First Hydro Finance plc
Registered number: 3085928

ANNUAL REPORTS AND FINANCIAL STATEMENTS
For the year ended 31 December 2019

Strategic report

The Directors present the Strategic report of First Hydro Finance plc (the Company) for the year ended 31 December 2019.

Corporate governance
Since the ordinary shares of the Company are not listed on any stock exchange, the Company is not required to comply with any UK corporate governance regime. However, certain aspects of the Company's governance are set out below:

Principal activities

The Company provides finance for First Hydro Holdings Company and its subsidiaries (the Group). The principal activity of the Company is that of a financing company. The Company has issued guaranteed secured bonds which are publicly listed on the London Stock Exchange. The finance raised from issuing these bonds has been loaned to First Hydro Holdings Company under the same terms of interest and repayment as those of the bonds. The principal activities of the Company are not expected to change in the foreseeable future.

Business review

The accompanying financial statements have been prepared in accordance with Financial Reporting Standard 101-Reduced Disclosure Framework (FRS 101) for both periods presented. The Company has taken advantage of the disclosure exemptions allowed under this standard.

The results of the Company are as follows:

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Profit for the financial year	3	2

As shown in the profit and loss account on page 11, the profit for the financial year ended 31 December 2019 is consistent with the prior year.

The balance sheet on page 12 of the financial statements shows the Company's financial position at the end of the current and preceding financial year. The net assets have marginally increased from £144k to £147k due to the profit for the year.

Finance instruments risk management objectives and policies

The Company's principal financial liabilities comprise loans and borrowings, trade and other payables, and financial guarantee contracts. The main purpose of these financial liabilities is to finance the Company's operations and to provide guarantees to support its operations. The Company's principal financial assets include inter-company loans, trade and other receivables, and cash and short-term deposits that derive directly from its operations.

The Company is exposed to market risk, credit risk and liquidity risk. The Company's senior management oversees the management of these risks. The Company's senior management is supported by ENGIE S.A.'s financial risk committee that advises on financial risks and the appropriate financial risk governance framework for the Company. The financial risk committee provides assurance to the Company's senior management that the Company's financial risk activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with the Company's policies and risk objectives. The Board of Directors reviews and agrees policies for managing each of these risks, which are summarised below.

Principal risks and uncertainties

Market risk
The key business risks faced by the Company are the volatility in its fellow subsidiaries' markets (balancing services and wholesale markets), and plant reliability, affecting the generation of the cash resources required to pay the Company's financing costs. These risks are mitigated by trading the fellow subsidiary's plant's generating capacity across a mixture of long term and short term markets, and by pursuing a vigorous asset management and maintenance programme to protect plant integrity.

Strategic report (continued)

Principal risks and uncertainties (continued)

Credit risk
The principal credit risk relates to the £400m loan to First Hydro Holdings Company, the immediate parent company. The financial strength of First Hydro Holdings Company ultimately depends on the trading performance of First Hydro Company. The trading performance of First Hydro Company is regularly monitored and is forecasted to have sufficient profits to meet interest payments as they fall due.

Liquidity risk
The Company has £400m 9% Guaranteed secured bonds in issue which mature on 31 July 2021. During the period 2017 – 2021 the Company is required to create a Repayment Reserve through the use of letters of credit or cash deposits, of which the first £80m instalment became due in July 2017. The Directors arranged letter of credit facilities and have drawn on these in order to facilitate the 2017, 2018 and 2019 instalments. The Shareholders of the Company have confirmed, by way of a letter of support, that the 2020 instalment will be financed by an increase in these facilities.

Currency risk
No direct currency risk results from the Company's principal activities.

Interest rate risk
The Company has both interest bearing liabilities and assets. Firstly, the Company has £400m of bonds issued, on which it pays interest at a fixed rate of 9%. It has also extended a loan to First Hydro Holdings Company of £400m, which has a fixed interest rate of 9%. The Company invests surplus cash over varying periods of time.

Employees

The Company had no employees (2018: none) and incurred no employee related costs in the financial year (2018: £nil).

