P.2019/125

THE STATES OF DELIBERATION
of the
ISLAND OF GUERNSEY

STATES' TRADING SUPERVISORY BOARD

GUERNSEY ELECTRICITY LIMITED – ANNUAL REPORT AND ACCOUNTS

The States are asked to decide:-

Whether, after consideration of the policy letter entitled 'Guernsey Electricity Limited – Annual Report and Accounts' dated 24 October, 2019, they are of the opinion:-

1. To note the annual report and accounts of Guernsey Electricity Limited for the year ended 31st March 2019.

The above Proposition has been submitted to Her Majesty's Procureur for advice on any legal or constitutional implications in accordance with Rule 4(1) of the Rules of Procedure of the States of Deliberation and their Committees.

<u>THE STATES OF DELIBERATION</u>
<u>of the</u>
<u>ISLAND OF GUERNSEY</u>

STATES' TRADING SUPERVISORY BOARD

GUERNSEY ELECTRICITY LIMITED – ANNUAL REPORT AND ACCOUNTS

The Presiding Officer
States of Guernsey
Royal Court House
St Peter Port

24th October, 2019

Dear Sir

1 Executive Summary

1.1 The Annual Report and Accounts of Guernsey Electricity Limited (GEL) are hereby presented to the States.

2 Guernsey Electricity – Annual Report and Accounts

2.1 Under the terms of Section 8 of the States Trading Companies (Bailiwick of Guernsey) Ordinance, 2001, the States' Trading Supervisory Board (STSB) is required to submit GEL's Annual Report and Accounts to the States for their consideration.

2.2 GEL's Annual Report and Accounts for the year ended 31st March, 2019, are therefore appended to the policy letter.

2.3 The Annual Report notes that as part of GEL's ongoing management of the funding risks associated with its membership of the States of Guernsey pension scheme, the Company decided to close its CARE scheme to new members in 2017. The Report goes on to explain that, as a continuance of the strategy to mitigate the future financial risks of funding the scheme and with the support of the STSB, the Policy & Resources Committee (P&RC) agreed the Company's request to transfer the pension liabilities of all retired and deferred members as at 30 June 2018 from its actuarial account to the Combined Pool (both within the Superannuation Fund). The accompanying transfer value was calculated based on actuarial assumptions determined by the P&RC. The effect of this transfer has been to significantly reduce the risks of future pension provision and to generate a settlement gain of £18.2m. It should be noted that this follows similar arrangements put in place for the Guernsey Financial Services Commission and Guernsey Post Limited.

2.4 The Annual Report goes on to note that the Company made an operating loss of £7,751,000 for the financial year ended 31st March, 2019. However, following an adjustment for the pension settlement gains, the Company recorded an operating profit of £10,443,000.

3 Compliance with Rule 4

3.1 Rule 4 of the Rules of Procedure of the States of Deliberation and their Committees sets out the information which must be included in, or appended to, motions laid before the States.

3.2 In accordance with Rule 4(1), the Propositions have been submitted to Her Majesty's Procureur for advice on any legal or constitutional implications. She has advised that there is no reason in law why the Propositions should not to be put into effect.

3.3 In accordance with Rule 4(4) of the Rules of Procedure of the States of Deliberation and their Committees, it is confirmed that the propositions above have the unanimous support of the Board.

3.4 In accordance with Rule 4(5), the Propositions relate to the duties of the STSB to carry out the States' role as shareholder of any incorporated companies which are owned by the States and which the States have resolved to include in the mandate of the Board.

Yours faithfully

P T R Ferbrache
President

J C S F Smithies
Vice-President

J Kuttelwascher
Member

S J Falla MBE
Non-States Member

J C Hollis
Non-States Member

Guernsey Electricity

Powering towards a smarter future

Report and financial statements 2018/19

Directors, officers and professional advisers

Directors:	IA Hardman	*(Non-Executive Chairman)*
	AM Bates	*(Chief Executive Officer)*
	JPC Turner	*(Chief Financial Officer and Deputy Chief Executive Officer)*
	S-A David	*(Chief Operating Officer)*
	RP Lawrence	*(Non-Executive)*
	RJ Dutnall	*(Non-Executive)*
	CM Holmes	*(Non-Executive) retired by rotation on 23 October 2018*
	GM Browning	*(Non-Executive) appointed on 26 September 2018*
	P Shaefer	*(Non-Executive) appointed on 26 September 2018*
	RL Denton	*(Non-Executive) appointed on 26 September 2018*
Secretary:	SB Pattimore	*Retired on 25 September 2018*
	SL Walden	*Appointed on 25 September 2018*

Bankers:
Barclays Bank Plc
PO Box 41
Le Marchant House
St Peter Port
Guernsey, GY1 3BE

Royal Bank of Scotland International
Royal Bank Place
1 Glategny Esplanade
St Peter Port
Guernsey, GY1 4BQ

HSBC Bank Plc
Arnold House
St Julian's Avenue
St Peter Port
Guernsey, GY1 3NF

Legal advisers:
Mourant Ozannes
Royal Chambers
St Julian's Avenue
St Peter Port
Guernsey, GY1 4HP

Independent auditor:
Ernst & Young LLP
Royal Chambers
St Julian's Avenue
St Peter Port
Guernsey, GY1 4AF

Registered office:
PO Box 4
Electricity House
North Side
Vale
Guernsey, GY1 3AD

Company number: 38692

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Board members

Ian Hardman
Non-Executive Chairman

Ian became a Non-Executive Director of Guernsey Electricity Limited in 2011. He has a background in banking and, having joined Lloyds Bank in 1973, worked his way up to the position of Senior Islands Manager, responsible for the four retail branches in Guernsey and Alderney. He worked on the offshore merger of Lloyds Bank and TSB Bank Channel Islands in 1996 and was involved with the legal aspects of the takeover of HBOS by LTSB. Ian is an Associate of the Chartered Institute of Bankers and the Institute of Chartered Secretaries and Administrators.

Bob Lawrence
Non-Executive Director

Bob is the former Chief Executive Officer of Jersey Telecom Limited and led it from a state-controlled entity into a private limited company that operates in a highly competitive market. He has extensive engineering knowledge as well as the experience of operating and managing within a regulated market similar to the Channel Islands and became a Non-Executive Director of Guernsey Electricity Limited in 2011.

Bob Dutnall
Non-Executive Director

Bob is a qualified Chartered Accountant with substantial business and commercial experience. His senior management career has involved working for a number of different organisations, particularly in the engineering sector. In 2005 he joined Sportingbet Plc, a FTSE 250 internet gaming company, before moving in 2012 to take on a new part-time role as an Executive Director of betway.com, a privately-owned internet gaming group. Bob became a Non-Executive Director of Guernsey Electricity Limited in 2013.

Rick Denton – *appointed on 26 September 2018*
Non-Executive Director

Rick has 30 years' experience of leading UK and international subsidiaries of four major banking groups. Subsequently he became CEO of a specialist family office business, managing property developments and acquiring companies. Rick now leads his own consultancy and has a range of international Non-Executive Director positions. Locally he chairs the Guernsey Banking Deposit Compensation Scheme. He is a National Council Member for the Institute of Directors, representing the international branches. Rick holds an MBA with distinction from Warwick University; is an Associate of the Chartered Institute of Bankers; a Chartered Member of the Institute of Securities and Investments and a Member of the Society of Trust and Estate Practitioners. He has also recently achieved the Henley Certificate in Executive Coaching and the Institute of Directors' Diploma in Company Direction.

Peter Shaefer – *appointed on 26 September 2018*
Non-Executive Director

Peter has an honours degree in Geology and is Chartered Accountant. He has substantial business and commercial experience, having held a number of senior positions in both energy and consumer products industries, including being a member of the Executive Committee of the US listed company Coty Inc. He currently holds a number of both Executive and Non-Executive Director positions, joining Guernsey Electricity Limited as a Non-Executive Director in 2018.

Gillian Browning – *appointed on 26 September 2018*
Non-Executive Director

Gillian was appointed as Non-Executive Director of Guernsey Electricity Limited in 2018, after participating on the NED Development Programme with the company since 2016. Gillian is also Director of the Investment, Fiduciary and Pension Division at the Guernsey Financial Services Commission (GFSC), a role that includes leading policy development, supervisory oversight, risk management and good corporate governance. Gillian joined the GFSC from the UK Financial Conduct Authority (FCA), and prior to that the Cabinet Office where she was a Minister's Private Secretary and Policy Officer. Gillian graduated from Exeter University where she read History and Politics.

Christine Holmes – *retired by rotation on 23 October 2018*
Non-Executive Director

Christine has a post-graduate diploma in Marketing and has had an extensive career at a senior level in marketing and public relations. She has held a number of marketing posts at management level within the construction industry and in 1997 was appointed as Corporate Marketing Manager for Jersey Electricity Plc. Following a period as Group Head of Marketing for the Dandara property group, Christine now operates her own marketing and public relations company, Profile Project Management Limited. She became a Non-Executive Director of Guernsey Electricity Limited in 2013.

Alan Bates
Chief Executive Officer

Alan became Managing Director (2010) then Chief Executive Officer (2015) having joined from Manx Gas, where he was Managing Director. He commenced his career with P&O Cruises as an Engineering Officer followed by 19 years in the oil and gas industry working for Mobil Oil/BP Oil and IEG. He has a degree in Electro Mechanical Power Engineering and an MBA in Executive Leadership. Alan is a Chartered Electrical Engineer (MIET), a Chartered Mechanical Engineer (FIMechE), has qualifications in risk and safety management (IIRSM) and is also a member of the Institute of Asset Managers. Alan is also a Director of CIEG.

Julian Turner
Chief Financial Officer and Deputy Chief Executive Officer

Julian joined Guernsey Electricity Limited as Chief Financial Officer in 2015. A Deloitte qualified Chartered Accountant with substantial commercial, compliance and process transformation experience, he has held a number of varied finance roles with regional responsibility including EMEA in large multinationals such as Procter & Gamble, Flowserve and GE. Julian has an MBA from Alliance Manchester Business School and is a designated CIA. He is also a Director of CIEG.

Sally-Ann David
Chief Operating Officer

Sally-Ann was appointed to the Board in 2011. She is a Chartered Electrical Engineer with over 30 years' experience in the power and submarine cable market. Sally-Ann is a fellow of the Institute of Electrical Engineers, has an MBA, and is a Chartered Director. She is also a Director of CIEG.

Chairman's statement

Guernsey needs to continue to have reliable and affordable energy supplies, but more than ever needs to consider the environmental impact and the future sustainability of fossil fuels on the island.

For Guernsey Electricity Limited ("Guernsey Electricity", "GEL", or the "company") this requires a clear focus on reducing reliance on our island-based electricity generation. For the wider energy market, this needs to extend to the use of fossil fuels in households, businesses or in vehicles with an absolute focus of reducing our emissions significantly.

The energy system of the future will not look like it does today. The scale of change over the next 10 to 20 years will be considerable and, whilst we don't know exactly what this change will look like, we do know some of the key change drivers that will be important.

One thing seems certain: consumers will play a key role in driving change as their energy needs for warmth, light, power and, increasingly, transport, change. The energy businesses of the future will provide those services in a clean, affordable, efficient and environmentally conscious manner, by taking advantage of new energy technology and digital enablers.

Energy Policy remains critical to ensure the energy transition journey for Guernsey is strategically managed such that the outcome is in the best interests of energy consumers and the island.

What is Guernsey Electricity doing to offset and reduce greenhouse gas emissions?

- **Increasing the capacity and security of our low carbon imported electricity supplies**
  We continue to explore reinforcing our subsea cable electricity infrastructure by moving forward with a cable direct from France to Guernsey – this will support the imperative of providing the island with a reliable, sustainable and affordable electricity supply. Our imported electricity from France is produced from sustainable low carbon nuclear power and renewable hydroelectricity.
- **Supporting electric transport which will undoubtedly be recognised as a key enabler to a low carbon future on the island**
  Within the next 10 years we will see the electric transport market transformed. The opportunity of a fully electrified transport market in Guernsey would equate to around 20% of current electricity demand. Guernsey should be at the forefront of this technology – after all we are only a small island and electric vehicles can already travel in excess of 200 miles on a single charge. Battery technology is ever improving with 'fast charging' facilities becoming more widely available.
- **Promoting the decarbonisation of domestic and commercial heating**
  With one third of Guernsey's current energy demand being heating using fossil fuels, the decarbonisation of heat must become a major focus. The installation of electric central heating, especially when combined with renewable generation and storage, is positive for the environment and reduces local carbon emission.
- **Promotion of local renewable generation using solar energy**
  Technology is moving forward every day and as the Channel Islands are amongst the sunniest places in the UK we should have more community-based solar panel (PV) systems. Having larger solar farms rather than individuals purchasing their own panels spreads the benefits and makes it fair for all islanders. Not everyone can afford to purchase PV systems and there are households without their own roof (flats/ apartments) or which have a roof that faces the wrong way, or the property is listed and there are a significant number of rental properties on the island. We believe we should explore all opportunities to create these community-scale systems to benefit all islanders.
- **Renewable energy sources should be introduced and used in conjunction with the electricity supplied through our cable connections to France**
  Key to local renewable generation will be the battery storage capability and this technology is moving forward quickly. Guernsey Electricity continues to explore and monitor storage technology and believes an opportunity for the island to have its first grid-scale installation will be available in the future.

