



ANNUAL REPORT & FINANCIAL STATEMENTS

Company Registration number 3782949



CONTENTS

| | Page |
|--|------|
| 1. Officers and Professional Advisers | 2 |
| 2. Report of the Chairman and Chief Executive Officer | 3 |
| 3. Strategic Report | 9 |
| 4. Directors' Report | 20 |
| 5. Corporate governance statement | 25 |
| 6. Independent Auditor's report to the members of ELEXON Limited | 40 |
| 7. Consolidated profit and loss account | 46 |
| 8. Consolidated balance sheet | 48 |
| 9. Company balance sheet | 50 |
| 10. Consolidated cash flow statement | 52 |
| 11. Notes to the financial statements | 54 |

1. Officers and Professional Advisers

Directors

Michael Gibbons - Chairman
Mark Bygraves - Chief Executive Officer
Volker Beckers - Non-executive
Alison Chappell - Non-executive
Clare Duffy - Non-executive
David Rigney - Non-executive
Anne Heal - Non-executive

Company Secretary

Nicholas Brown

Registered Office

4th Floor
350 Euston Road
London NW1 3AW

Bankers

Barclays Bank plc
54 Lombard Street
London EC3P 3AH

Auditor

Moore Stephens LLP
Chartered Accountants and Statutory
Auditor
150 Aldersgate Street
London
EC1A 4AB

02 REPORT OF THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER

2.1 Report from the Chairman

By Michael Gibbons CBE, Chairman

ELEXON is the Balancing and Settlement Code Company ('BSCCo') for the electricity market in Great Britain.

ELEXON's 'end to end' service model spans code management, code delivery and policy support areas for both wholesale and retail energy markets in Great Britain. We believe ELEXON's business model provides for a cost effective, high standard of delivery of each of these code services.

During the 2017/18 financial year, ELEXON and the BSC Panel have continued their advocacy of more collaboration, and less complexity and fragmentation of the industry central code arrangements. As part of that advocacy, the Board and Panel have been considering how ELEXON and the BSC services need to adapt in order to support innovation and change, as is intended by recently published government plans. BEIS and Ofgem have outlined their strategic direction for the energy industry in their joint Smart Systems and Flexibility plan published in July 2017, which ELEXON fully supports.

I think it is worth emphasising that ELEXON has already been leading on some of the associated industry initiatives, for example:

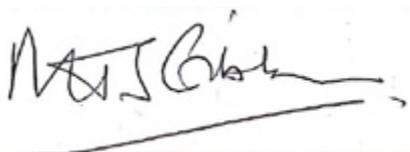
- ▶ ELEXON's market experts have been successfully involved in several major Ofgem projects eg. Half-Hourly Settlement, Faster Switching, and Demand Side Flexibility
- ▶ Together with National Grid, we are leading on the implementation of project TERRE, which will deliver the GB solution to the introduction of pan-European energy balancing products, as is required by the European Electricity Balancing Guideline. It will open the Balancing Mechanism (BM) to aggregators and other parties, and enable new services and new business models to participate in the GB energy system.
- ▶ ELEXON became the first code administrator to introduce the concept of a regulatory Sandbox, following Ofgem's lead. This is an initiative to allow for pre-competitive testing of new services and business models in the live environment of BSC systems, but without the usual regulatory constraints.
- ▶ ELEXON has developed a White Paper on the practical options for enabling the early introduction of arrangements for customers to have more than one supplier, thereby potentially facilitating peer to peer trading, including with community projects, electric vehicles and battery storage.



ELEXON's governance arrangements have operated successfully under the new provisions put in place by Modification P324 in November 2016. We appointed the CEO to the Board and demonstrated improved accountability, e.g. by initiating open letters to BSC Parties explaining the Board's work, discussions and plans for the future. The Annual BSC Meeting in July 2017 was the first opportunity for BSC Parties to exercise votes on the appointments of ELEXON directors and thereby to indicate their confidence in the Board. I am very pleased that the Parties strongly supported all five reappointments to the Board, including my own as Chairman. I wish to put on record here my appreciation of their approval for my reappointment, which I regard as a great privilege and responsibility.

In October 2017 we welcomed Anne Heal to the Board as a new non-industry Non-Executive Director, following the departure of Gillian Wilmott.