Events after the end of the reporting period

There have been no significant events since the balance sheet date which should be considered for a proper understanding of these financial statements.

Future developments

The Company has no significant future developments to report.

Brexit
In the UK, the economic climate continues to be dominated by the potential impact of Brexit, leading to expectations of an overall economic slowdown within the UK. However, the Board remains confident that there will be no disruption to the business, regardless of the outcome of negotiations, and at this time no risk factors have been identified. Uncertainties remain, and the directors continue to monitor risk and to prepare for all potential outcomes.

By order of the Board

D. Alcock
Director
11 March 2020

Directors' report

The Directors present their report and audited financial statements of First Hydro Finance plc (the Company) for the year ended 31 December 2019.

Information disclosed in the Strategic report

The following information has been disclosed in the Strategic report:

- Principal activities
- Business review
- Principal risks and uncertainties
- Employees
- Events after the end of the reporting period
- Future developments

Going concern

The Company's activities, together with the factors likely to affect its future development and position, are set out in the Strategic report. The Company is dependent on its fellow subsidiary, First Hydro Company, to generate sufficient revenue to fund the interest payments due on the Company's long term debt. The Company's Directors have a reasonable expectation, based on budgets, forecasts and cashflows, and on information provided by the Directors of First Hydro Company, that the Company will be able to continue in operational existence for the foreseeable future.

During the period 2017 – 2021 the Group is required to create a Repayment Reserve for the long term debt through the use of letters of credit or cash deposits.

The Directors arranged letter of credit facilities for the Company's £400m Bond repayment reserve and have drawn instalments in July 2017, July 2018 and July 2019. The Shareholders of the Company have confirmed, by way of a letter of support, that they will continue to provide for the issuance of letters of credit to the Company in respect of their respective proportionate share of the required reserve account funding obligations up to the applicable limits under the bond trust deed dated 17 January 1996 to which the Company is a party.

The directors recognise that the £400m external bond is due for repayment in July 2021. A number of options are currently being considered, one of which is settling the bond through finance from shareholder companies. Over the next six months the directors will refine their plans and take the necessary actions.

Accordingly, they continue to adopt the going concern basis of accounting in preparing the financial statements.

Directors

The Directors who held office during the financial year and up to the date of this report were as follows:
D. Alcock
A. Garner
T. O'Brien
S. Pinnell

S. Gregory was Company Secretary during the financial year and up to the date of this report.

Directors' indemnity provision

During the years ended 31 December 2019 and 2018 the Company has made qualifying third party indemnity provisions for the benefit of its Directors which remain in force at the date of this report.

Share capital

During the years ended 31 December 2019 and 2018, the Company's share capital comprises ordinary shares of £1.00 each which rank pari passu with each other in respect of all rights, including dividend, voting and return of capital.

Directors' report (continued)

Dividends

The Directors do not recommend the payment of a dividend in respect of the year ended 31 December 2019 (2018: £nil).

Disclosure of information to the auditor

Ernst & Young LLP was the Company's statutory auditor for the year ended 31 December 2019. 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 he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

Auditor

Pursuant to Section 485 of the Companies Act 2006, the auditor will be deemed to be re-appointed and Ernst & Young LLP will therefore continue in office.

By order of the Board

D. Alcock
Director
11 March 2020

Statement of Directors' responsibilities in respect of the Strategic report, the Directors' report and the financial statements

The Directors are responsible for preparing the Strategic report, 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, the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law).

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

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

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditor's report to the members of First Hydro Finance plc

Opinion

We have audited the financial statements of First Hydro Finance plc for the year ended 31 December 2019 which comprise Profit and loss account, the Statement of comprehensive income, the Balance Sheet, the Statement of changes in equity and the related notes 1 to 15 including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, 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.