The cable links to France are essential for security of electricity supply but we can and should develop local renewable generation to provide further security and independence for Guernsey.

GEL continues to expect renewable self-generation and storage to be adopted more as technology develops and we need to facilitate this in a fair way. This will result in customers using less electricity from the grid, however GEL will still need to invest and maintain the same level of capacity in the grid. This is because even though customers will be using less electricity, GEL will still need to maintain the grid as a back-up supply for customers, if required, for when their own generation or storage is not available. However, a large proportion of the company's costs will remain fixed and will not be affected by the reduction in the amount of electricity used. Our current tariff structure will not allow these costs to be recovered in the future in a fair way and therefore tariffs need to change.

In summary, the cable links to France are essential for security of electricity supply but we can and should develop local renewable generation to provide further security and independence for Guernsey. Fossil fuels will be gradually phased out with electric vehicles coming to the fore – the future is electric!

The Board of Guernsey Electricity – Leading Guernsey Electricity is a positive and rewarding experience with great responsibilities and expectations placed on the directors. Ensuring proper governance at Board level ensures excellent customer experience and enhances the value of Guernsey Electricity to the island. For the Board, evaluating and controlling risk is an essential part of that activity. It is well understood by the Board that, in order to fund the business, without significantly increasing prices to consumers, a level of risk needs to be accepted. For us to provide 100% supply reliability would require significant investment into assets that would rarely be used and result in expensive, unaffordable tariffs. The role of the Board is therefore to decide where that level of risk lies and then to ensure it is effectively managed.

The directors of Guernsey Electricity have an increasingly difficult task in that they have to manage complex issues with uncertain outcomes, including major capital expenditure around 'security of supply' – the cable to France, overlay of the existing cable to Jersey, Brexit, exchange rates, regulation and stronger competition in the energy market.

Guernsey Electricity has experienced and competent Non-Executive Directors and expects them to complete their role in an effective manner, putting the best interest of our customers and the island at the forefront of all Board decisions they take. I would like to take this opportunity to thank Christine Holmes, who stepped down as a Non-Executive this year, and welcome three new Non-Execs to the Board, these being Gillian Browning, Peter Shaefer and Rick Denton. Christine added valued contribution to the Board, having extensive experience in marketing and PR, and our new Non-Execs come with a wealth of relevant experience which will add significant future value to the Board.

Finally, I would like to thank all my fellow directors, Company Secretary and colleagues in Guernsey Electricity for their hard work and contribution to the success of the company. I would also like to thank the political and non-political members of the States Trading Supervisory Board ("STSB") – our shareholder – for their support and advice throughout the year.

Ian Hardman
Chairman

Chief Executive Officer's report

CEO Review of the year

Almost all businesses in their annual report mention the challenges they have faced in the year, with some reflecting on the impact these challenges have had on the performance of the organisation. Guernsey Electricity has likewise over the years had events which have challenged the operational and financial performance of the business and created uncertainty for the strategic outlook of the electricity sector.

However, the events of 2018 have resulted in an almost unprecedented scenario.

Whether it was the immediate operational and financial impact of the third failure of the subsea cable GJ1, this occurring with no warning of failure from the cable monitoring systems, the subsequent strategic realisation that this critical asset now needed to be replaced immediately, or the inability of the business to manage revenue to recover costs due to the continuing regulatory uncertainty, the outcome of these events has resulted in substantial volatility and uncertainty for the business which have been extremely damaging financially and environmentally. The resultant short-term impact on Guernsey Electricity's performance is at a level with no parallel in its 118-year history.

That said, the reliability and affordability of today's electricity supply is not set by Boardroom decisions today, but by those made a quarter of a century ago. This is the nature of investment strategy decision making in a long-term asset intensive business. The business today, however, should be judged on its response to these challenges and its commitment to planning for the island's future energy needs, in the long-term best interests of its customers.

We are proud of the successful repair of GJ1, which was completed within two months of the failure. This demonstrates the experience and knowledge of our employees. It was more than disappointing to then discover further inherent design and manufacturing issues which significantly reduced the import capacity of the cable. The need to replace the cable rather than continuing to repair became evident following further testing and investigation by Guernsey Electricity and the cable manufacturer.

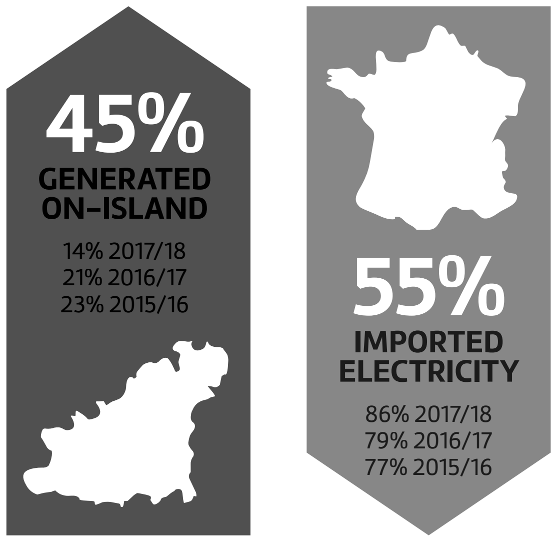
Once again, the team responded at an incredible pace with a revised tactical and strategic plan. The tactical plan developed an operational approach to importation that maintained stability on the importation of electricity from France to balance risks between financial cost, security of supply and environmental impact. With the cable operating at 25% capacity, GEL has still imported over 55% of the island's electricity demand. The dedication and loyalty of all the teams to achieve this should be recognised. Strategically, the planned replacement of GJ1 was brought forward from 2030 and an opportunity was taken to secure the installation of a replacement cable in late 2019. This involved completing all the procurement and contractual activities in an extremely short period.

The Board's decision to replace was based on the continued risk of supply failure and the impact this would have on customer reliability and affordability. There is a significant opportunity to reduce operational cost by early replacement. Without a reliable cable connection to France, security of electricity supply to the island would continue to be adversely affected and the additional cost of generating on-island would be between £11m and £17m a year, with an associated 216,000 tonnes of carbon dioxide produced. If these additional costs had to be passed on to customers, it would have resulted in over a 20% increase in tariffs. Even if the cable was repaired again, at a cost of between £5m to £8m, there was no certainty that it would provide a reliable supply. The Board's view was that this was a totally unacceptable operational and financial position, and the alternative approach of replacing the cable, which provided certainty about security and price of electricity, was the only appropriate way forward. On this basis, discussions commenced with the original cable manufacturer to obtain an appropriate commercial settlement for the ongoing reliability issues. The replacement cable will be funded by long-term debt, using both commercial loan facilities as well as the States of Guernsey Bond. By financing the replacement in this way, the impact on today's consumers in terms of operational and capital costs is optimised.

With the replacement cable in operation, much needed maintenance and replacement of assets at the power station can go ahead. The role of these on-island generation assets continues to be assessed to align with both energy policy and the strategic intention to install a second subsea cable to the island. However, until these investment decisions can be made to align with energy policy in terms of security of supply, the power station will continue to provide the necessary back-up service to the island in the event of imported supply disruptions, as it has for the last six months.

The recent failure of GJ1 does again reinforce the importance of securing a diverse and sustainable supply of electricity for the island and reducing further our reliance on fossil fuels. Clear and concise energy policy direction from the States is now crucial and will be pivotal in defining the diversity and security of the island's future energy supply, including local renewable generation and storage.

Import vs on-island generation 2018/19



Strategic outlook

Whilst the financial, operational and environmental results are far from our target levels this year, the strategic direction set will resolve the issues and return the overall operational and financial performance back to previous levels and build a solid foundation upon which to develop the future island aspirations for energy supply and security.

The contract to replace the subsea cable GJ1, and to continue securing a second cable connection, comes as the majority of other European traditional utility companies are having to make significant investment decisions of their own as they find themselves in a battle for survival in a rapidly changing energy market. Multiple threats to the previous industry business models are starting to test every part of the chain in which today's energy utilities operate – from electricity generation, to transmission and distribution networks and supply to customers. With this as a backdrop, Guernsey Electricity must steer a course that is affordable and sustainable in the future for a very small island and customer base. The search for value in this future, whilst mitigating the cost of stranded assets, will feature in many government deliberations on energy policy directions and interventions, with the outcome ultimately directing all the local energy companies.

The aspiration of energy policies in other jurisdictions to decarbonise the energy sector is creating a resultant pressure to drive the uptake of micro-renewable technologies on the island. This technology expectation must be strategically managed in an appropriate way to prevent the unintended consequence of increasing customers' bills, and the potential flooding of the market with more expensive electricity when the wind or sunshine is plentiful.

Chief Executive Officer's report – *continued*

Strategic outlook – *continued*

However, there will be an optimum time when macro-renewable generation will work for Guernsey, and benefit all in our society. This larger scale decentralised generation, as a community-based approach, will move Guernsey from being reliant on the centralised power station model at the Vale, to a future where more generation from renewables and storage will bypass parts of the distribution network and be closer to where it is used. This will create new challenges for Guernsey Electricity as we will increasingly need to deal with two-way flows of electricity back into the grid, making the control of the system far more complex. This issue is expected to get more complex as more drivers buy electric vehicles and use their batteries as a way of storing electricity and then discharging it when demand is high. A future of "peer to peer" trading – where homeowners could trade electricity directly with their neighbours or family using their own renewable generation or storage is already being trialled in other jurisdictions.

At the same time there is a social expectation to maintain, or even lower, energy prices to consumers. These technology and market factors are making traditional utilities think again about their future business models and which parts of the vertically integrated model they should operate in. This will result in the island's utilities branching out into new technologies and services. Many now believe the future is in the service model, whether that's fixing electric boilers or supplying app-controlled smart appliances. Such future services could also include helping customers install their own generation and storage, and then managing those assets for them. In this future world energy supply is only one of the services to provide, and whilst the supply is a very important proposition, it will not be enough on its own and customers will want many other things to be provided with it. For Guernsey Electricity, energy policy needs to direct, and where necessary, control the elements of this future that cannot be market or technology led on a small island. This is to prevent the market introducing additional stranded cost that the island can ill afford.

Added to these changes is the potential emergence, through energy policy, of further competition in the generation and supply of electricity. This will further disrupt the Guernsey market and may create additional cost through unneeded economic leakage from the island. This should remain a concern where the future energy journey is already bordering on being unaffordable for a small jurisdiction.

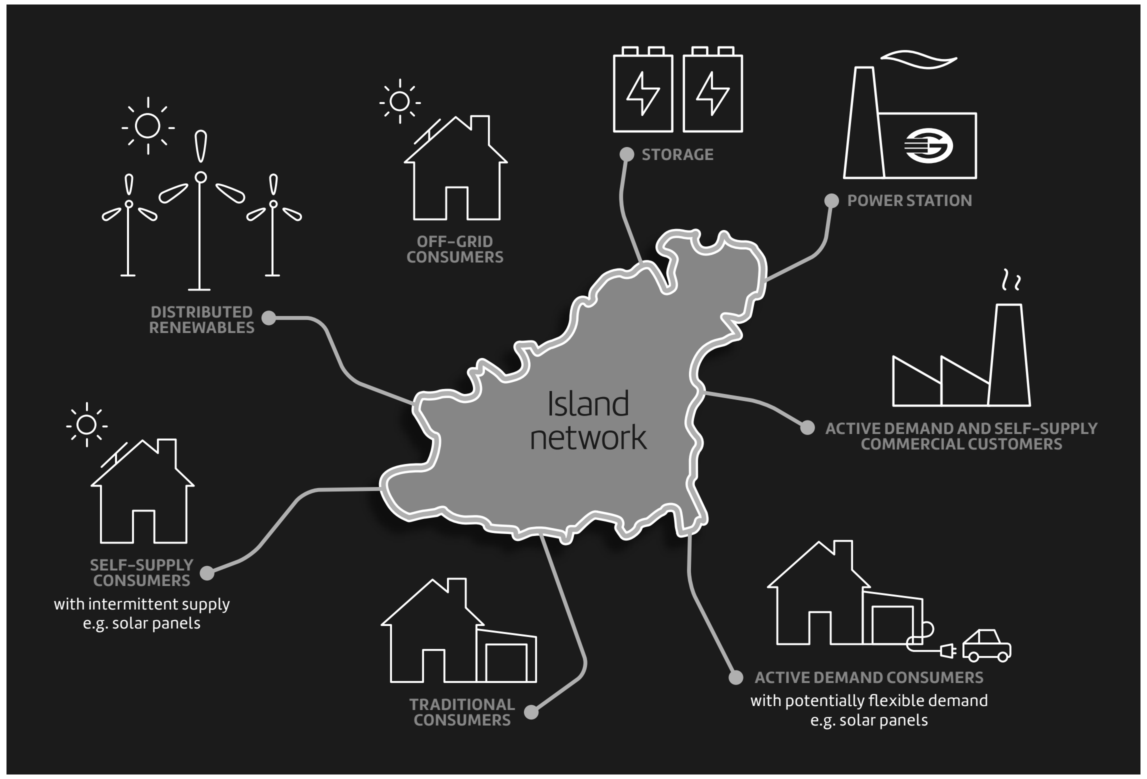
Guernsey Electricity supports competition in our small market where the value to customers in terms of price and service is improved, but not where the cost to provide such improvements far outweighs the value achieved for consumers of energy.