While ELEXON, its Board and the Panel continuously review the changing industry landscape in which we operate to ensure the BSC adapts to our customers' evolving needs, we are fully committed to delivering our business-as-usual services to the same high standard as always. To that end, we conducted a thorough audit of our internal IT systems as a part of our Architecture Strategy project. As a result, we concluded that we needed to invest in new systems to continue and indeed improve our current level of service and reliability. We shall keep the industry involved in this work through the Panel and a cross-industry stakeholder community, in order to ensure that all changes are responsive to the future needs of our customers and delivered with minimal disruption to the industry.

A handwritten signature in black ink, appearing to read 'Michael Gibbons', with a horizontal line underneath it.

Michael Gibbons CBE
Chairman
6 June 2018

2.2 Report from the Chief Executive Officer

By Mark Bygraves, Chief Executive Officer



2017/18 has been another year of significant market changes and we can be certain that even more change is coming as the market accommodates new business models, new regulations, new service offerings and new technologies. At ELEXON we realise we see only a part of the changes affecting our sector but we nevertheless want to ensure we are responding to the industry's needs by not only continuing to deliver services to our historically high standards, but also adapting those services to meet "our customers' new and increasing" demands.

At ELEXON we speak of ourselves as being created by industry, tasked to provide essential market services to our stakeholders, and thereby benefitting industry and its customers. That is our purpose, our reason for being. That is why in 2017/18 we revised our strategy, putting our stakeholders' needs first and foremost, so that our stated aim is:

"With the support of our stakeholders and partners, simplify and consolidate complex and fragmented services, develop new market solutions and actively facilitate innovation for the benefit of GB energy markets and the UK economy"

During 2017/18 we have continued to engage with our stakeholders, at operational and executive levels, to better understand their needs and how we can better deliver our services for their benefit. The feedback is that this has helped to cement our role as trusted independent reliable market experts, which is further demonstrated by our leadership on the design of market wide Half Hourly Settlement, being the first code body to progress a sandbox, and the production of papers such as enabling multiple suppliers, all to support innovation and new business models. At the same time we have increased our effectiveness with the production of blogs, briefings, new reports and data insights. In all cases we are determined that the Balancing and Settlement Code enables such innovation and change. innovation and new business models. At the same time we have increased our effectiveness with the production of blogs, briefings, new reports and data insights. In all cases we are determined that the Balancing and Settlement Code enables such innovation and change.

Throughout the year we continued to deliver on our BSC and EMR obligations, maintaining high system availability and customer service. Key achievements in systems implementation have occurred too, for example all EMR releases were on or ahead of schedule and to budget, we delivered four trouble free BSC Releases comprising 39 Modifications and Change Proposals, and usage of our refreshed BMRS platform has increased significantly with over 10,000 users.

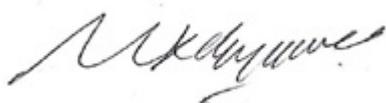
I am immensely proud of our customer survey results which remain hugely impressive with 94% of respondents to our 2017/18 independent survey saying our service had improved or stayed the same. The results highlighted our changing user base (invitations had nearly doubled to 631 from 324 in 2016/2017 which naturally therefore included new and smaller organisations). Whilst the scores of larger incumbents showed a significant improvement, those of smaller or newer parties (1 in 4 had fewer than 2 years' experience of dealing with ELEXON) showed they desired greater support and we are endeavouring to provide that. And despite our high scores, we are not complacent, using the results to improve our website, our interactions with smaller parties and demonstrating proactivity and leadership in our arena of essential market services.

One area on which we have focused during 2017/18 is our existing BSC systems which are being stretched as more complex changes are foreseen. Decarbonisation, decentralisation and digitalisation are reshaping the whole energy market from wholesale to retail, changing industry roles and how the system operates. We therefore established the Foundation Programme to deliver a stable, flexible platform for the future, which ultimately puts us in a good position to meet our customers' needs. This was described in our 2018/19 Business Plan and is a multi-year programme with its first Release scheduled for April 2019, in line with the start of industry testing for TERRE. We have determined that TERRE, which is needed as a result of European regulation, and the biggest change for ELEXON since NETA, should be implemented on the new platform. This means we will be set up and prepared to deliver the level of future changes, on a new, modern and robust platform, which will provide better value for our customers in the future. As is our way, we will keep our stakeholders fully informed as this programme develops.

For several years we have advocated a simplification of the complex and fragmented central services arena in which ELEXON and other code organisations, both administrators and operators, exist.