Overview of our audit approach

Key audit matters	• The going concern assumption
Materiality	• Overall materiality of £2.0m which represents 0.5% of total assets.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Going Concern assumption *Refer to the Strategic report (pages 1 and 2, Directors' report (page 3) and accounting policies (note 1a, page 14)* As at 31 December 2019 the company had guaranteed secured bonds of £400m (2018: £400m) requiring an annual interest payment of £36.0m (2018: £35.8m). The bonds are repayable on 31 July 2021 and during the period from 2017 to 2021 the directors are required to create a repayment reserve for the long term debt, which they do through the use of letters of credit. Arrangements have been made with ENGIE SA and Brookfield (the shareholders) to gain access to an indemnity line to draw instalments of £80m, which first occurred in July 2017, with further £80m instalments each drawn in July 2018 and July 2019. In order to service the debt and to access the indemnity lines, the company is reliant on financing and facilities from other shareholder companies. The Strategic report on pages 1 and 2 identifies the company's principal risks and uncertainties. Judgement is required by the directors in assessing whether any material uncertainties exist which cast significant doubt as to the company's ability to meet its liabilities and whether the mitigating actions identified by management are achievable. Judgement is also required in assessing whether the disclosures provided in the financial statements adequately describe the risks and underlying assumptions. The risk is consistent with the previous year.	We understood and assessed the design and implementation of the key controls around management's assessment of the going concern basis. We obtained and reviewed the going concern assessment performed by management including the support letters received from another ENGIE group company and Brookfield Renewable Partners L.P who are the beneficial owners of the company. We assessed the financial forecast of the trading entity within the First Hydro group to consider its ability to continue to pay dividends to then enable the servicing of the back to back debt for a period of at least twelve months after these financial statements were signed. We evaluated the headroom under management's sensitised forecasts which formed the basis of management's conclusions regarding going concern. We understood the options being considered by management concerning the repayment plan for the listed bond and obtained evidence to support the viability of one of those options. We read board minutes for inconsistencies with the risks considered in the going concern assessment. We read the disclosures in the Annual Report and Financial Statements to confirm that they were consistent with our understanding of the going concern assessment that had been undertaken by the directors and that they appropriately reflected the risks and mitigating actions that had been considered.	We concluded that it is appropriate to adopt the going concern basis of accounting in preparing the financial statements. We conclude that adequate disclosure has been provided in the financial statements.

Independent auditor's report to the members of First Hydro Finance plc (continued)

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the company. This enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the company and effectiveness of controls, including controls and changes in the business environment when assessing the level of work to be performed. All audit work was performed directly by the audit engagement team.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality
The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the company to be £2.0 million (2018: £2.0 million), which is 0.5% (2018: 0.5%) of total assets. We believe that total assets is the benchmark for calculating materiality as it is the key performance measure of the business.

Performance materiality
The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the company's overall control environment, our judgement was that performance materiality was 75% (2018: 75%) of our planning materiality, namely £1.5m (2018: £1.5m). We have set performance materiality at this percentage due to the work performed and conclusion reached on the 2018 audit.

Reporting threshold
An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.1m (2018: £0.1m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

Independent auditor's report to the members of First Hydro Finance plc (continued)

- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and

- the Strategic report and Directors' reports have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report or Directors' report.

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the Statement of Directors' responsibilities set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, 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.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

The objectives of our audit, in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant are

- We understood how First Hydro Finance plc is complying with those frameworks by the oversight of those charged with governance (i.e. considering the potential for override of controls or other inappropriate influence over the financial reporting process, such as efforts by management to manage earnings in order to influence the perceptions of analysts as to the entity's performance and profitability), the culture of honesty and ethical behaviour and whether a strong emphasis is placed on fraud prevention, which may reduce opportunities for fraud to take place, and fraud deterrence, which could persuade individuals not to commit fraud because of the likelihood of detection and punishment.

- We assessed the susceptibility of the company's financial statements to material misstatement, including how fraud might occur by misreporting of revenue, management's journal entries or bias in the use of judgements and estimates.

- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved reading the minutes of the Board of Directors meetings, testing manual journal entries and testing estimates for unexpected changes in assumptions.

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.

Other matters we are required to address

- We were appointed by the company on 7 February 2017 to audit the financial statements for the year ended 31 December 2016 and subsequent financial periods.