What is clear is that the energy market vision to be provided by the new energy policy needs to work for all customers. This means the structure of the energy markets needs to allow for those who want to engage with the opportunity to benefit from new and innovative technology, while ensuring customers who do not want to engage, or who cannot engage, are not left behind and disadvantaged. To achieve this balance, the way in which the future energy market is regulated should be reviewed to ensure that innovative services and products that customers may want, do not face unnecessary barriers to entry, whilst maintaining natural monopolies as financially sustainable entities. Any partial liberalisation of the market must not increase total cost by over investment in core infrastructure assets – we only need one grid and one power station for security.

At the same time, it is likely that customers in financially vulnerable circumstances will continue to need support to ensure they remain protected. To facilitate this fairness and equity in the future market Guernsey Electricity has carried out engagement and consultation on how future electricity tariffs should be structured to ensure costs are reflected and fairly recovered from homes and businesses. Any change in the way we charge for electricity should also provide complete transparency on the actual costs of electricity generation to put into context the remaining cost to provide the network and security of supply service to the island. Two key messages have already been drawn from consumer feedback to the consultation. These relate to the protection of more financially vulnerable customers and whether the island's energy policy will align with other larger jurisdictions and facilitate the adoption of new technology through electricity tariff structures, or through other tax incentives. Guernsey Electricity will work with the relevant government bodies to ensure social and energy policy are aligned to any changes in the structure of future tariffs.

Guernsey Electricity understands and accepts that each part of our traditional energy market is continuing to experience rapid change and as a business it needs to remain adaptable and agile to continue to provide a secure, sustainable and reliable electricity service to the island. Further engagement and policy development needs to look to the energy system in a decade's time and how as an island community we can create a low carbon energy system that customers see as fair to all and which delivers excellent service, choice and value for money to homes and businesses.

Guernsey Electricity supports competition in our small market where the value to customers in terms of price and service is improved, but not where the cost to provide such improvements far outweighs the value achieved for consumers of energy.



Chief Executive Officer’s report *– continued*

Regulation

Guernsey Electricity has for many years openly stated that in our opinion independent price regulation of the electricity sector added little value and imposed an additional unacceptable cost and time burden on a company 100% owned by the States of Guernsey. The Board has also conveyed its continued concerns at the length of time the process to be removed from regulation is taking following the States of Guernsey resolutions in 2016 to remove Guernsey Electricity and Guernsey Post from sector specific regulation. In the intervening time between the last price control in 2011, Guernsey Electricity has not operated unchecked and an appropriate level of supervision and oversight has been achieved at an affordable cost for the island by the Shareholder. However, the ensuing regulatory vacuum has unfortunately resulted in an inability to recover costs at the times they are incurred. With no regulatory environment to direct electricity price control any managed evolution of tariffs is not possible, and an environment of historic cost pass-through will continue to have the unintended consequence of shocking the market for short periods. Guernsey Electricity continues to support a smoother tariff evolution model which facilitates customers making behavioural and appliance changes to manage any cost increases.

As raised in the 2018 annual report the world of energy is changing more quickly and more fundamentally than at any point since the Industrial Revolution. Given the critical importance of the energy sector to our functioning society, and the need to ensure we deliver the best outcomes for Guernsey during the energy transition, there may need to be elements of the future energy market that remain natural monopolies and will require a form of regulatory oversight. On this basis Guernsey Electricity supports the intention to align future regulation to the requirements of energy policy direction, however now considers it critical that an interim basis for price control is agreed as soon as possible to allow investment planning to continue and an understandable tariff evolution to be presented to customers.

Business performance

Despite the significant cost for the additional generation on-island after the failure of GJ1, I can report that the financial performance of the business is an Operating loss before pension settlement gains of £7.8m (2018: Operating profit of £1.2m). The financial details are covered further in Financial Performance. However, as raised last year this financial performance and level of profitability continues to be significantly below the level required to continue to fund necessary investments in the island’s electricity infrastructure. This remains a significant issue as we plan for future capital investments. This financial year we have reinvested £11.4m of cash back into our business activities, whilst maintaining tariff levels unchanged for the seventh year.

One of the key non-financial business performance metrics for Guernsey Electricity that has been significantly affected by the subsea cable issues is the level of importation of electricity from France and the associated carbon intensity of the business. The level of import had been increasing due to further investment in the Channel Islands Electricity Grid (“CIEG”) with importation being the preferred source based on both economic and environmental factors. The importation levels for the previous four years have been 86% (2018) 79% (2017), 77% (2016) and 58% (2015) of our total supply to the island. This clearly showed that with the cable in reliable service we were continuing to improve since the subsea cable failures in 2012. Our strategic plan is for imports to meet or exceed 85% of our supply and is facilitated in terms of capacity through our investments in the CIEG. Importation is now only limited by the capacity of the Guernsey to Jersey based assets with a calculated maximum import level of over 90% of the island’s electricity annual demand possible if required.

Guernsey Electricity has not operated unchecked and an appropriate level of supervision and oversight has been achieved at an affordable cost for the island by the Shareholder.

Unfortunately, Guernsey Electricity has achieved for this financial year an importation level of only 55% of total island demand due to ongoing reliability issues with the importation infrastructure. This has resulted in a carbon intensity of 347g$CO_{2equiv.}$/kWh (2018: 118g$CO_{2equiv.}$/kWh) to our customers. It is worth noting that without the cable issues in October 2018 our forecasted position was 91% imported electricity and a carbon intensity of 72g$CO_{2equiv.}$/kWh.

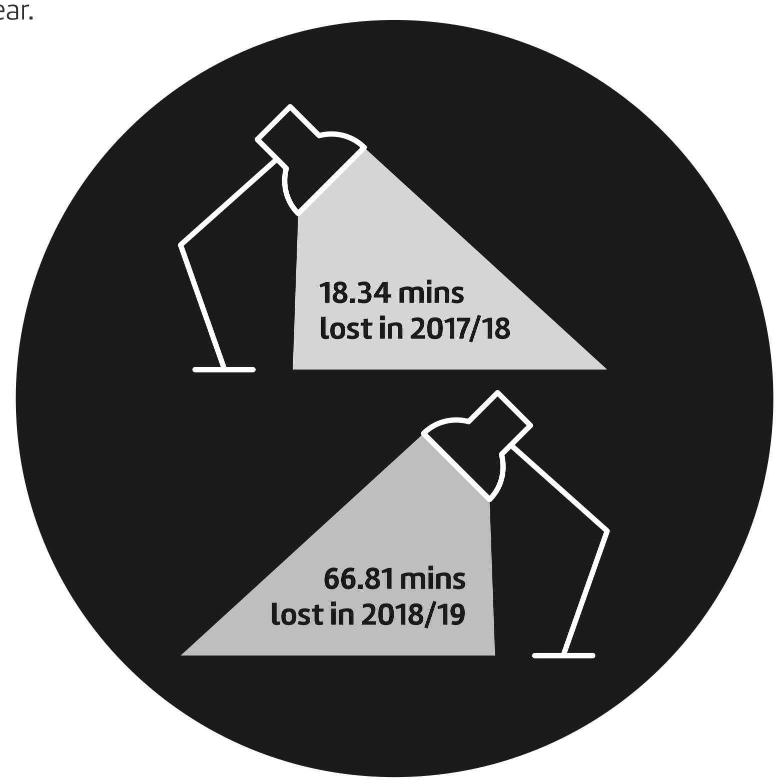
This financial year we have reinvested £11.4m of cash back into our business activities, whilst maintaining tariff levels unchanged for the seventh year.

Over the year we have seen a 2.2% decrease in electricity usage by our customers which has led to a decrease in electricity sales of £1.6m compared to last year. We believe that adjusting for the weather, underlying demand is continuing the downward trajectory of previous years, which is reflecting energy efficiency improvements in our customer base.

In terms of our service to our customers, I unfortunately have to report a significant deterioration in reliability with customers, both domestic and commercial, experiencing 66.81 minutes loss of supply on average compared to 18.34 minutes lost during the previous financial year. The high level of average minutes lost was associated with the single incident on 1 October 2018 when the subsea cable failed leaving Guernsey disconnected from the CIEG and having to rely on on-island generation for eight weeks. Without this single event the figure for the year would have been 35.13 minutes which aligns to the previous trend in reliability improvement.

Pensions

The company is part of the States of Guernsey Pension Scheme and we are continually assessing the funding risks that come with membership. To this end we closed our Career Average Revalued Earnings (“CARE”) to new members in 2017. As a continuance of this risk mitigation strategy the company has transferred the pension liabilities of all retired and deferred members as at 30 June 2018 to the States of Guernsey Combined Pool. The effect of this transfer has been to significantly reduce the risks of pension provision and to generate a settlement gain of £18.2m.



Chief Executive Officer's report - *continued*

Financial performance

The reported Operating loss before pension settlement gains was £7.8m (2018: Operating profit £1.2m). This loss is after GJ1 failure costs of £6.5m and cable link impairment costs of £3.4m following the Board decision to replace the GJ1 interconnector. We have seen a continuance of the foreign exchange pressures on the business directly impacting our euro imports meaning that underlying operating profit remains under significant pressure and, in the absence of tariff increases, is at a level which is below what is needed to support business. Aside from the ongoing cost pressures faced by the business, a cable failure in October 2018 and the consequential restricted ability to import electricity has by far been the largest impact on financial performance. The additional generation on-island has cost £6.5m. Weakening of the £:€ exchange rate continues to increase the cost of importation year on year. We continue to manage the risk arising from this exposure through our foreign exchange hedging programme. Whilst this hedging provides some protection against exchange rate volatility, it does not eliminate it completely. Despite both the cable failure and the foreign exchange headwinds, the normalised underlying business performance is very creditable and is reflective of the continued strong execution of business transformation initiatives and the taking of bold decisions for the long-term benefit of the company.

In terms of financial performance, the returns from the business are considered on a three-year rolling average basis. This allows the Board to assess the underlying financial dynamics created by weather and the wholesale markets and the required changes that may be required to tariff levels.

The Board is, however, mindful of the continuing cost pressures on the business, particularly accentuated by the impact of Brexit on our foreign exchange costs. The Guernsey Competition and Regulatory Authority ("GCRA") has approved an historic cost recovery of 6.8%, effective from 1 July 2019 and applied for three years, to cover increased foreign exchange and commodity costs. This rise will enable Guernsey Electricity to recover the last two years' uncontrollable costs created by increases in external costs to import electricity and generate on-island.

The increase is associated with historic changes in the price of commodities and foreign exchange rates and does not recover other costs which have increased, or the need to maintain or replace assets. This will be the first change in electricity tariffs since 2012.

However, as noted before, we consider that agreement and implementation of a forward-looking agreed tariff model is now pressing, particularly in light of significant future capital spend, including GJ1 replacement, which will need to be properly funded and recovered.

The Board is mindful of the continuing cost pressures on the business, particularly accentuated by the impact of Brexit on our foreign exchange costs.

The company continues to benefit from a strong statement of financial position with our non-current asset base of £133.9m, the largest changes being the completion of our investment in our GJ1 replacement cable and our ERP replacement business system. The net cash inflow for the year is largely attributable to a further net drawdown on the medium-term credit facility of £8.0m. Cash inflow from operating activities showed a decline compared to the prior year due to the adverse trading conditions particularly surrounding the £:€ exchange rate. At the year-end, we had net debt of £13.6m compared to £7.2m last year. This comprised £22.0m loans and closing cash balances of £8.4m; these amounts include balances held with the States of Guernsey of £7.3m (2018: £6.1m).

The Shareholder's funds have increased by £16.3m, from £91.8m to £108.1m. This was primarily the result of the actuarial gain in the pension scheme, net of the movement in deferred tax relating to the pension deficit of £8.9m together with pension settlement gains of £18.2m.

5 year performance summary

	2019 Actual £m	2018 Actual £m	2017 Actual £m	2016 Actual £m	As Restated* 2015 Actual £m
Income					
Sales of electricity	50	52	50	52	52
Other sales income	5	4	4	4	4
Total for income	**55**	**56**	**54**	**56**	**56**
Expenses	63	55	50	52	58
Operating profit/(loss) before net unrealised gains/(losses) on derivatives at fair value	(8)	1	4	4	(2)
Pension settlement gains	18	–	–	–	–
Unrealised net gains/(losses) on derivatives at fair value	–	–	–	1	–
Finance income/(cost)	(1)	(1)	–	(1)	(1)
Profit/(loss) pre tax	9	–	4	4	(3)
Earnings before interest, tax, depreciation and amortisation	3	9	12	12	4
Net (debt)/cash	(14)	(7)	(8)	4	(3)
Capex (cashflow value)	12	9	20	8	9
Pension deficit**	(9)	(35)	(41)	(26)	(27)
Total units generated & imported (GWh)	369	372	371	372	375
% Import	55%	86%	79%	77%	58%
% Generation	45%	14%	21%	23%	42%
Customer minutes lost	35****	18	30***	26	32

* 2015 results have been restated under new accounting standard FRS102 comparable to 2016 results.