We do this not from self-interest but because we strongly believe there are benefits to industry if such services were simplified and consolidated. I am delighted that ELEXON, as the top scorer on customer satisfaction in Ofgem's last code body survey, can now participate in the process by which the administrator of the new Retail Energy Code will be appointed. The BSC Modification to enable this received unanimous support from industry and the BSC Panel and I hope that ELEXON, as a trusted and respected organisation with the interests of supporting industry, government and the regulator ingrained in its DNA, will be appointed the future REC administrator on a not for profit basis, just like the BSC. Our track record of delivering settlement services for Contracts for Difference and the Capacity Market through our ring fenced wholly owned subsidiary EMRS, is a great example of BSC Parties benefitting from an existing organisation doing more (our EMR operation transparently contributed circa£750k in 2017/18 towards existing BSC fixed costs such as office accommodation, thereby reducing our charges to BSC Parties). And it should be noted that this contribution directly benefitted BSC Parties rather than being used to invest in services in other sectors or countries. We believe it would benefit industry for there to be greater collaboration and ultimately consolidation between the providers of these essential market services, providers who are for the most part owned and controlled by our industry.

In summary, 2017/18 has not been a typical year. When we reflect on years past they seem tame compared to the challenges we faced during the year and will continue to face. As I stated earlier, at ELEXON we fully appreciate we see only one part of the change landscape that is affecting our whole sector. But at a time when the market is seeing more fundamental change at any point since the introduction of competition in 1998, and against a backdrop of more government and regulatory intervention which now extends to our arena of essential market services, we are determined to continue to provide best in class code administration, to provide to our customers a reliable and trusted essential operational service, and to provide expert policy support to government and regulator.



Mark Bygraves
Chief Executive Officer
6 June 2018

03 STRATEGIC REPORT

PRINCIPAL ACTIVITIES

ELEXON

ELEXON Limited (ELEXON) is the parent company of a group of companies whose principal role, as set out in the BSC, is to provide and procure the facilities, resources and services required for the proper, effective and efficient implementation of the BSC.

Section C of the BSC prescribes the constitution of ELEXON, its role, powers, management, liability position and subsidiaries.

ELEXON has five wholly-owned subsidiaries: ELEXON Clear Limited, Poolserco Limited, Poolit Limited, BSC Co. Limited and EMR Settlement Limited. These are described below.

ELEXON Clear Limited

ELEXON Clear Limited (ELEXON Clear) is the legal counterparty to balance and imbalance transactions under the BSC. ELEXON Clear has the same Directors as ELEXON. ELEXON Clear is referred to in the BSC as the BSC Clearer.

Poolserco Limited

As part of the transition from the Electricity Pool of England and Wales (the Pool) to the New Electricity Trading Arrangements (NETA) reflected in the BSC, Poolserco Limited (Poolserco) held contracts with various service providers for activities required under the BSC. These contracts have been novated to ELEXON Limited and Poolserco has ceased trading.

Poolit Limited

Poolit Limited (Poolit) holds mainly historic intellectual property developed by Pool Members jointly under the Pool. Poolit is a non-trading company.

BSC Co. Limited

BSC Co. Limited was acquired from NGET in March 2009 and is a dormant company.

EMR Settlement Limited

EMR Settlement Limited (EMRS) was incorporated on 5 March 2014 and became a 100% subsidiary of the Group on 4 April 2014. It has been formally designated by The Department of Energy and Climate Change now the Department for Business, Energy and Industrial Strategy (BEIS) to undertake the settlement functions for the Contract for Difference and Capacity Market mechanisms of the Electricity Market Reform under the Energy Act 2013.

STRATEGIC MANAGEMENT

Business model

ELEXON is the Balancing and Settlement Code Company ('BSCCo') for the electricity market in Great Britain. The company is responsible for settling the differences between the estimated and actual amounts of energy produced and consumed by generators and suppliers for every half hour of every day. As part of this process it calculates a price for these differences in energy and arranges the transfer of funds to and from the market participants involved. The role also involves providing facilities, resources and services needed for the proper, effective and efficient implementation of the Balancing and Settlement Code.

In addition, the Group provides other settlement related services to Government:

- ▶ ELEXON was the Warm Homes Discount Reconciliation Mechanism Agent until 30 November 2017, when the contract came to an end.
- ▶ EMR Settlement Limited provides settlement for Contract for Difference and the Capacity Market on behalf of the Low Carbon Contracts Company (LCCC) (the CFD counterparty wholly-owned by the Government) and the Electricity Settlements Company (ESC) (the CM Settlement Body wholly-owned by the Government).