  The period of total uninterrupted engagement including previous renewals and reappointments is 4 years, covering the years ended 31 December 2016 to 31 December 2019.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the company and we remain independent of the company in conducting the audit.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Ernst + Young LLP

Jennifer Hazlehurst (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Liverpool
12 March 2020

Profit and loss account
for the year ended 31 December 2019

	Note	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Turnover		37	26
Administrative expenses		(34)	(24)
Operating profit	3	3	2
Profit before interest and taxation			
Interest receivable and similar income	4	36,000	35,852
Interest payable and similar expenses	5	(36,000)	(35,852)
Profit before taxation		3	2
Taxation	6	-	-
Profit for the financial year		3	2

All results in the current and preceding year were derived from continuing activities.

The notes on pages 14 to 21 form part of these financial statements.

There was no other comprehensive income attributable to the shareholders of the Company other than the profit for the financial year ended 31 December 2019 of £3,000 (2018: £2,000). Accordingly, no separate Statement of comprehensive income has been prepared.

Balance sheet
as at 31 December 2019

	Note	As at 31 December 2019 £'000	As at 31 December 2018 £'000
Current assets			
Debtors			
- due within one year	7	**15,090**	14,978
- due after one year	7	**400,000**	400,000
Cash at bank and in hand		**36**	139
		415,126	415,117
Creditors: amounts falling due within one year	8	**(14,979)**	(14,973)
Net current assets		**400,147**	400,144
Total assets less current liabilities		**400,147**	400,144
Creditors: amounts falling due after more than one year	9	**(400,000)**	(400,000)
Net assets		**147**	144
Capital and reserves			
Called up share capital	10,11	**13**	13
Retained earnings	11	**134**	131
Equity shareholder's funds		**147**	144

The notes on pages 14 to 21 form part of these financial statements.

These financial statements were approved and authorised for issue by the Board of Directors on 11 March 2020 and signed on its behalf by:

S. Pinnell
Director

Statement of changes in equity
for the year ended 31 December 2019

	Called up share capital £'000	Retained earnings £'000	Total £'000
Equity shareholder's funds 1 January 2018	13	129	142
Profit for the financial year	-	2	2
Total comprehensive income for the financial year	-	2	2
Equity shareholder's funds at 31 December 2018	13	131	144
Profit for the financial year	-	3	3
Total comprehensive income for the financial year	-	3	3
Equity shareholder's funds at 31 December 2019	**13**	**134**	**147**

The notes on pages 14 to 21 form part of these financial statements.

Notes to the financial statements
for the year ended 31 December 2019

General information
First Hydro Finance plc (the Company) is a public limited company incorporated and domiciled in England and Wales. The address of its registered office is Level 20, 25 Canada Square, London E14 5LQ, United Kingdom. The nature of the Company's operations and its principal activities are set out in the Strategic report on page 1.

These financial statements are separate financial statements. The Company's results are included in the group accounts of First Hydro Holdings Company. The group accounts of First Hydro Holdings Company are available to the public and can be obtained as set out in Note 14.

1. Accounting policies

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

a. Basis of preparation

The financial statements have been prepared in accordance with FRS 101 'Reduced Disclosure Framework' as issued by the Financial Reporting Council and in accordance with applicable accounting standards. Copies of the Group's consolidated financial statements can be obtained from First Hydro Holdings Company, whose address is detailed in Note 14. These financial statements have also been prepared on the going concern basis, and under the historical cost convention, except for certain financial instruments that are measured at fair value as explained in the accounting policy below.

Going concern
The Company's activities, together with the factors likely to affect its future development and position, are set out in the Strategic report. The Company is dependent on its fellow subsidiary, First Hydro Company, to generate sufficient revenue to fund the interest payments due on the Company's long term debt. The Company's Directors have a reasonable expectation, based on budgets, forecasts and cashflows, and on information provided by the Directors of First Hydro Company, that the Company will be able to continue in operational existence for the foreseeable future.

During the period 2017 – 2021 the Group is required to create a Repayment Reserve for the long term debt through the use of letters of credit or cash deposits.