** Pension deficit shown gross of related deferred tax.

*** Excluding the Liberation Day fault.

**** Excluding the October 2018 cable failure.

Chief Executive Officer's report - *continued*

Our community

At Guernsey Electricity we understand that we have a responsibility to play an active role in our community and give back to the island. We have again supported the Safety Calling initiative which teaches students key safety skills including electrical safety, fire safety and also how to make a 999 call.

In July, we sponsored a group of three local children to take part in the kids' race of the Tour des Ports de la Manche Yacht Race in Cherbourg, France. The children performed well in their first international competition, and finished 3rd, 4th and 6th overall out of 15 sailors.

Two black bin bags of rubbish and one of recyclable items were collected from Bordeaux Harbour beach in September during our annual beach clean as part of the national Beachwatch initiative. Employees were pleasantly surprised how clean the beach was compared to previous years.

In January, we announced our commitment to minimising our impact on the local environment by reducing waste and increasing recycling throughout the company. As part of this initiative we have provided reusable 500ml water bottles to all employees, centralised recycling in-house and replaced all single use kitchen items. If every employee used a plastic bottle on each working day of 2019 that would be more than 53,000 bottles used in one year, so we are sure we can make a big difference to the environment through these reusable water bottles.

The team

This year has been extremely challenging for the team at Guernsey Electricity. Again, I would like to thank all of my colleagues who have engaged with and taken the company forward to deliver outstanding contributions to the organisation. I also appreciate how all the company's employees continue to operate professionally and remain loyal and committed to the company and bring our values to life through their behaviours. This year has seen a milestone reached in terms of Health and Safety performance with 978 days and 955,335 hours being achieved by the end of this financial year. The 1,000,000 hours milestone was subsequently achieved on 18 May 2019. This performance provides a good indication to the changing culture of the organisation and commitment of colleagues to ensure a safe working environment.

I would also like to record recognition of the key role the Board and our Shareholder the STSB has played in providing significant guidance whilst dealing with the challenges faced by the company over what continues to be a demanding period.

I would stress that the company and its employees remain dedicated to providing a high level of service to its customers and that we will continue to deal with the future challenges we face whilst striving to improve what we do today.

Directors' report

The directors present their report and the audited financial statements for the year ended 31 March 2019. These comprise the statement of comprehensive income, statement of financial position, statement of changes in equity, the cash flow statement and notes to the financial statements set out on pages 32 to 57.

Incorporation

Guernsey Electricity Limited (the "company") was incorporated on 24 August 2001.

Principal activities

The principal activities of the company are the generation, importation and distribution of electricity and the sale of associated goods and services.

Dividend

No dividend was paid during the year (2018: £749,000 paid), representing £nil per share (2018: £0.00712 per share paid). The company will not be proposing a dividend at the 2019 Annual General Meeting (2018: £nil proposed).

Customers

The number of customers as at 31 March 2019 is 30,678 (2018: 30,483).

Units

Importation through the cable link between Guernsey, Jersey and the European grid provided 55% (2018: 86%) of the island's electricity needs in the year ended 31 March 2019 and 45% (2018: 14%) was generated on the island, as shown by the units analysis below:

	2019	2018
Units imported MWh	**203,968**	318,572
Units generated MWh	**165,043**	53,794
Total units imported/generated MWh	**369,011**	372,366

Average price

The average price per kWh sold in the year ended 31 March 2019 was 14.54 pence (2018: 14.69 pence).

Reliability

The reliability of Guernsey Electricity's supply is measured by minutes lost per customer. Power outages can be caused by failures of generators, the distribution network or the cable link. In the year ended 31 March 2019, customers lost 31.68 minutes due to generation/importation activity (2018: nil minutes) and 35.13 minutes were lost per customer in respect of distribution (2018: 18.34 minutes).

Directors and their interests

The directors of the company, who served during the year and to date, are as detailed on page 2. The directors have no beneficial interests in the shares of the company.

Disclosure of information to auditor

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

Auditor

Ernst & Young LLP (EY) were appointed auditor at last year's Annual General Meeting following a formal competitive tendering process. A resolution for the re-appointment of auditor will be proposed at the forthcoming Annual General Meeting.

For and on behalf of the Board of Directors.

IA Hardman
Director

AM Bates
Director

23 July 2019

Corporate governance

As a Board we take corporate governance very seriously. We make significant investments in our governance and compliance systems and the training of our people to ensure these systems are running effectively.

Guernsey Electricity's corporate governance arrangements are based on the proportionate and relevant application of good practice aligned to the principles of the UK Corporate Governance Code.

The Board

The Board's role is to provide entrepreneurial leadership of the company within a prudent framework of risk management and internal control. The Board is responsible for setting and implementing strategy, allocating the necessary human and financial resources to meet the company's objectives and monitoring the performance of management against those objectives. The Board is collectively accountable for the success of the company, to deliver the company's values and standards and takes decisions objectively in the interests of the company, its shareholders and other stakeholders.

Division of responsibilities

Chairman

Ian Hardman, the Chairman, is responsible for the running of the Board and spends on average 1.5 days per week in his role. The Board consider that he has no other external directorships which make conflicting demands on his time as Chairman. Robert Lawrence is the Deputy Chairman appointed by the Board.

Chief Executive

Alan Bates is the Chief Executive Officer and is responsible for running the company's business and is head of the Executive Leadership Team ("ELT").

Executive Directors

The Chief Financial Officer and Deputy Chief Executive Officer Julian Turner and Chief Operating Officer Sally-Ann David are the other two Executive Directors on the Board and ensure the company's financial and operational objectives are delivered and the governance and compliance systems are working effectively.

Non-Executive Directors

Non-Executive Directors help to develop and challenge the company's strategy. They evaluate the performance of management and monitor the reporting of performance. They consider the integrity of financial information and the strength of financial controls and risk management systems. They oversee executive remuneration and play the main role in the appointment, removal and succession planning for Executive Directors.

The Shareholder

Guernsey Electricity Limited is 100% owned by the States of Guernsey, through the States Trading and Supervisory Board. There is a Memorandum of Understanding between the shareholder and the company setting out matters which can be dealt with by the company and those which should be referred back to it together with inclusion of the shareholder expectations in respect of corporate governance.

How the Board operates

Board balance and independence

Throughout the year the company has had a balance of independent Non-Executive Directors on the Board who ensure that no one person has disproportionate influence. There are currently six Non-Executive Directors and three Executive Directors on the Board.

All of the Non-Executive Directors bring with them significant commercial experience from different industries, which ensures that there is an appropriate balance of skills on the Board.

Christine Holmes retired from the Board on 23 October 2018. Gillian Browning, Peter Shaefer and Rick Denton all joined the Board on 26 September 2018.

Information and professional development

For each scheduled Board meeting the Chairman and the Company Secretary ensure that the directors receive a copy of the agenda for the meeting, company financial, strategic and operating information and information on any other matter which is to be referred to the Board for consideration. The directors also have access to the Company Secretary for any further information they require. In the months where there is no scheduled Board meeting, the directors receive the prior month and cumulative company financial and operating information.

All newly appointed directors participate in an internal induction programme that introduces the director to the company and key stakeholders.

The Company Secretary, who is appointed by the Board, is responsible for facilitating compliance with Board procedures. This includes recording any concerns relating to the running of the company or proposed actions arising there from, that are expressed by a director in a Board meeting. The Company Secretary is also Secretary to all of the Board's Sub-Committees.

Board meetings and attendance

Attendance during the year for Board meetings is given in the table below:

Director	Meetings attended	Total meetings held
IA Hardman	**10**	**10**
AM Bates	**10**	**10**
JPC Turner	**10**	**10**
S-A David	**10**	**10**
RP Lawrence	**10**	**10**
RJ Dutnall	**8**	**10**
CM Holmes	**3**	**5**
RL Denton	**3**	**5**
GM Browning	**5**	**5**
P Shaefer	**5**	**5**

Corporate governance *- continued*

Board strategy

The Board meets once a year for the Board Strategy Day, attended by the ELT and other senior employees to agree strategic priorities for the next three years and to provide direction on key issues to the ELT. The Board also meets annually for the Board Risk Review Session. The company's top strategic risks and annual risk actions, as proposed by the ELT, are reviewed and approved by the Board, thereby setting the company's risk management strategy for the year.

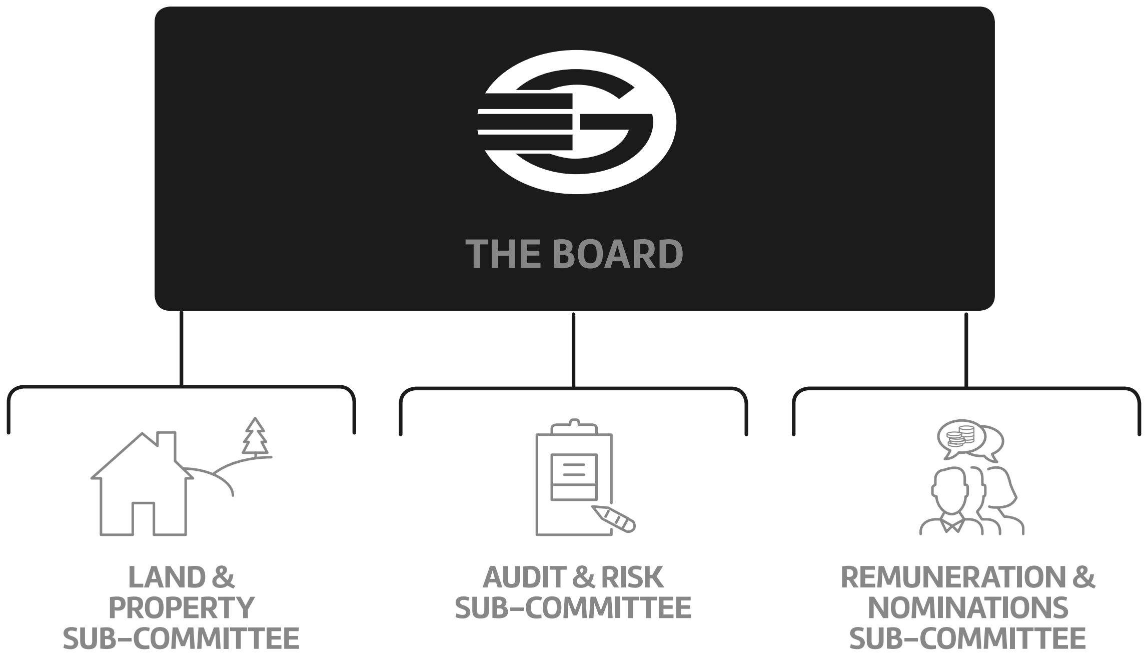
Key areas of focus for the Board

The principle areas of strategic focus and development agreed by the Board and monitored throughout the financial year were:

- Energy Transition/Energy Policy
- Guernsey to Jersey interconnector cable replacement (GJ1)
- Guernsey to France interconnector cable (GF1)
- Network investment programme
- Recruit key skills to deliver the Energy Transition

How we are governed

In addition to regular scheduled Board meetings, the Board has delegated some of its governance responsibilities to various Sub-Committees. Each of the committees has Terms of Reference agreed by the Board.



Remuneration & Nominations Sub-Committee

The Remuneration & Nominations Sub-Committee, which is chaired by Robert Lawrence, consists solely of a minimum of two Non-Executive Directors. The purpose of the Remuneration & Nominations Sub-Committee is to assist the Board in the effective discharge of its responsibilities for the remuneration and other employment conditions of Executive Directors and senior management and to act as a Nominations Sub-Committee as the need arises.

No director is permitted to be involved in deciding the amount of his or her own remuneration. The Remuneration & Nominations Sub-Committee considers that the policy and procedures in place provide a level of remuneration for the directors which is both appropriate for the individuals concerned and in the best interests of the shareholder.

There were four Remuneration & Nominations Sub-Committee meetings held in the year.

The membership of this Sub-Committee during the financial year was as follows.

Chairman:	RP Lawrence
Members:	IA Hardman
	GM Browning (appointed 26 September 2018)
	CM Holmes (retired 23 October 2018)

Audit & Risk Sub-Committee

The purpose of the Audit & Risk Sub-Committee is to assist the Board of Directors of Guernsey Electricity Limited in the effective discharge of the Board's responsibilities for risk management, financial reporting and internal control in order to ensure high standards of probity and good corporate governance. In doing so, the Audit & Risk Sub-Committee is required to act independently of the executive and seek to safeguard the interest of the company shareholder.

Whilst the Sub-Committee has no executive powers, it has wide ranging terms of reference and reports to the Board on a regular basis.

The Audit & Risk Sub-Committee members comprise Non-Executive Directors. Bob Dutnall is the Chairman of the Audit & Risk Sub-Committee and the Board is satisfied that the Sub-Committee has through its membership, access to recent and relevant experience to enable the duties of the Sub-Committee to be fully discharged.