Group structure

ELEXON is wholly-owned but not controlled by National Grid Electricity Transmission plc (NGET) and is not consolidated in NGET's financial statements. ELEXON's independence of NGET is established by the BSC. The management of ELEXON is not controlled by NGET as all of ELEXON's Directors are appointed independently. Details of ELEXON's subsidiary undertakings can be found in note 11.20 to the financial statements.

Strategy

ELEXON's BSC key priorities:

- ▶ **Delivery:** Actively manage our services to ensure that we deliver in a reliable, economic and efficient way
- ▶ **Engagement:** Improve the customer experience and develop richer customer relationships
- ▶ **Improvement:** Enhance and evolve our services to support industry changes and the development of the energy market
- ▶ **Capability:** Invest in our people for the benefit of the industry.

Details of how ELEXON delivered to the above for 2017/18 and how we intend to achieve them for 2018/19, can be found in the BSCCo Business Plan 2018/19.

BUSINESS PERFORMANCE

An explanation of the company's performance against ELEXON's 2017/18 strategic priorities is set out in the BSCCo Business Plan for 2018/19 which is available on ELEXON's website.

In addition, a review of the BSC and the activities of the BSC Panel and its Committees for 2017/18 will also be published by 30 June 2018 (as specified in the BSC) and will be available on ELEXON's website.

Turnover of the Group for the year to 31 March 2018 was £40.2m (2017: £37.1m) including £5.0m (2017: £5.4m) of EMR income see note 11.2. Excluding the EMR income, turnover in relation to BSC was £35.2m compared with £31.7m in the previous year. The increase in turnover (or expenditure) of the Group from £37.1m to £40.2m was mainly due to the increased volume of industry change.

After taking account of directly recoverable pass through costs (communication lines and EMR project related costs), the total costs to be recovered through Section D charges was £35.3m, compared to the 2017/18 annual BSC budget of £41.5m (net of EMR). The underspend was mainly attributable to savings on resource and associated overhead costs, as well as less market development activity, reduced activity on system transformation and fewer system changes than



NOTE

ELEXON and its subsidiaries form a not-for-profit group which (save for EMRS) recoups its costs from BSC Parties in accordance with the terms of the BSC. All licensed electricity generators and suppliers in Great Britain are obliged to become signatories to the BSC. Other companies may choose to do so. EMRS recoups its costs under a contract for services with LCCC and ESC.

were anticipated in the budget. Looking forward, the Group budget for 2018/19 has been set at £43.6m. For more details of our budget for 2018/19, please refer to our 2018/19 Business Plan on the ELEXON website.

As the Group is not for profit, costs and interest charges are exactly matched by turnover for the year. In order to achieve this there has been a reconciliation of BSC costs charged to Trading Parties for the 2017/18 financial year based on the final audited costs and interest charges shown in this report. A credit of £2.2m for the 2017/18 financial year will be returned to BSC Trading Parties in August 2018.

This is ELEXON's seventeenth full year of operation. Since the start of the balancing and settlement arrangements ELEXON's BSC costs, net of interest, have fallen from £71.8m (this is historic cost which includes £13.2m NETA go live set-up costs) in 2001 to £35.3m (this represents group turnover of £40.2m less EMR income of £4.9m).

Table 1 - Five-year comparison figures

| Item | Year ended |
|---------------------|------------|------------|------------|------------|------------|
| | 31 March |
| | 2018 | 2017 | 2016 | 2015 | 2014 |
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| BSC Turnover | 35,261 | 31,747 | 29,873 | 30,238 | 27,561 |
| EMR Turnover | 4,984 | 5,401 | 5,522 | 2,642 | 1,695 |
| Cost of Sales | (40,249) | (37,156) | (35,410) | (32,926) | (29,316) |
| Net Interest Income | 4 | 8 | 15 | 46 | 60 |

CORPORATE SOCIAL RESPONSIBILITY

ELEXON's Corporate Social Responsibility (CSR) Strategy is built around four themes (Environment, Community, Workplace and Marketplace) and ensures that we behave in a sustainable, socially and environmentally responsible manner while supporting our ambition, values, brand and business objectives.

Environment

ELEXON's environmental policy provides its staff and visitors with clear responsibilities and guidelines on how we manage our impact on the environment in our day-to-day work activities. We aim to reduce our environmental impact through staff awareness campaigns and by monitoring our energy consumption.