The Directors arranged a letter of credit facilities for the Company's £400m Bond repayment reserve and have drawn instalments in July 2017, July 2018 and July 2019. The Shareholders of the Company have confirmed, by way of a letter of support, that they will continue to provide for the issuance of letters of credit to the Company in respect of their respective proportionate share of the required reserve account funding obligations up to the applicable limits under the bond trust deed dated 17 January 1996 to which the Company is a party.

The directors recognise that the £400m external bond is due for repayment in July 2021. A number of options are currently being considered, one of which is settling the bond through finance from shareholder companies. Over the next six months the directors will refine their plans and take the necessary actions.

Accordingly, they continue to adopt the going concern basis of accounting in preparing the financial statements.

New and revised IFRSs applied
The Company applied IFRS 16 Leases and IFRIC 23 Uncertainty over Income Tax Treatments for the first time during 2019. The adoption of these new standards has not resulted in any material effect on the financial statements. The Company has not adopted any standards, interpretations or amendments that have been issued but are not yet effective.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to:
- financial instruments as required by IFRS 7 Financial Instruments: Disclosures;
- financial instrument valuation techniques and inputs used for fair value measurement as required by IFRS 13 Fair Value Measurement;
- the requirements of IAS 7 Statement of Cash Flows to present a statement of cash-flows for the period and the disclosure of cash flow information;
- the IAS 1 paragraph 16 requirement to state compliance with all the requirements of IFRSs;

Notes to the financial statements (continued)
for the year ended 31 December 2019

1. Accounting policies (continued)

a. Basis of preparation (continued)

- the IAS 1 paragraphs 134 to 136 requirement to disclose the entity's objectives, policies and processes for managing capital;
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting policies, changes in accounting estimates and errors, to disclose when an entity has not applied a new IFRS that has been issued but is not yet effective; and
- the requirements in IAS 24 Related Party Disclosures for related party transactions entered into between two or more members of a group, and the requirements of paragraph 17 and 18A of IAS 24 Related Party Disclosures (key management compensation).

b. Critical accounting estimates and judgements

The preparation of the financial statements requires the use of estimates and assumptions to determine the value of assets and liabilities, and contingent assets and liabilities at the balance sheet date, as well as income and expenses reported during the period.

The Company regularly revises its estimates in light of currently available information because of uncertainties inherent in the estimation process. Final outcomes could differ from those estimates.

c. Interest income

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

d. Interest expense

Interest expense is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability to that liability's net carrying amount.

e. Taxation

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the countries where the Company operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the statement of profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or as asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss

- In respect of taxable temporary differences associated with investments in subsidiaries, associate and interest in joint arrangements, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probably that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

Notes to the financial statements (continued)
for the year ended 31 December 2019

1. Accounting policies (continued)

e. Taxation (continued)

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interest in joint arrangements, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

f. Cash and cash equivalents

Cash and short-term deposits in the statement of financial position comprise cash at bank and on hand and short-term deposits with a maturity of three months or less, which are subject to an insignificant risk of changes in value.

g. Derivative financial instruments

(i) Financial assets

Initial recognition and measurement
Financial assets are classified, at initial recognition, and subsequently measured at amortised cost, fair value through other comprehensive income (OCI) or fair value through profit and loss. In order for a financial asset to be classified as measured at amortised cost or of fair value through OCI it needs to give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding. This assessment is performed at the instrument level.

Subsequent measurement
For the purpose of subsequent measurement, financial assets are classified into four different categories:
- Financial assets at amortised cost (debt instruments);
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments);
- Financial assets designated as fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments); and
- Financial assets at fair value through profit and loss.

Financial assets at amortised cost (debt instruments)
These items primarily include amounts owed by group undertakings and trade and other debtors. On initial recognition these loans and receivables are recorded at fair value plus transaction cost.

Financial assets measured at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in income statement when the asset is derecognised, modified or repaired. The Company's financial assets at amortised cost include trade receivables and loans.

Financial Assets at fair value through profit and loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit and loss.

Derecognition
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e. removed from the Company's consolidated statement of financial position) when:
- The rights to receive cash flows from the asset have expired; and
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement.