There were six Audit & Risk Sub-Committee meetings in the year, all attended by the company's Head of Risk & Compliance Rob Winter and attendance at one meeting by representatives from RSM UK, the company's main external provider of business assurance and internal audit services.

The membership of this Sub-Committee during the financial year was as follows:

Chairman:	RJ Dutnall
Members:	IA Hardman
	RL Denton (appointed 26 September 2018)
	P Shaefer (appointed 26 September 2018)

Corporate governance *- continued*

Land & Property Sub-Committee

Julian Turner is the Chairman of the Land & Property Sub-Committee. The main terms of reference for this Committee are to review and approve all routine property transactions undertaken by the company up to a limit set by the Board and to undertake such other tasks relating to land and property as directed by the Board. This Sub-Committee comprises the Chairman of the Board together with all of the Executive Directors. There were seven Land & Property Sub-Committee meetings held in the year.

Relations with the shareholder

The company's issued share capital is wholly owned by the States of Guernsey. The States Trading Companies (Bailiwick of Guernsey) Ordinance, 2001, as amended, provided for the States of Guernsey Advisory & Finance Committee (subsequently the Treasury & Resources Department) to undertake, on behalf of the States, the role of shareholder representative.

Following the re-organisation of the States of Guernsey and the introduction of "The Organisation of States' Affairs (Transfer of Functions) Ordinance 2016" and the General Election of Deputies held in April 2016, the powers, duties and responsibilities of the Treasury & Resources Committee in relation to the company were transferred to the States Trading Supervisory Board. The shareholder functions, including holding equally the issued share capital of the company in trust on behalf of the States of Guernsey, of the Minister and Deputy Minister of the Treasury & Resources Department, have also been transferred to the President and Vice President of the States Trading Supervisory Board by virtue of section 1.(1) The Organisation of States' Affairs (Transfer of Functions) Ordinance 2016.

Provision is also in place for the States to give guidance to the States Trading Supervisory Board on the policies it wishes to be pursued in fulfilling its role. Each year, the company submits its forward plan to the States Trading Supervisory Board. In addition, the company has signed a Memorandum of Understanding with the States' shareholder representative concerning the manner in which the company and its shareholder's representatives will interact in respect of stewardship and corporate governance matters generally.

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law, they have elected to prepare the financial statements in accordance with UK Accounting Standards, including FRS 102 The Financial Reporting Standard Applicable in the UK and Republic of Ireland and applicable company law.

The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

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

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

The directors are responsible for keeping proper accounting records which disclose, with reasonable accuracy at any time, the financial position of the company and to enable them to ensure that the financial statements comply with the Companies (Guernsey) Law, 2008. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

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

Independent auditor's report to the members of Guernsey Electricity Limited

Opinion

We have audited the financial statements of Guernsey Electricity Limited ("the Company") for the year ended 31 March 2019, which comprise the Statement of Comprehensive Income, the Statement of Financial Position, Statement of Changes in Equity, Cash Flow Statement and notes 1 to 24 to the financial statements. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

In our opinion, the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2019 and of the Company's profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Accounting Standards including FRS 102 "The Financial Reporting Standards" applicable in UK and Ireland; and
- have been prepared in accordance with the requirements of the Companies (Guernsey) Law, 2008.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report below. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's ("FRC") Ethical Standards, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

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

Other information

The directors are responsible for the other information. The other information comprises the information included in the Directors' Report but does not include the financial statements or our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Matters for which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies (Guernsey) Law, 2008 requires us to report to you if, in our opinion:

- proper accounting records have not been kept by the company; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the statement of directors' responsibilities set out on page 25, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Section 262 of the Companies (Guernsey) Law 2008. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Ernst & Young LLP

26 July 2019

Statement of comprehensive income

for the year ended 31 March 2019

	Note	2019 £'000	2018 £'000
Revenue	*4*	**54,920**	56,343
Cost of sales		**(52,216)**	(44,069)
Gross profit		**2,704**	12,274
Net operating expenses		**(10,455)**	(11,105)
Operating (loss)/profit before pension settlement		**(7,751)**	1,169
Pension settlement gains	*21*	**18,194**	-
Operating profit after pension settlement	*5*	**10,443**	1,169
Net losses on derivatives at fair value	*20*	**(464)**	(378)
Finance income	*6*	**167**	371
Finance cost	*6*	**(257)**	(252)
Other finance cost	*21*	**(568)**	(1,039)
Profit/(loss) on ordinary activities before taxation		**9,321**	(129)
Taxation	*7, 13*	**(1,746)**	84
Profit/(loss) for the financial year after taxation		**7,575**	(45)
Other comprehensive income:			
Effective portion of changes in fair value of cashflow hedges	*20*	**(103)**	(34)
Remeasurement of net defined benefit liability	*13,21*	**8,906**	6,953
Total comprehensive income for the financial year		**16,378**	6,874

All activities derive from continuing operations.

The notes on pages 32 to 57 form an integral part of these financial statements.

Statement of financial position

at 31 March 2019

	Note	2019 £'000	2018 £'000
Non-current assets			
Property, plant and equipment	*9*	**133,852**	127,630
Investments	*10*	**5**	5
		133,857	127,635
Current assets			
Inventories	*11*	**6,963**	5,686
Trade and other receivables	*12*	**12,669**	17,102
Balances with States Treasury	*14*	**7,295**	6,115
Cash		**1,125**	727
		28,052	29,630
Current liabilities			
Trade and other payables: amounts falling due within one year	*15*	**(18,905)**	(26,176)
Net current assets		**9,147**	3,454
Total assets less current liabilities		**143,004**	131,089
Non-current liabilities			
Trade and other payables: amounts falling due after more than one year	*16*	**(26,264)**	(4,254)
Pension deficit	*21*	**(8,601)**	(35,074)
Net assets including pension deficit		**108,139**	91,761
Equity			
Share capital	*17*	**105,209**	105,209
Reserves		**2,930**	(13,448)
Total equity		**108,139**	91,761

The financial statements on pages 28 to 57 were approved by the Board of Directors on 23 July 2019.

Signed on behalf of the Board of Directors

IA Hardman Director

AM Bates Director

The notes on pages 32 to 57 form an integral part of these financial statements.

Statement of changes in equity

for the year ended 31 March 2019

	Share capital £'000	Reserves £'000	Total equity £'000
1 April 2017	**105,209**	**(19,573)**	**85,636**
Loss for the financial year	–	(45)	(45)
Other comprehensive income for the year			
Remeasurement of net defined benefit liability	–	6,953	6,953
Effective losses on hedging instruments in a cash flow hedge	–	(34)	(34)
Total comprehensive income for the year	–	**6,874**	**6,874**
Transactions with owners recognised directly in equity			
Dividend (note 8)	–	(749)	(749)
Total transactions with owners recognised directly in equity	–	**(749)**	**(749)**
31 March 2018	**105,209**	**(13,448)**	**91,761**
Profit for the financial year	–	7,575	7,575
Other comprehensive income for the year			
Remeasurement of net defined benefit liability	–	8,906	8,906
Effective losses on hedging instruments in a cash flow hedge	–	(103)	(103)
Total comprehensive income for the year	–	**16,378**	**16,378**
31 March 2019	**105,209**	**2,930**	**108,139**

Cash flow statement

for the year ended 31 March 2019

	Note	**2019 £'000**	2018 £'000
Net cash inflow from operating activities	*18*	**5,130**	10,509
Cash flow from investing activities			
Finance income		**168**	484
Payments to acquire property, plant and equipment		**(11,612)**	(9,199)
Proceeds of disposal of property, plant and equipment		**18**	13
Customers' contributions towards capital expenditure		**58**	271
Net cash outflow from investing activities		**(11,368)**	(8,431)
Cash flow from financing activities			
Finance cost		**(159)**	(249)
Amounts drawn under medium-term credit facility		**22,000**	-
Amounts repaid under medium-term credit facility		**(14,000)**	-
Dividends paid	*8*	**–**	(749)
Net cash inflow/(outflow) from financing activities		**7,841**	(998)
Increase in cash and cash equivalents during the year		**1,603**	1,080
Cash and cash equivalents at the beginning of the year		**6,842**	5,766
Exchange losses on cash and cash equivalents		**(25)**	(4)
Cash and cash equivalents at the end of the year		**8,420**	6,842
Cash and cash equivalents consists of:			
Balances with States Treasury		**7,295**	6,115
Cash		**1,125**	727
		8,420	6,842

Movements in balances with States Treasury and the other income are deemed cash equivalents in accordance with section 7 of FRS 102 (Statement of Cash Flows).

The notes on pages 32 to 57 form an integral part of these financial statements.

Notes to the financial statements

Year ended 31 March 2019

1. General information

Guernsey Electricity Limited was incorporated on 24 August 2001 and is registered in Guernsey. The company is governed by the provision of the Companies (Guernsey) Law, 2008. The address of its registered office is PO Box 4, Electricity House, North Side, Vale, Guernsey, GY1 3AD.

The company was established in accordance with the provisions of the States Trading Companies (Bailiwick of Guernsey) Law 2001 (Commencement) Ordinance and the States Trading Companies (Bailiwick of Guernsey) Ordinance 2001 to take over the generation, importation and distribution of electricity previously carried out by the States of Guernsey Electricity Board with effect from 1 February 2002.

The principal activities of the company are the generation, importation and distribution of electricity and the sale of associated goods and services.

The company is classified as a Public Benefit Entity given that its primary objective is to seek value and an appropriate return that provides best value to the island's economy whilst striking a balance with its enabling role in supporting the social, economic and environmental objectives for the long-term benefit of the island and its community.

2. Statement of compliance

The financial statements give a true and fair view, have been prepared in accordance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, ''The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland'' (''FRS 102'') and are in compliance with the Companies (Guernsey) Law, 2008.

3. Principal accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards, and under the historical cost convention as modified by the fair value for derivative financial instruments.

Going concern

On the basis of their assessment of the company's financial position and resources, the directors believe that the company is well placed to manage its business risks. During the year, the company entered into a five-year, £20m revolving credit loan facility with RBS International to refinance a previous revolving credit facility held with HSBC which expired on 3 October 2018. The loan incorporates an option to increase the credit facility to £35m for the purpose of the future financing of key infrastructure expenditure and an extension to £22m under this option was exercised on 18 March 2019. As at 31 March 2019, £22m had been drawn on this facility (2018: £14m under the previous HSBC facility). This facility expires on 2 October 2023. The company has entered into a significant capital expenditure commitment with the project to replace the Guernsey to Jersey interconnector cable (as at 31 March 2019, total commitments for GJ1 amounted to £24.8m). This project will be funded partly by the revolving credit facility and through an additional commercial loan facility secured with RBS International of £15m together with utilisation of proceeds of the States of Guernsey Bond. The company has a strong statement of financial position as at the end of the financial year and a net assets position of £108.1m (2018: £91.8m).

The reported Operating loss before pension settlement gains was £7.8m which followed GJ1 failure costs of £6.5m and cable link impairment costs of £3.4m. The Guernsey Competition and Regulatory Authority ("GCRA") has approved an historic cost recovery of 6.8%, effective from 1 July 2019 and applicable for three years, to cover increased foreign exchange and commodity costs. This rise will enable Guernsey Electricity to recover the last two years' uncontrollable costs created by increases in external costs to import electricity and generate on-island. Therefore, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Revenue

a) Sales of electricity

Sales of electricity are accounted for on an accruals basis and include the estimated value of unbilled units at the year end. The unbilled units are valued at current tariff rates.

b) Sales of goods, commercial and hire purchase

The company operates a retail sales section offering white and brown goods to customers across the Bailiwick of Guernsey. Sales of goods are recognised on sale to the customer, as this is the point at which the company recognises the transfer of risks and rewards.

The company operates a commercial contracting section providing electrical and plumbing services to domestic, commercial and industrial clients. Revenue is recognised as the service is provided.

The company provides hire purchase facilities on the provision of goods and services ancillary to the principal activities of the company. The sales value is included in revenue at the inception of the hire purchase transaction and interest is included in finance income over the finance period of the transaction on an effective interest rate basis.

c) Rental income

Rental income is accrued on a time basis by reference to the agreements entered.

d) Deferred income

Customers' contributions towards capital expenditure are credited in equal annual amounts to the statement of comprehensive income over the estimated life of the assets to which they relate.

e) Other income

This represents minor income streams including, but not limited to, consultancy services and discounts received. These sales are valued as the service is provided or receipt is due.

Employee benefits

The company provides a range of benefits to employees, including a defined benefit pension plan and holiday pay. The defined benefits pension plan was closed to new members from 1 October 2017. A new defined contributions pension plan was set up to receive members from 1 April 2018.

a) Short-term benefits

Short-term employee benefits such as salaries and compensated absence are recognised as an expense in the year employees render services to the company. Holiday leave accruals are recognised at each balance sheet date to the extent that employee holiday allowance has been accrued but not taken, the expense being recognised as staff costs in the statement of comprehensive income.