We use smart metering technology to help us identify where we can make savings, in lighting controls, air-conditioning running times and by turning off IT equipment.

Community

At the beginning of April 2017, we started a three-year partnership with two new charities, Guide Dogs for the Blind and Alzheimer's Society, both of which were chosen by ELEXON employees. During the first year, employees raised over £1,500 for each charity through various fundraising activities and we look forward to raising more money for these well-deserved charities during next year.

As well as Company activities, our employees are encouraged to continue to use volunteering days, or individually participate in fundraising activities. From running marathons, charity boxing matches, and cycling counties, our staff are frequently willing to raise money for the company charities or a personal cause.

Workplace

As a business, we believe 'our people' are our greatest asset, and we depend on the skills and commitment that they bring to the organisation. We recognise that to provide a great place to work, we need to retain our focuses on health, well-being, flexible-working, personal development and engagement initiatives with our people.

Marketplace

This year we have continued to embed CSR into the tender process as standard, with a weighting applied to suppliers' commitment to it. We have been working with new or potential suppliers and service providers to ensure they are providing CSR credentials compatible with our own. Also by working proactively with suppliers, we are improving our supply chain so we ensure we do the right thing by everyone.

BUSINESS ENVIRONMENT

Risk Management and Internal Control

The Board, supported by the Audit and Risk Committee, is responsible for:

- ▶ determining the nature and extent of the principal risks that the Company is willing to take in achieving its objectives;
- ▶ the Company's system of risk management and internal control; and
- ▶ reviewing the effectiveness of those systems.

Recognising that risk is an inevitable part of being in business, and that it is not possible to entirely eliminate risk, the Group's risk management and internal control system is designed to identify, monitor and mitigate risks rather than eliminate them.

The corporate risk register is reviewed by the Audit and Risk Committee on a quarterly basis. The Audit and Risk Committee also undertakes periodic deep dives into the management of specific risks.

Risks are assessed monthly by the responsible individuals assigned to the risk. The monthly assessment considers whether the threat of the risk is reducing or increasing as a result of the mitigation applied. Any new risks are also considered and added as necessary.

Risk changes are collated by internal audit and reported to the monthly Executive meeting. The Executive team decides if any business risks should be escalated to a corporate risk. They also assess which risk changes or events merit inclusion in the risk section of the monthly Chief Executive's Report which is presented to the Board.

In addition, the Company's project management approach involves project teams identifying, analysing, evaluating and addressing risks associated with each project. Each project maintains its own risk register with significant project risks escalated to the corporate risk register. In addition, the Company maintains a project portfolio that ensures that risks and issues on one project which impact on other projects are identified and managed.

ELEXON has an internal audit function that provides the Audit and Risk Committee with independent, objective assurance regarding internal controls and risk management processes as part of the Company's risk management and assurance regime. The Audit and Risk Committee agrees a programme of internal audit work annually and reviews progress at each of its meetings with the internal audit manager. All members of the Committee are provided with the reports prepared by the internal audit manager as part of the internal audit work plan.

The Audit and Risk Committee appointed PwC to undertake a review of the Company's risk management system. PwC's review included an assessment of the Company's risk management framework with the aim of enhancing the maturity of the Company's risk management systems and ensuring that risk management is embedded at appropriate levels within the business.

Principal risks and uncertainties

The electricity industry is undergoing a period of rapid change. Important challenges facing the industry, which may impact on ELEXON and the BSC include:

- ▶ settlement reform including the move towards mandatory half hourly settlement
- ▶ the development of innovative business models (including in relation to flexibility, storage, electric vehicles and batteries)
- ▶ promotion by the European Commission of a single European energy market, including the Guideline on Electricity Balancing, which is resulting in fundamental changes to the balancing and settlement arrangements such as the implementation of the Trans European Replacement Reserves Exchange (TERRE)
- ▶ the impact of Brexit on the GB energy market
- ▶ the legal separation of the system operator (SO) role from the rest of the National Grid group
- ▶ roll-out of smart metering
- ▶ demand side flexibility and the development of smart grids
- ▶ the growth of distributed generation, battery storage and electric vehicles and the associated transition to Distribution System Operators

The Directors have undertaken a robust assessment of the principal risks facing the company. The table below sets out the principal risks faced and outlines how those risks have been mitigated.