Notes to the financial statements (continued)
for the year ended 31 December 2019

1. Accounting policies (continued

g. Derivative financial instruments (continued)

Financial liabilities at fair value through profit or loss

(ii) Financial liabilities

Initial recognition and measurement
Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit and loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs. The Company's financial liabilities include trade and other payables, loans and borrowings.

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

Loans and borrowings
After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

Derecognition
A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

h. Presentation and functional currency

The Company financial statements are presented in sterling, which is also the Company's functional currency.

i. Turnover
Turnover represents the amounts derived within the UK from the management fees charged to the Company's parent, which are recognised on an accruals basis as incurred. This is considered by the Directors to represent a single class of business.

2. Directors' and employees' remuneration

The Directors did not receive any fees or emoluments from the Company during the year (2018: £nil) directly attributable to their position within the Company. All Directors' fees or emoluments for the period and the prior period were paid and not recharged, by International Power Ltd. and the amount attributable to the qualifying services provided by the Directors to the Company cannot be reliably estimated (2018: same).

No Directors exercised share options in ENGIE S.A. or International Power Ltd. (2018: none).

The Company had no employees during the financial year (2018: none).

Notes to the financial statements (continued)
for the year ended 31 December 2019

3. Auditor's remuneration

The auditor's remuneration was as follows:

	2019 £'000	2018 £'000
Auditor's remuneration for the financial year	**16**	15

The auditor's remuneration in respect of the statutory audit for the years ended 31 December 2019 and 31 December 2018 was borne by First Hydro Company. Non-audit fees of £10.0k were payable in the year ended 31 December 2019 (2018: £9.0k) and were borne by the Company (2018: borne by First Hydro Company).

4. Interest receivable and similar income

	2019 £'000	2018 £'000
Interest receivable from group undertakings	**36,000**	36,000
Letter of credit charges refunded to group undertakings	**-**	(148)
Total interest income	**36,000**	35,852

5. Interest payable and similar expenses

	2019 £'000	2018 £'000
Other interest payable	**16,189**	16,189
Interest payable to group undertakings	**19,811**	19,811
Letter of credit charges refunded	**-**	(148)
Total interest expense	**36,000**	35,852

The letter of credit charges accrued in 2017 in relation to the Bond Repayment Reserve were reversed in 2018 as they were borne by First Hydro Holdings Company in 2018 and 2019.

6. Tax charge on profit on ordinary activities

	2019 £'000	2018 £'000
Reconciliation of the total tax expense		
Profit on ordinary activities before taxation	**3**	2
Current tax charge at 19% (2018: 19%)	**-**	-
Group relief at nil charge	**-**	-
Tax on profit on ordinary activities	**-**	-

The applicable statutory tax rate for the period and prior period was 19%.

Notes to the financial statements (continued)
for the year ended 31 December 2019

7. Debtors

	2019 £'000	2018 £'000
Due within one year:		
Amounts owed by group undertaking - current account	**123**	11
Amounts owed by group undertaking - interest	**14,967**	14,967
	15,090	14,978
Due after one year:		
Amounts owed by group undertaking - loan	**400,000**	400,000
	415,090	414,978

The £400 million owed by the Company's immediate parent undertaking earns interest at a rate of 9% per annum and is repayable in 2021. Interest owed on this balance of £14,967,391 (2018: £14,967,391) is included within amounts falling due within one year.

8. Creditors: amounts falling due within one year

	2019 £'000	2018 £'000
Interest accrual	**6,731**	6,731
Amounts owed to other group undertaking - interest	**8,237**	8,236
Accruals and deferred income	**11**	6
	14,979	14,973

9. Creditors: amounts falling due after more than one year

	2019 £'000	2018 £'000
Guaranteed secured bonds	**400,000**	400,000
	400,000	400,000

The Guaranteed Secured Bonds are due for repayment on 31 July 2021 and carry interest at a rate of 9% per annum, payable semi-annually. They are secured by charges over the assets of the Company, First Hydro Company and First Hydro Holdings Company. ENGIE CC, a wholly owned subsidiary of ENGIE S.A., has purchased from third parties Guaranteed secured bonds with a par value of £220.1 million (2018: £220.1 million).