Notes to the financial statements - *continued*

Year ended 31 March 2019

3. Principal accounting policies – *continued*

b) Pension costs

The employees' pension scheme is a defined benefits scheme. A defined benefit plan defines the pension benefit that the employee will receive on retirement, usually dependent upon several factors including age, length of service and remuneration.

The liability recognised in the balance sheet in respect of the defined benefit plan is the present value of the defined benefit obligation at the reporting date less the fair value of the plan assets at the reporting date.

The company applies employee benefits, Section 28 of FRS 102. In so doing, current service cost and any past service cost is charged to the statement of comprehensive income, together with finance costs/income for the scheme which are charged/credited to the statement of comprehensive income. The difference between the expected and actual actuarial gains and losses are charged to other comprehensive income. Annually, the company engages independent actuaries to calculate the defined benefit obligation. The present values of the defined benefit obligation, the related current service cost and any past service costs (if applicable) were measured using the projected unit method. Full actuarial valuations are carried out on a triennial basis and annual updates are carried out to disclose the values and assumptions in accordance with Section 28 of FRS 102.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income. These amounts together with the return on plan assets, less amounts included in net interest, are disclosed as "Remeasurement of net defined benefit liability".

The cost of the defined benefit plan, recognised in profit or loss as employee costs, except where included in the cost of an asset, comprises:

(i) the increase in pension benefit liability arising from employee service during the period; and

(ii) the cost of plan introductions, benefit changes, curtailments and settlements.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is recognised in profit or loss as "Other finance cost".

This defined benefits scheme was closed to new members from 1 October 2017. A new defined contributions scheme was established and there were 10 members as at 31 March 2019 (31 March 2018: nil members).

Leases

Operating lease rentals are charged to the statement of comprehensive income in equal annual amounts over the lease term.

Finance income/cost

Finance income and finance costs are accounted for on an accruals basis using the effective interest rate.

Taxation

Taxation expense for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the profit and loss account, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case tax is also recognised in other comprehensive income or directly in equity respectively.

Current or deferred taxation assets and liabilities are not discounted.

a) Current tax

Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the period end.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

b) Deferred taxation

Deferred tax arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements.

Deferred tax is recognised on all timing differences at the reporting date except for certain exceptions. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the timing difference. The pension scheme deficit shown in the accounts is gross of the deferred tax asset.

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses. Assets transferred from the States of Guernsey Electricity Board as at 1 February 2002 are being depreciated over their residual estimated useful lives from that date applying the periods noted overleaf. Property, plant and equipment is derecognised on disposal or when no future economic benefits are expected. On disposal, the difference between the net disposal proceeds and the carrying amount is recognised in the statement of comprehensive income and included within the operating profit.

Depreciation is calculated so as to write off the cost of property, plant and equipment over the period of their estimated useful lives using the straight-line method. The estimated life of each class of non-current asset is set out below. The estimated life of associated assets within each category are aligned to the remaining useful lives of the major asset to which they are associated with and therefore individual assets may have lives up to, but not exceeding, the time periods noted below. Depreciation commences in the year of acquisition, or on completion of construction. Any shortfall of depreciation arising on the disposal, or write-off, of non-current assets is charged to the disposals account and any proceeds arising from the disposal are credited to that account. Land is not depreciated. Major overhauls of generating assets are treated as separate components and depreciated on the basis of elapsed running hours for the relevant asset.

Notes to the financial statements - *continued*

Year ended 31 March 2019

3. Principal accounting policies – *continued*

Property, plant and equipment – continued

The estimated lives are as shown below:

		Estimated life in hours	Estimated life in years
Buildings			40
Buildings equipment			10
Cable link			25 – 30
Plant and machinery:	– Generation		20 – 35
	– Overhauls	24,000	
	– Distribution		20 – 35
	– Street lights		20
Distribution network comprising:	– Distributors		75
	– Meters		5 – 15
	– Cyclocontrol receivers		5
Motor vehicles			7
Furniture and equipment			3 – 10
Minor plant			5 – 10

Joint arrangements

The Channel Islands Electricity Grid Limited is a jointly controlled operation between Jersey Electricity Plc and Guernsey Electricity Limited who each own an equal 50% shareholding. The company was formed to manage the cable link project and the ongoing operation of the cable links between Guernsey, Jersey and France. In accordance with Section 15 of FRS 102, “Investments in joint ventures”, these financial statements include the company’s entitlement to the assets, liabilities, cash flows and the shared items of this Joint Arrangement where the company’s entitlements are fully determined by contracts with the other party to the jointly controlled operation.

The Channel Islands Electricity Grid Limited is considered to meet the definition of a jointly controlled operation. As a result, for its interest in the Channel Islands Electricity Grid Limited, Guernsey Electricity Limited recognises the following in its financial statements in accordance with FRS 102, paragraph 15.5:

(a) the assets that it controls and the liabilities that it incurs; and

(b) the expenses that it incurs and its share of any income earned by the joint venture.

The jointly controlled operation assets are included within property, plant and equipment.

Impairment of non-financial assets

At each statement of financial position date non-financial assets not carried at fair value are assessed to determine whether there is an indication that the asset or asset’s cash generating unit (“CGU”) may be impaired. If there is such an indication the recoverable amount of the asset or CGU is compared to the carrying amount of the asset or CGU. The recoverable amount of the asset or CGU is the higher of the fair value less costs to sell and value in use. Value in use is defined as the present value of the future pre-tax and interest cash flows obtainable as a result of the asset’s or CGU continued use.

The pre-tax and interest cash flows are discounted using a pre-tax discount rate that represents the current market risk-free rate and the risks inherent in the asset.

If the recoverable amount of the asset or CGU is estimated to be lower than the carrying amount, the carrying amount is reduced to its recoverable amount. An impairment loss is recognised in the statement of comprehensive income, unless the asset has been revalued when the amount is recognised in other comprehensive income to the extent of any previously recognised revaluation. Thereafter any excess is recognised in the statement of comprehensive income.

If an impairment loss subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but only to the extent that the revised carrying amount does not exceed the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognised in prior periods. A reversal of an impairment loss is recognised in the statement of comprehensive income.

Inventories

Inventories are valued at the lower of cost and estimated selling price less cost to complete and sell. Inventories are valued at weighted average cost. In respect of goods held for resale, a provision is made based on the time elapsed since the goods were purchased. Provision is made for other inventories relating to strategic plant, based upon the remaining useful economic life of the assets to which they relate. The cost of work in progress includes costs directly related to the units of production and a systematic allocation of fixed and variable production overheads. Inventories are recognised as a cost of sale in the period in which the related revenue is recognised.

At the end of each reporting period inventories are assessed for impairment. If an item of inventory is impaired, the identified inventory is reduced to its selling price less costs to complete and sell and an impairment charge is recognised in the statement of comprehensive income. Where a reversal of the impairment is recognised the impairment charge is reversed, up to the original impairment loss, and is recognised as a credit in the statement of comprehensive income.

Foreign exchange

a) Functional and presentation currency

The company’s functional and presentation currency is Pounds Sterling, being the primary economic environment in which the company operates. All amounts in the financial statements have been rounded to the nearest £1,000.

Notes to the financial statements - *continued*

Year ended 31 March 2019

3. Principal accounting policies – *continued*

Foreign exchange – continued

b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period-end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

Financial instruments

a) Financial assets

The company has chosen to adopt Sections 11 and 12 of FRS 102 in respect of financial instruments.

Basic financial assets, including receivables and cash and bank balances, are initially recognised at transaction price plus transaction costs, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest.

Such assets are subsequently carried at amortised cost using the effective interest method.

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in the statement of comprehensive income.

If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been had the impairment not previously been recognised. The impairment reversal is recognised in the statement of comprehensive income.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party or (c) control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

b) Financial liabilities

Basic financial liabilities, including trade and other payables and short-term loans, are initially recognised at transaction price less transaction costs, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade payables are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

c) Derivatives

Derivatives, including interest rate swaps, heavy fuel oil commodity swaps and forward foreign exchange contracts, are not basic financial instruments. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of derivatives are recognised in profit or loss in the statement of comprehensive income, except when applying hedge accounting.

The company enters into forward exchange contracts to mitigate the risk of fluctuations in the currency rate between the Euro and Sterling in meeting its financial obligations for the import of electricity units from the European grid and on major infrastructure projects. The company does not hold or issue financial instruments for speculative purposes. The company also hedges against the fluctuation in the price of heavy fuel oil, including the movement in the US Dollar, which is inherent in the pricing.

These contracts are measured at fair value utilising the third-party market valuations provided by the relevant counterparties on the basis of "exit" model methodologies.

The company elected to introduce hedge accounting for its foreign exchange hedging of the Euro exposure for the import of electricity during the previous financial year, from 1 October 2017. These relationships have been designated as cash flow hedges of highly probably forecast transactions. The fair value of these hedges is shown in note 20. Changes in the fair value of derivative financial instruments which are designated as highly effective hedges of future cash flows are recognised directly in other comprehensive income and any ineffective portion is recognised immediately in profit or loss in the statement of comprehensive income. When hedges mature, amounts deferred in other comprehensive income are recognised in profit or loss in the statement of comprehensive income in the same period as the hedged item. The risks being hedged are as outlined above. Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. Until that time, any cumulative gain or loss on the hedging instrument recognised in other comprehensive income is kept in equity until the forecast transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss that has been recognised in other comprehensive income is transferred to profit or loss in the statement of comprehensive income.

d) Offsetting

Financial assets and liabilities are offset and the net amounts presented in the financial statements when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Cash and cash equivalents

Cash and cash equivalents include cash at bank, balances with States Treasury, highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts, when applicable, are shown within trade payables in current liabilities.

Notes to the financial statements - *continued*

Year ended 31 March 2019

3. Principal accounting policies – *continued*

Critical accounting judgements and estimation uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of the accounting policies and the reported amounts of assets and liabilities, revenue and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

(i) Revenue

Sales of electricity include an estimate for the value of unbilled units at the year end which represents the estimated units consumed by customers since the last billing date. These unbilled units are valued at current tariff rates. See note 4 for the value of unbilled units included in sales of electricity.

(ii) Property, plant and equipment (note 9)

a) Recognition

The costs of property, plant and equipment are only recognised as an asset when there is sufficient certainty that the asset will be completed. For significant projects, an assessment is made at least annually, or at the time of key project milestones, and the associated costs are recognised in the statement of comprehensive income until such time that management considers it probable that the project will proceed to completion.

b) Useful economic lives of tangible assets

The annual depreciation charge for tangible assets is sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the assets. See note 9 for the carrying amount of the property, plant and equipment.

c) Impairment/disposals

At each statement of financial position date, non-financial assets not carried at fair value are assessed to determine whether there is an indication that the asset or CGU may be impaired. If there is such an indication, an estimation of the recoverable amount of the asset or CGU is determined which requires estimation of the future cash flows from the asset or CGU and also selection of appropriate discount rates in order to calculate the net present value of those cash flows.

(iii) Retirement benefit obligations – see note 21

(iv) Financial instrument derivatives – see note 20

(v) Deferred tax/unrelieved trading losses – see note 7

4. Revenue

	2019 £'000	2018 £'000
Sales of electricity	**50,182**	51,848
Sale of goods, commercial and hire purchase	**4,048**	3,861
Rental income	**247**	262
Deferred income	**182**	177
Other income	**261**	195
	54,920	56,343

All sales of electricity arise from customers in the island of Guernsey. Sales of goods, commercial and hire purchase are made to customers throughout the Bailiwick of Guernsey. As stated in the accounting policy for sales of electricity, each year an estimate of the unbilled units as at 31 March is determined.

The value of unbilled units included in sales of electricity above is £6,706,000 (2018: £7,164,000).

5. Operating profit

Operating profit is after charging/(crediting)

		2019 £'000	2018 £'000
Depreciation (note 9)		**7,736**	8,214
Impairment (note 9)		**3,367**	-
Pension settlement gain (note 21)		**(18,194)**	-
Rentals under operating leases		**124**	77
Auditor's remuneration	- statutory audit	**43**	46
	- non-audit services	**-**	24
Bad debts		**100**	59
Director fees, salaries and other benefits		**930**	922
Regulatory costs	- external	**60**	-
	- internal	**45**	40
Loss on disposal of assets		**45**	77

The amount of inventories recognised as an expense during the period is as follows:

	2019 £'000	2018 £'000
Inventory write-offs	**19**	87
Inventory discrepancies	**5**	48
Inventory provision	**10**	43

Notes to the financial statements - *continued*

Year ended 31 March 2019

6. Finance and income cost

	2019 £'000	2018 £'000
Finance income:		
Deposits with banks and States Treasury	**23**	230
Hire purchase	**144**	141
	167	371
Finance cost:		
Medium-term credit facility	**255**	251
Other interest payable	**2**	1
	257	252

7. Taxation

The company's profits, or losses, from the activities subject to licence from the Guernsey Competition and Regulatory Authority will be chargeable to tax at the company higher rate of 20%, as will rental income from Guernsey properties. For all other company activities, the company standard rate of 0% is applicable. The tax adjusted profits of the company have been determined so that the appropriate amounts are taxed at the applicable rate.