| Risk | Managing the risk |
|--|--|
| <p>The Group is exposed to financial risk through its financial assets and liabilities. The key financial risk is that the proceeds from financial assets are not sufficient to fund the obligations arising from liabilities as they fall due. The most important components of financial risk are interest rate risk, currency risk, credit risk, liquidity risk, cash flow risk and price risk. Due to the nature of the group's business and the assets and liabilities contained within the group's balance sheet, the only financial risks the Directors consider relevant are credit risk, particularly in relation to the large deposits held by ELEXON Clear, and liquidity risk.</p> | <p>These risks are mitigated by the nature of the debtor balances owed, with the BSC providing for other BSC Parties to meet the liabilities of any debtor in default.</p> |
| <p>The risk that ELEXON's skills and capabilities to successfully conduct large, complex projects are inadequate which may result in poor delivery of project objects and/or cost overruns and may impact our reputation with industry.</p> | <p>The Company continues to build its capabilities through recruitment, the appointment (where appropriate) of third parties (both to supplement internal expertise and to provide external project assurance), implementing lessons learned from other projects, reviewing the effectiveness of previous mitigation actions and ensuring reporting identifies early indicators on portfolio and project health.</p> |
| <p>BEIS/Ofgem proposals relating to institutional reform of central bodies by way of licensing, lead to the break-up of ELEXON or the introduction of arrangements that are less favourable to Parties.</p> | <p>Increase advocacy of the Company's ability to support industry change. Engagement with Ofgem and industry.</p> |
| <p>There is a risk that changing market arrangements lead to a diminution of ELEXON's role</p> | <p>Monitor, participate and lead on industry changes. Maintain awareness of developments in market and commercial arrangements and in technology developments because smart and flexible market arrangements need a smart and flexible energy system Demonstrate that ELEXON is not a barrier to innovation.</p> |

Risk

ELEXON or key service providers experience a cyber attack

Managing the risk

The Company continues to be ISO27001 and Cyber Essential Plus certified

Systems in place to continuously identify and implement improvements

Review conducted of BC/DR communications plan and a schedule for a test is in place

Key service provider information and IT security controls assessed and monitored as part of ISO27001 certification

A third party review of the Company's information security identified improvements which are being implemented

There is a risk that ELEXON's current vires limitations frustrate our ability to respond to growth opportunities in a timely and competitive manner such that ELEXON's strategic objectives are not achieved and over-time, there is a diminution of ELEXON's role.

Pursue opportunities where there is support from stakeholders e.g. Retail Energy Code administrator.

Focus on benefits to stakeholders if considering other activities

Viability Statement

Taking account of the Company's current position and principal risks, the Directors have assessed the prospects of the Company over a period of three years. The Directors believe three years to be an appropriate period as this is the period in respect of which the Company undertakes financial projections as part of its business planning process.

The funding arrangements for the Company are set out in Section D of the BSC. As a result of the BSC funding arrangements, there is no risk of ELEXON failing to meet its liabilities. The BSC funding arrangements ensure that all of the Company's BSC costs are funded by BSC Parties.

The Directors therefore have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment. This assessment is based on the assumption that ELEXON's funding model remains unchanged. We have no expectation of any change to our funding arrangements. Approved by the Board of Directors and signed on behalf of the Board.



Nicholas Brown
Company Secretary
6 June 2018



TRUSTED
INDEPENDENT
AND RELIABLE
MARKET EXPERTS

04 DIRECTORS' REPORT

DIRECTORS' REPORT

The Directors present their annual report and the audited financial statements for the year ended 31 March 2018.

Principal risks and uncertainties

The principal risks and uncertainties for the Group, including financial risk management, are outlined on page 16.

Going concern

The Group has arranged a £0.1m overdraft facility for ELEXON and £1.0m overdraft facility for ELEXON Clear respectively with Barclays PLC at the variable rate of 1.75 percent above the bank's base rate. The Board believe that this provides a secure financial base for the Group for the foreseeable future. Financial risks are also mitigated by the nature of the debtor balances owed, with the BSC providing for other BSC Parties to meet the liabilities of any debtor in default; and the provision of the BSC whereby ELEXON recovers its costs one month in advance. As a result, the Board considers that there is a reasonable expectation that the Group will continue in operating existence for the foreseeable future and has therefore used the going concern basis of accounting in the preparation of the financial statements.

Employees

See Note 11.4 for details on the number of employees and related costs.

Dividends

Under the terms of the BSC, the Company has no power or authority to declare or pay any dividends.