During the period 2017 – 2021 the Group is required to create a Repayment Reserve for the long term debt through the use of letters of credit or cash deposits. The Directors have arranged access to letter of credit facilities and have drawn instalments in July 2017, July 2018 and July 2019. The Shareholders of the Company have confirmed, by way of a letter of support, that the 2020 instalment will be financed by an increase in these facilities.

The directors recognise that the £400m external bond is due for repayment in July 2021. A number of options are currently being considered, one of which is settling the bond through finance from shareholder companies. Over the next six months the directors will refine their plans and take the necessary actions.

Notes to the financial statements (continued)
for the year ended 31 December 2019

10. Called up share capital

	2019 £'000	2018 £'000
Authorised, issued and called up share capital		
50,000 ordinary shares of £1.00 each	**13**	13

Of which	Number	Number
£1.00 fully paid	**2**	2
25p paid up	**49,998**	49,998

Ordinary shares rank equally between each other with regard to voting rights, the right to receive dividends and also in a distribution of assets or the winding up of a company.

11. Capital and reserves

	Called up share capital £'000	Retained earnings £'000	Total £'000
Balance as at 1 January 2019	13	131	144
Profit for the financial year	-	3	3
Balance as at 31 December 2019	**13**	**134**	**147**

	Called up share capital £'000	Retained earnings £'000	Total £'000
Balance as at 1 January 2018	13	129	142
Profit for the financial year	-	2	2
Balance as at 31 December 2018	13	131	144

12. Dividends

The Directors do not recommend the payment of a dividend in respect of the year ended 31 December 2019 (2018: £nil).

Notes to the financial statements (continued)
for the year ended 31 December 2019

13. Related party disclosures

As at 31 December 2019 and 31 December 2018, the Company was a wholly owned subsidiary of First Hydro Holdings Company. First Hydro Holdings Company has an intermediate parent, FHH No. 1 Limited, that is a 75% owned subsidiary of IP Karugamo Holdings (UK) Limited, which is wholly owned by ENGIE S.A., and a 25% owned subsidiary of Brookfield Renewables UK Hydro Limited.

The Company undertakes various transactions with other companies within the IP Karugamo Holdings (UK) Limited group of companies. All of the companies are registered in England and Wales and are subsidiary of the ENGIE group and its ultimate parent undertaking, ENGIE SA.

2019	Sales	Interest receivable	Interest payable	Amount owed from	Amount owed to
	£'000	£'000	£'000	£'000	£'000
First Hydro Holdings Company	37	36,000	-	415,090	-
ENGIE CC	-	-	(19,811)	-	(228,368)

2018	Sales	Interest receivable	Interest payable	Amount owed from	Amount owed to
	£'000	£'000	£'000	£'000	£'000
First Hydro Holdings Company	26	35,852	-	414,978	-
ENGIE CC	-	-	(19,811)	-	(228,368)

Sales to First Hydro Holdings Company represent recharges of professional costs. All transactions are made under terms and conditions comparable with those of an arm's length transaction.

Interest payable to ENGIE CC relates to their holding of the First Hydro Finance plc Guaranteed Secured Bonds.

14. Controlling party and ultimate parent undertaking

The Company's immediate parent undertaking is First Hydro Holdings Company, the registered address of which is Level 20, 25 Canada Square, London E14 5LQ, United Kingdom.

The Directors consider the Company's ultimate parent undertaking and controlling party to be ENGIE S.A. which was incorporated in France and is headquartered in Paris, France and which is the parent undertaking of the largest and smallest group in which the results of the Company are consolidated for the year ended 31 December 2019 and the year ended 31 December 2018. The consolidated financial statements of ENGIE S.A. may be obtained from its registered office at 1 Place Samuel de Champlain, 92400 Courbevoie, Paris, France.

15. Subsequent events

There have been no significant events since the balance sheet date which should be considered for a proper understanding of these financial statements. The Company has no significant future developments to report.