The basis of assessment to Guernsey tax continues to be on an actual current year basis. The assessable profits for the current year have been offset against the unrelieved trading losses and excess capital allowances carried forward from prior years. Consequently, all tax is deferred and there is no tax payable for the current year.

Deferred tax in the financial statements is measured at the actual tax rates that are expected to apply to the income in the periods in which the timing differences are expected to reverse. Various rates of income tax are applied depending on the activity of the company. The rate applied in relation to the company's activities is a combination of the company standard rate and the company higher rate. Deferred tax has been provided on timing differences depending on which rate they are expected to reverse out in the future. Where deferred tax balances relate to items which may be taxed at either 20% or 0% a blended rate of 15.0178% (2018: 18.1328%) has been used to provide for deferred tax. The blended rate has been calculated by reference to the company's effective rate of tax in the year ended 31 March 2019.

The deferred tax charge/(credit) in the statement of comprehensive income for the year is:

	2019 £'000	2018 £'000
Timing differences on capital allowances and depreciation	**(283)**	550
Short-term timing differences (pension)	**3,502**	(374)
Short-term timing differences (other)	**46**	(21)
Movement on unrelieved trading losses	**(1,519)**	(239)
	1,746	(84)

8. Dividend

No dividend was paid during the year (2018: £749,000 paid), representing £nil per share (2018: £0.00712 per share paid). The company will not be proposing a dividend at the 2019 Annual General Meeting (2018: £nil proposed).

9. Property, plant and equipment

Cost	1 April 2018 £'000	Additions £'000	Written off/ disposals £'000	31 March 2019 £'000
Land and buildings	35,251	62	6	**35,307**
Cable link	55,933	10,723	-	**66,656**
Plant and machinery:				
- Generation	62,518	628	8	**63,138**
- Distribution	14,098	1,032	-	**15,130**
Distribution network	39,330	3,055	207	**42,178**
Motor vehicles, furniture and equipment, minor plant	7,166	1,887	181	**8,872**
	214,296	17,387	402	**231,281**

Depreciation	1 April 2018 £'000	Charge for the year £'000	Written off/ disposals £'000	31 March 2019 £'000
Land and buildings	14,071	1,071	6	**15,136**
Cable link	22,205	2,161	-	**24,366**
- Impairment	-	3,367	-	**3,367**
Plant and machinery:				
- Generation	27,158	2,667	9	**29,816**
- Distribution	4,601	434	-	**5,035**
Distribution network	14,509	786	144	**15,151**
Motor vehicles, furniture and equipment, minor plant	4,122	617	181	**4,558**
	86,666	11,103	340	**97,429**
Net book value	127,630			**133,852**

Included above are assets in the course of construction of £14,627,000 (2018: £1,246,000), which are not depreciated. Impairment costs above totalling £3.4m relate to the full impairment of the company's investment in the GJ1 and N2 cable link interconnectors following the decision to replace the GJ1 interconnector.

Notes to the financial statements - *continued*

Year ended 31 March 2019

10. Investments

	2019 £'000	2018 £'000
Channel Islands Electricity Grid Limited	**5**	5

The Channel Islands Electricity Grid Limited is incorporated in Jersey and is a joint arrangement between Guernsey Electricity Limited and Jersey Electricity Plc who each own an equal 50% shareholding. The company was formed to manage the cable link project and the ongoing operation of the cable links between Guernsey, Jersey and France. Guernsey Electricity Limited holds 5,000 Ordinary shares of £1 each.

11. Inventories

	2019		2018	
	£'000	£'000	£'000	£'000
Fuel inventories		**3,215**		2,655
Purchased goods for resale	**245**		260	
Provision	**(8)**	**237**	(5)	255
Other inventories	**5,486**		4,869	
Provision	**(2,240)**	**3,246**	(2,233)	2,636
Work in progress		**265**		140
		6,963		5,686

The replacement cost of inventories was (lower)/greater than the statement of financial position carrying amounts as follows:

	2019 £'000	2018 £'000
Fuel inventories	**(38)**	95

There is no significant difference between the replacement cost of purchased goods for resale, other inventories and work in progress and their carrying amounts.

12. Trade and other receivables

	2019 £'000	2018 £'000
Estimated value of unbilled units	**6,706**	7,164
Customer accounts outstanding	**4,166**	4,819
Other receivables	**494**	287
Prepayments	**864**	785
Deferred tax asset (note 13)	**401**	3,713
Derivative financial instruments (note 20)	**38**	334
	12,669	17,102

Included in "Customer accounts outstanding" is an amount totalling £172,000 (2018: £326,000) due after more than one year, relating to goods and services purchased by customers under interest free and hire purchase agreements, which run for periods of up to 30 months.

Under FRS 102, the pension scheme deficit is presented in the statement of financial position gross of deferred tax. The deferred tax relating to the pension scheme deficit is recognised as part of the net deferred tax asset included within trade receivables.

13. Deferred tax asset

Deferred tax assets comprise of:	2019 £'000	2018 £'000
Deferred taxation:		
Balance at 1 April	**3,713**	5,161
Statement of comprehensive income (charge)/ credit	**(1,746)**	84
Statement of other comprehensive income	**(1,566)**	(1,532)
Balance at 31 March	**401**	3,713
Which comprises:		
Capital allowances in excess of depreciation	**8,917**	9,200
Short-term timing differences (other)	**(242)**	(288)
Unrelieved loss for tax purposes	**(7,784)**	(6,265)
Deferred tax liability	**891**	2,647
Deferred tax asset on pension deficit (note 21)	**(1,292)**	(6,360)
Net deferred tax assets (note 12)	**401**	3,713

Notes to the financial statements - *continued*

Year ended 31 March 2019

14. Balances with States Treasury

The Treasury Department of the States of Guernsey is engaged to invest the company's liquid funds in excess of its daily requirements.

15. Trade and other payables: amounts falling due within one year

	2019 £'000	2018 £'000
Trade payables	**9,907**	4,234
Customer payments received in advance	**6,651**	5,728
Employee taxes and Social Security	**194**	194
Deferred income	**182**	177
Accruals and other payables	**1,594**	1,738
Derivative financial instruments (note 20)	**377**	105
Amount drawn under medium-term credit facility (note 20)	**–**	14,000
	18,905	26,176

The company has a £1m overdraft facility with Barclays Bank Plc (2018: £1m), and interest is payable quarterly at 1.75% over UK base rate. This facility is unsecured, is repayable on demand and is reviewed and approved by the Board annually. As at 31 March 2019, £nil was drawn on the Barclays Bank Plc overdraft facility (2018: £nil).

16. Trade and other payables: amounts falling due after more than one year

	2019 £'000	2018 £'000
Deferred income	**4,264**	4,254
Amount drawn under medium-term credit facility (note 20)	**22,000**	-
	26,264	4,254

17. Share capital

	2019 £'000	2018 £'000
Authorised:		
125,000,000 ordinary shares of £1 each	**125,000**	125,000
Issued and fully paid:		
105,208,844 ordinary shares of £1 each	**105,209**	105,209

Two shares were issued on formation of the company and the remaining 109,208,842 shares were issued to equate to the consideration of £109,208,844 for the net assets acquired by the company from the States of Guernsey with effect from 1 February 2002.

On 13 December 2016, the company completed a share buyback of £4m of company shares from the States of Guernsey leaving the company with 105,208,844 issued shares equating to share capital of £105,208,844.

The ordinary shares do not confer any rights or preferences other than the right to vote, the right to participate in dividends or distributions that the company may make and such other rights, generally from time to time, including but not limited to, the rights, if any, to the repayment of capital as may be laid down in the company's Articles of Incorporation.

Dividends and distributions in particular, are subject to the provisions of Guernsey Company Law and specifically, the Companies (Guernsey) Law, 2008 as amended or replaced.

The ordinary shares are subject to certain restrictions, including specifically, a restriction on the transfer of shares. In all cases, such restrictions are as laid down in the company's Articles of Incorporation and the provisions of any ordinance made by the States of Guernsey in exercise of its powers under the States Trading Companies (Bailiwick of Guernsey) Law 2001, as amended or replaced from time to time.

18. Reconciliation of operating profit to net cash flow from operating activities

	2019 £'000	2018 £'000
Profit/(loss) for the financial year	**7,575**	(45)
Tax on profit/(loss) on ordinary activities	**1,746**	(84)
Net finance costs	**658**	920
Net losses on derivatives at fair value	**464**	378
Operating profit	**10,443**	1,169
Depreciation charge	**7,736**	8,214
Impairment	**3,367**	-
Loss on disposal of non-current assets	**45**	77
Exchange loss on cash and cash equivalents	**25**	4
Pension service cost	**2,394**	2,664
Pension settlement gain	**(18,194)**	-
Employer's pension cash contributions	**(809)**	(855)
Pension administration costs	**41**	37
Deferred income	**(182)**	(177)
(Increase)/decrease in inventories	**(1,277)**	661
Decrease/(increase) in receivables	**825**	(1,922)
Increase in payables	**716**	637
	5,130	10,509

Notes to the financial statements - *continued*

Year ended 31 March 2019

19. Commitments

Capital commitments, for which no provision has been made in these financial statements, amounted to £32,150,000 (of which £24,804,000 relates to the GJ1 cable link overlay project) as at 31 March 2019 (2018: £6,726,000). These relate to outstanding commitments on capital projects across a range of asset categories.

Cable link commitments

Commodity risk

For the import of power from the European Grid, the company has a contract with Electricité de France ("EDF"). The existing electricity import contract with EDF is effective for a 10-year period which commenced from 1 January 2013 – this period was extended for a further 5 years on 25 June 2017. The related transmission agreement with Réseau de Transport d'Électricité ("RTE") also commenced from 1 January 2013. Under the import contract, there is a take or pay commitment, whereby the company is jointly and severally liable, along with the Channel Islands Electricity Grid Limited and Jersey Electricity Plc, for a block of power over the term of the contract. The remainder of the requirement will be decided by a market pricing mechanism with no volume commitment. The price at which the take or pay block is agreed for the period of the contract, and for calendar year 2020 this results in a total commitment for Guernsey Electricity Limited of €8.9m, equating to £7.7m at the Sterling/Euro rate at 31 March 2019 of 1.1595, (2019: €11.1m, equating to £9.7m at the Sterling/Euro rate at 31 March 2018 of 1.1410).

Operating lease commitments

Commitments to make payments in respect of operating leases are as follows:

	2019 £'000	2018 £'000
Operating leases which expire:		
Within one year	**110**	110
Between one to five years	**248**	358

20. Financial instruments and associated risk management

(i) The categories of financial assets and financial liabilities, at the reporting date, in total, are as below:

	Note	**2019 £'000**	2018 £'000
Financial assets at fair value through profit or loss			
Derivative financial instruments:	12		
– Interest rate cap		**36**	–
– Forward foreign currency contracts		**2**	334
Financial assets that are debt instruments measured at amortised cost			
Estimated value of unbilled units	12	**6,706**	7,164
Customer accounts outstanding	12	**4,166**	4,819
Other receivables	12	**494**	287
Cash and cash equivalents		**8,420**	6,842
Financial liabilities measured at amortised cost			
Trade payables	15	**9,907**	4,234
Customer payments received in advance	15	**6,651**	5,728
Deferred income	15,16	**4,446**	4,431
Accruals and other payables	15	**1,594**	1,738
Amount drawn under medium-term credit facility	15,16	**22,000**	14,000
Financial liabilities measured at fair value through profit or loss			
Derivative financial instruments – Forward foreign currency contracts	15	**377**	105

Notes to the financial statements - *continued*

Year ended 31 March 2019

20. Financial instruments and associated risk management – *continued*

Financial assets at fair value through profit and loss

(a) Classification of financial assets at fair value through profit or loss

Derivative financial instruments – Interest rate caps

Interest rate risk

The company is exposed to interest rate risk primarily through its loan financing arrangements. During the year, the company entered into a five-year interest rate cap to hedge part of the interest rate risk associated with the refinanced £20m revolving credit facility. An interest rate cap of 1.75% has been applied to a notional amount of £13m and is referenced against the three-month sterling LIBOR rate. The valuation of this instrument as at 31 March 2019 was £36,000 and this gain is included within the profit and loss account. A ten-year interest rate cap was entered into after the financial year end, effective from 1 June 2019 in relation to a new ten-year loan facility with RBS International. An interest rate cap of 2.0% has been applied to a notional amount of £15m and is also referenced against the three-month sterling LIBOR rate.

Financial assets that are debt instruments measured at amortised cost

(a) Classification of financial assets that are debt instruments measured at amortised cost

Credit risk

The company's credit risk is primarily attributable to its trade and other receivables which include receivables arising out of estimated value of unbilled units, customer accounts outstanding and other receivables. Trade receivables generally arise from transactions within the usual operating activities of the company. They represent undiscounted amounts of cash expected to be received (within a year) except for customer accounts outstanding which are due after more than one year. The amounts presented in the statement of financial position are net of allowances for doubtful receivables. Allowances are made where there is evidence of a reduction in the recoverability of cashflows. Cash and cash equivalents include cash at bank and in hand and balances with States Treasury with original maturities of three months or less.