Payment to Suppliers of goods and services

The Group agrees terms and conditions for its business transactions with suppliers of goods and services. Payment is then made in accordance with these terms, subject to compliance by the suppliers with the requirements of their contracts. Trade creditors of the Company at 31 March 2018 were equivalent to 23 days' purchases (2017: 19 days'), based on the average daily amount invoiced by suppliers to the Company during the year.

Directors and their interests

None of the Directors has any interests in the share capital of the Company or any other Group Companies.

The Chairman's Other Significant Commitments

Michael Gibbons is a Member of the International Advisory Board of Ocean Power Technologies Inc, President of the Energy Industries Club, Director of the British Management Data Foundation, Chairman of the Energy Institute Policy Seminars and Patron of the Professional Mediators Association. These commitments do not impact on the Chairman's independence or his ability to allocate sufficient time to the Company to discharge his responsibilities effectively.

Qualifying Third Party Indemnity Provisions

The Company has made qualifying third party indemnity provisions for the benefit of its Directors, which were made during the year and remain in force at the date of this report.

Directors

The Directors that served throughout the year were as follows:

Michael Gibbons - Chairman

Mark Bygraves - Chief Executive Officer

Volker Beckers - Non-executive

Alison Chappell - Non-executive

Clare Duffy - Non-executive

David Rigney - Non-executive

Gillian Wilmot - Non-executive, resigned on 30 September 2017

Anne Heal - Non-executive, appointed as a director on 1 October 2017

Directors' Responsibilities Statement

The Directors are responsible for preparing the Annual 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), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". Under Company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

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

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

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

The Directors consider that the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary to assess the Company's position, performance, business model and strategy.

Auditor

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

- ▶ so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware.
- ▶ the director has taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

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

Approved by the Board of Directors and signed on behalf of the Board.



Nicholas Brown
Company Secretary
06 June 2018

05 CORPORATE GOVERNANCE STATEMENT

CORPORATE GOVERNANCE STATEMENT

Corporate governance

ELEXON occupies a unique position of accountability and responsibility to the electricity industry and the Company's Board therefore recognises the importance and value of good corporate governance. Consequently, whilst ELEXON is not a listed company so the UK Corporate Governance Code (2016) is not applicable to the Company, we do seek to follow best practice including those principles in the Corporate Governance Code that are relevant to the Company. A general narrative statement relating to the governance of the Group appears below.

The Role of the Board

The Board has a formal schedule of matters specifically reserved for its decision which include setting and reviewing the strategic direction of the Company, reviewing expenditure against budget, approving the Annual Report and the financial statements, monitoring exposure to key business risks, reviewing progress towards achievement of objectives, ensuring that the necessary financial and human resources are in place for the Company to meet its objectives, reviewing management performance, setting the Company's values and standards and ensuring that its obligations under the BSC are understood and met.

The schedule of matters reserved for the Board is available on our website.

The Board, and each of its Committees, hold regular meetings scheduled throughout the year and ad hoc meetings as required. All Directors are expected to attend all Board and relevant Committee meetings. Any Director who is physically unable to attend Board and Committee meetings is given the opportunity to attend by telephone conference.

Membership of Committees

Details of the membership of the Board and Committees are set out in the table below.

| Name of Director | Board | Remuneration Committee | Nominations Committee | Audit and Risk Committee |
|------------------|--|---|--|----------------------------|
| Michael Gibbons | Chairman since 1/10/2013 | Appointed 1/10/2013 | Chairman since 1/10/2013 | - |
| Volker Beckers | Appointed 1/3/2013 | - | Appointed to Committee 3/5/2017 | Appointed 1/3/2013 |
| Alison Chappell | Appointed 1/3/2013 | Appointed 1/3/2013 Chairman since 1/10/2017 | Appointed 1/3/2013 | - |
| David Rigney | Appointed 1/5/2013 | - | Appointed to Committee 3/5/2017 | Chairman since 1/5/2013 |
| Gillian Wilmot | Appointed 1/10/2013 Resigned 30/09/2017 | Appointed 1/10/2013 Chairman since 4/12/2013 Resigned 30/09/2017 | Appointed 30/4/2014 Resigned from Committee 2/5/2017 | - |
| Clare Duffy | Appointed 1/11/2015 | Appointed 1/11/2015 | Appointed to Committee 3/5/2017 | Appointed 1/11/2015 |
| Mark Bygraves | Appointed 11/11/2016 | Appointed 1/10/2017 | - | - |
| Anne Heal | Appointed 1/10/2017 | Appointed 1/10/2017 | Appointed to Committee 1/10/2017 | Appointed 1/10/2017 |

