguished this liability against the Junior bank facility asset held by the Group of £213.1m. In addition, this merger resulted in the full extinguishment of the shareholder loan of £399.6m owed by the Group to VGHL. The net gain of £186.5m arising from this merger has been recognised as part of the capital contribution reserve within equity.

A loss of £10.4m has been reclassified from the capital contribution reserve to retained earnings representing the original net loss recognised within the capital contribution reserve on initial recognition of the shareholder loan owed to VGHL and the Junior bank facility asset owed by VGHL at their fair values.

33. MERGER (continued)

As part of the merger VGIL assumed the share capital structure of VGHL, including the issue of shares at a premium. As a consequence £150.6m of the £186.5m gain referred to above has been reclassified from the capital contribution reserve to share premium.

The net impact of the merger is a £150.6m increase in share premium, a £46.3m increase in the capital contribution reserve and £10.4m reduction in retained earnings at 30 June 2016.

GLOSSARY OF TERMS

1992 Order	Electricity (Northern Ireland) Order 1992
1999 Act	Electricity Regulation Act 1999
2002 Act	Gas (Interim) (Regulation) Act 2002
2003 Order	Energy (Northern Ireland) Order 2003
2007 Act	Electricity Regulation (Amendment) (Single Electricity Market) Act 2007
Associate	25% interest in EWP and 20% in IIF Cyclone
Capita	Capita Managed IT Solutions Limited
CCGT	combined-cycle gas turbine
CCNI	Consumer Council Northern Ireland
CER	Commission for Energy Regulation
CfDs	contracts for differences
CGU	cash generating unit
Choices	money purchase pension arrangement for employees in the Rol
CMA	Competition and Markets Authority
CO	carbon monoxide
CO₂	carbon dioxide
Company	Viridian Group Investments Limited
CPI	Consumer Price Index in the Rol
CRM	capacity remuneration mechanism
CSR	Corporate Social Responsibility
DAM	Day Ahead Market
DCCAE	Department of Communications, Climate Action and Environment
DfE	Department for the Economy
EBITDA	earnings before interest, tax, depreciation and amortisation
EECs	Energy efficiency credits
EEO	Energy Efficiency Obligation
EEOS	Energy Efficiency Obligation Scheme
EIR	effective interest rate
EirGrid	EirGrid plc
Energia	Energia Group's competitive energy supply business
Energia Group	VPEHL and VPE
ESB	Electricity Supply Board
EU	European Union
EU Target Model	European Electricity Target Model
EWP	Eco Wind Power and its subsidiaries
Focus	defined benefit section of VGPS
GB	Great Britain
Group	Viridian Group Investments Limited and its subsidiary undertakings
GW	gigawatt
GWh	gigawatt hour
HLD	I-SEM High Level Design
HMRC	HM Revenue & Customs
Huntstown 1	Phase one of Huntstown Power Station - 343MW CCGT
Huntstown 2	Phase two of Huntstown Power Station - 404MW CCGT
IASB	International Accounting Standards Board
IAS	International Accounting Standard
ICT	information and communication technology
IDM	Intra-day electricity market
IFRS	International Financial Reporting Standards
IIF Cyclone	IIF Cyclone NI Holdco Limited (previously VRL) and its subsidiaries

I-SEM	New integrated SEM
ISO	International Organization for Standardization
IT	Information Technology
KPI	key performance indicator
LTIR	lost time incident rate
LECs	Levy exemption certificates
Minister	Minister for Communications, Climate Action and Environment
MW	megawatt
MWh	megawatt hour
NIE	Northern Ireland Electricity Limited
NIRO	Northern Ireland Renewable Obligation
NIROCs	Northern Ireland Renewable Obligation certificates
NISEP	Northern Ireland Sustainable Energy Programme
NO_x	oxides of nitrogen
OHSAS	Occupational Health and Safety Management Systems Specification
Options	money purchase section of VGPS
Power NI	Power NI Energy Supply
Power NI Energy	Power NI Energy Limited
PPA	power purchase agreement
PPB	Power Procurement business
PSO	public service obligation
RAs	Regulatory Authorities
REFIT	Renewable Energy Feed-In Tariff scheme
RMC	Risk Management Committee
RO	UK Renewable Obligation
ROCs	Renewable Obligation Certificates
RoI	Republic of Ireland
SEE	social, environmental and ethical
SEF	Strategic Energy Framework
SEM	Single Electricity Market
SEMO	Single Electricity Market Operator
SEM Order	Electricity (Single Wholesale Market) (Northern Ireland) Order 2007
SMP	system marginal price
SoLR	Supplier of Last Resort
SO₂	sulphur dioxide
SONI	SONI Limited
TSO	transmission system operator
TWh	terawatt hour
UK	United Kingdom
Utility Regulator	Northern Ireland Authority for Utility Regulation
VGHL	Viridian Group Holdings Limited
VGPS	Viridian Group Pension Scheme (2011)
VPE	Viridian Power & Energy Limited and its subsidiaries
VPEHL	Viridian Power & Energy Holdings Limited and its subsidiaries