(b) Fair values of financial assets that are debt instruments measured at amortised cost

The carrying amounts of financial assets and liabilities measured at amortised cost are assumed to be the same as their fair values due to their short-term nature.

Liquidity risk

The company maintains a strong liquidity position and manages the liquidity profile of its assets, liabilities and commitments so that cashflows are appropriately balanced and to ensure that the company meets all its financial obligations as they fall due.

Financial liabilities measured at amortised cost

The carrying amounts of trade payables, customer payments received in advance, deferred income, accruals and other payables are assumed to be the same as their fair values due to their short-term nature.

Loan commitment – revolving credit facility

The company entered into a five year, £20m revolving credit loan facility with RBS International to refinance a previous revolving credit facility held with HSBC which expired on 3 October 2018. This loan facility is for general working capital and capital expenditure purposes. The loan incorporates an option to increase the credit facility to £35m for the purpose of the future financing of key infrastructure expenditure and an extension to £22m under this option was exercised on 18 March 2019. Interest is charged at LIBOR plus an agreed premium. A commitment fee is payable on any undrawn amount in line with the terms of the arrangement. As at 31 March 2019, the company had utilised £22m of the loan (2018: £14m under the previous HSBC facility). The drawn amount has been classified as a financial liability measured at amortised cost. This facility expires on 2 October 2023.

Financial liabilities measured at fair value through profit or loss

Derivative financial instruments – forward contracts

(a) Import Financial Hedge

Currency risk

The company is exposed to currency risk through its import contracts with EDF and RTE which are denominated in Euros. The company manages the currency risk through derivative contracts. The company has entered into forward contracts for the purchase of the Euro. The company's commitment to forward contracts at the previous year ending 31 March 2018 was as follows:

Maturity	**Notional amount €'000**	**Average hedged rate**
Less than one year	15,760	1.1495
Greater than one year and less than two years	6,600	1.1230

As at the 31 March 2019, the company is holding the following euro forward and participating forward contracts to hedge the exposure on its electricity import over the next 15 months. These dates represent when the cash flows are expected to occur and when they are expected to affect profit or loss:

Maturity	**Notional amount €'000**	**Average hedged rate**
Less than one year	12,770	1.1193
Greater than one year and less than two years	1,575	1.1023

The impact of hedging instruments designated in cash flow hedging relationships as of 31 March 2019 on the statement of financial position of the company is as follows:

Line item in the statement of financial position	**Notional amount €'000**	**Carrying amount £'000**
Trade and other receivables	400	2
Trade and other payables: amounts falling due within one year	13,945	(377)

Notes to the financial statements - *continued*

Year ended 31 March 2019

20. Financial instruments and associated risk management – *continued*

As at 31 March 2019, the outstanding contracts for import all mature within 15 months of the year end. These contracts are measured at fair value utilising the third-party market valuations provided by the relevant counterparties. The loss included within the profit and loss account was an expense of £464,000 (2018: The loss included within the profit and loss account was an expense of £378,000). A £103,000 expense (2018: £34,000 expense) was recognised in Other Comprehensive Income during the period reflecting the effective change in value of hedging instruments designated for hedge accounting. A number of the hedges designated for hedge accounting were pre-existing at the date of the change in accounting policy last financial year. These hedges therefore have an inherent element of ineffectiveness as only movements from the point of change in policy are eligible to be effective. Hedges transacted after this date are anticipated to be effective.

A total of £39,000 (2018: £nil) has been reclassified from Equity to the Statement of Comprehensive Income during the year. Gains and losses on the derivatives are recycled through the income statement at the time the purchase of power is recognised in the income statement.

Determination of fair value on contracts

These contracts are measured at fair value utilising the third-party market valuations provided by the relevant counterparties on the basis of "exit" model methodologies.

21. Pension scheme

Nature of the Guernsey Electricity Limited actuarial account

The employees of the company are members of the States of Guernsey Public Servants Pension Scheme ("PSPS"). This is a defined benefits pension scheme funded by contributions from both employer and employee at rates which are determined on the basis of independent actuarial advice. As the PSPS is a multi-entity arrangement, the States of Guernsey contracted the PSPS's qualified independent actuaries to identify the actuarial account for each entity and, therefore, the value of the pension fund assets and liabilities attributable to this company.

The actuarial account operated by the company provides retirement benefits based on final pensionable pay for service to 29 February 2016 and based on career average revalued earnings from 1 March 2016. Some protected members will continue to accrue benefits from 1 March 2016 linked to final pensionable pay. Employees recruited after 1 May 2015 accrue benefits based on career average revalued earnings. The actuarial account forms part of the PSPS. The PSPS is currently open to both future accrual and new members. However, the actuarial account was closed to new members during the financial year to 31 March 2018.

The most recent triennial valuation of the company's actuarial account carried out as at 31 December 2016 reported that the actuarial account was in surplus. The company chose to maintain the contribution rate of 11.5% of pensionable pay using some of the surplus to cover the shortfall in the required contribution rate at the valuation date of 11.8% of pensionable pay and some as a prudent margin to cover any adverse future experience within the actuarial account. This contribution rate was approved by the States of Guernsey. The calculations for the FRS 102 disclosures have been carried out by running full actuarial calculations as at 31 March 2019.

Funding policy

The company's actuarial account is funded by means of regular contributions to cover current benefit accrual, with the rates of contribution set after each triennial actuarial valuation. The funding method currently employed is the Projected Unit Method, which sets contribution rates based on the benefits expected to be accrued in the year following the valuation date. This contribution rate is then adjusted to take account of any surplus or shortfall in the actuarial account. The States of Guernsey determine the level of contributions payable to the actuarial account following advice from the scheme's actuary.

Actuarial account amendments

The liabilities in respect of non-active members of the actuarial account as at 30 June 2018 were transferred to the Combined Pool on that date. A transfer value was paid to the Combined Pool in relation to these liabilities. This resulted in a settlement gain of £16,686,000 on 30 June 2018. This was inclusive of a settlement gain of £337,000 on 30 June 2018 as a result of a payment from the Combined Pool to the actuarial account in relation to the historic transfer of liabilities where members of the Superannuation Fund have moved between the employment of the company and the States of Guernsey.

There was also a settlement gain of £1,508,000 on 31 March 2019 in relation to a transfer of liabilities in relation to active leavers over the period from 1 July 2018 to 31 March 2019. A transfer value was paid from the actuarial account to the Combined Pool in respect of these liabilities.

Employee benefit obligations for Guernsey Electricity Limited in respect of the Guernsey Electricity Limited Actuarial Account of the States of Guernsey Superannuation Fund

The amounts recognised in the statement of financial position are as follows:

	2019 £'000	2018 £'000
Fair value of actuarial assets	**32,747**	65,620
Present value of funded obligations	**(41,348)**	(100,694)
Net underfunding in actuarial account	**(8,601)**	(35,074)
Related deferred tax asset (note 13)	**1,292**	6,360
Net defined pension liability	**(7,309)**	(28,714)

The amounts recognised in the statement of comprehensive income are as follows:

	2019 £'000	2018 £'000
Service cost	**2,394**	2,664
Settlement gains	**(18,194)**	-
Net interest on net defined benefit liability	**568**	1,039
(Income)/expense recognised in the statement of comprehensive income	**(15,232)**	3,703

Notes to the financial statements - *continued*

Year ended 31 March 2019

21. Pension scheme – *continued*

The net interest on net defined benefit liability is comprised as follows:

	2019 £'000	2018 £'000
Interest on obligation	**1,611**	2,650
Interest on assets	**(1,043)**	(1,611)
Net interest on net defined benefit liability	**568**	1,039

The amounts recognised as remeasurements in other comprehensive income are as follows:

	2019 £'000	2018 £'000
Return on assets (not included in interest)	**606**	2,437
Actuarial gains on obligation	**9,866**	6,048
Total remeasurements recognised in other comprehensive income	**10,472**	8,485
Cumulative amount of remeasurements recognised in other comprehensive income	**7,149**	(3,323)
Actual return on actuarial account assets	**1,649**	4,048

The following other costs will also need to be charged in the relevant sections of the accounts.

	2019 £'000	2018 £'000
Administration expenses paid from actuarial account	**41**	37
Other items	**41**	37

In addition, the company should charge any other administration expenses relating to the actuarial account which are paid directly from company funds.

The company contributed £809,000 to the actuarial account over the year from 1 April 2018 to 31 March 2019. Members of the actuarial account contributed £506,000 to the actuarial account over the same period.

The company expects to contribute £795,000 to the actuarial account over the next year from 1 April 2019 to 31 March 2020. Contributions by members of the actuarial account are expected to total £498,000 over the same period.

Changes in the present value of the actuarial account's defined benefit obligation are as follows:

	2019 £'000	2018 £'000
Opening defined benefit obligation	**100,694**	102,975
Service cost	**2,394**	2,664
Contributions by members	**506**	534
Liabilities extinguished on settlements	**(53,205)**	-
Benefits paid	**(785)**	(2,081)
Interest on obligation	**1,611**	2,650
Experience losses/(gains)	**270**	(3,945)
Gains from changes in assumptions	**(10,137)**	(2,103)
Closing defined benefit obligation	**41,348**	100,694

The weighted average duration of the liabilities of the actuarial account was 27 years as at 31 March 2019.

Changes in the fair value of actuarial account assets are as follows:

	2019 £'000	2018 £'000
Opening fair value of actuarial account assets	**65,620**	62,301
Interest on assets	**1,043**	1,611
Return on assets (not included in interest)	**606**	2,437
Assets distributed on settlements	**(35,011)**	-
Contributions by employer	**809**	855
Contributions by members	**506**	534
Benefits paid	**(785)**	(2,081)
Administration expenses	**(41)**	(37)
Closing fair value of actuarial account assets	**32,747**	65,620

Notes to the financial statements - *continued*

Year ended 31 March 2019

21. Pension scheme – *continued*

The major categories of actuarial account assets as a percentage of the total are as follows:

	2019 %	2018 %
Equities & alternatives	**75**	76
Bonds & fixed interest securities	**14**	14
Property	**6**	7
Other assets	**5**	3

The actuarial account holds no financial instruments issued by the company nor does it hold any property or other assets used by the company.

Principal actuarial assumptions used for the FRS 102 disclosures:

	31 March 2019 % p.a.	31 March 2018 % p.a.
Discount rate at end of year	**2.40**	2.50
Discount rate at start of year	**2.50**	2.60
Inflation	**2.40**	3.30
Rate of increase in pensionable salaries	**3.15**	4.05
Rate of increase in deferred pensions	**2.40**	3.30
Rate of increase in CARE benefits	**2.40**	3.30
Rate of increase in pensions in payment	**2.40**	3.30

Mortality assumptions

The mortality assumptions are based on standard mortality tables which allow for future mortality improvements. The assumptions are that a member aged 65 will live on average until age 87 if they are male and until age 89 if female. For a member currently aged 45, the assumptions are that if they attain age 65 they will live on average until age 88 if they are male and until age 90 if female.

Amounts for the current and previous period are as follows:

	2019 £'000	2018 £'000	2017 £'000	2016 £'000	2015 £'000
Defined benefit obligation	**41,348**	100,694	102,975	80,848	81,903
Actuarial Account assets	**32,747**	65,620	62,301	54,726	54,889
Deficit	**(8,601)**	(35,074)	(40,674)	(26,122)	(27,014)
Actuarial gains/(losses) on Actuarial Account assets	**606**	2,437	6,937	(1,987)	2,508
Experience (losses)/gains on Actuarial Account liabilities	**(270)**	3,945	3,487	859	1,916
Gains/(losses) from changes in assumptions	**10,137**	2,103	(23,316)	4,241	(6,454)
Total Actuarial gains/(losses) on Actuarial Account liabilities	**9,866**	6,048	(19,829)	5,100	(4,537)

22. Statement of control

The company is wholly owned and ultimately controlled by the States of Guernsey.

23. Related party transactions

There are no disclosable related party transactions in this financial year. See note 5 for disclosure of directors' remuneration.

24. Subsequent events

GJ1 cable overlay project funding

In order to fund the project to overlay the existing Guernsey to Jersey interconnector the company has entered into a new ten-year loan facility, together with interest rate protection, commencing on 31 May 2019, with RBS International which offers a credit line of £15m. In addition, the company has agreement for a loan from the proceeds of the States of Guernsey Bond issue for this project.

Tariff change

The Guernsey Competition and Regulatory Authority published its Statutory Notice of Final Decision, CICRA 19/23, allowing Guernsey Electricity to increase its unit tariffs by 6.8%, to be in place for three years from 1 July 2019. This tariff rise is to facilitate the recovery of historic uncontrollable costs incurred during the preceding two-year period relating to the importation and generation of electricity, which are primarily related to the price of oil and exchange rate movements.

Change in accounting period

The Board has approved a change in financial fiscal date from 31 March to 30 September with effect from 1 April 2019. The next accounting period will therefore be a transitionary 18-month period from 1 April 2019 to 30 September 2020. The change in fiscal date aids business forecasting and reduces year end unbilled revenue estimation as the higher winter consumption periods move towards the beginning of the financial year.

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