Attendance at Meetings

Details of attendance by Directors at Board and Committee meetings during 2017/18 are set out in the table below.

| Name of Director | Board | Audit and Risk Committee | Remuneration Committee | Nominations Committee |
|---------------------------------|-----------|--------------------------|------------------------|-----------------------|
| Total number of meetings | 11 | 5 | 3 | 4 |
| Michael Gibbons | 11 (11) | 4* | 3 (3) | 4 (4) |
| Alison Chappell | 11 (11) | 2* | 3 (3) | 4 (4) |
| Clare Duffy | 10 (11) | 5 (5) | 3 (3) | 2 (2) |
| David Rigney | 11 (11) | 5 (5) | 3* | 4* (2) |
| Gillian Wilmot | 5 (6) | 0* | 2 | 2 (2) |
| Volker Beckers | 11 (11) | 5 (5) | 3* | 3* (2) |
| Mark Bygraves | 11 (11) | 4* | 2* | 3* |
| Anne Heal | 4 (5) | 1* | 1 (1) | 0 (1) |

- Notes**
1. Numbers in brackets show the number of meetings that each Director was a member of the Board or a Committee. Board and Committee membership is on page 27.
 2. Numbers with asterisks show how many Committee meetings a Director attended where they were not a member of that Committee. Non-members are invited to attend Committee discussions where this will enhance the efficiency of decision making.
 3. Gillian Wilmot resigned on 30 September 2017 and Anne Heal was appointed on 1 October 2017.

Division of Responsibilities

There is a written division of responsibilities between the Chairman and Chief Executive Officer. The Chairman is responsible for running the Board and ensuring its effectiveness in all aspects of its role, whilst the Chief Executive Officer has executive responsibility for running the Company.

Role of Non-Executive Directors

The Non-Executive Directors provide constructive challenge and help develop proposals on strategy. They are responsible for scrutinising the performance of management, determining appropriate levels of remuneration for the Executive team and satisfying themselves on the integrity of financial information and that financial controls and systems of risk management are robust and defensible.

David Rigney is the Senior Independent Director. The main responsibilities of the Senior Independent Director are to:

- ▶ provide a sounding board for the Chairman and to serve as an intermediary with other Directors when necessary
- ▶ be available to stakeholders if they have concerns where contact through the normal channels of Chairman, Chief Executive Officer or the Executive team has failed to resolve or for which such contact is inappropriate
- ▶ meet with other Non-executive Directors without the Chairman present at least annually in order to appraise the Chairman's performance.

Composition of the Board

The composition of ELEXON's Board is as follows:

- ▶ the Non-executive Chairman
- ▶ two Non-executive Directors who are independent of industry
- ▶ three Non-executive Directors with relevant electricity industry experience
- ▶ the Chief Executive Officer
- ▶ The Board considers that all of the Non-executive Directors are independent.
- ▶ Alison Chappell is a senior employee of RWE (Rheinisch-Westfälisches Elektrizitätswerk) and Clare Duffy is a senior employee of ESB (Electricity Supply Board). As BSC Parties, RWE and ESB have a material business relationship with the Company. These matters are relevant to the criteria identified in the UK Corporate Governance Code relating to Directors' independence. The Board's view is that appointing industry Non-executive Directors from amongst BSC Parties is an important element in ensuring that it has the appropriate balance of skills, experience, independence and knowledge of the Company on the Board. The Board has considered the contribution of these Directors to the discussions and decisions of the Board and determined that they continue to demonstrate independence of judgement and character.

Appointments to the Board

The Nominations Committee leads the process for Board appointments and makes recommendations to the Board. A report on the activities of the Nominations Committee is on page 37.

During the course of the year Gillian Wilmot stood down and the Board conducted an open process which resulted in the appointment of Anne Heal as a Non-executive Director.

Induction

The Chairman, along with the Company Secretary, is responsible for the induction of new directors. As part of their induction, new directors receive an induction programme that is tailored to their individual needs and includes:

- ▶ one to one meetings with the Chief Executive and the Executive team;
- ▶ a comprehensive directors' information pack which includes information on key issues facing the Company, the nature of the Company, its main relationships and its corporate policies; and
- ▶ an introduction to the Balancing and Settlement Code.

Time Commitment

The time commitment expected of Non-executive Directors is included in their terms and conditions of appointment. Copies of these terms of appointments are available upon request. Any significant other commitments of Non-executive Directors' were reported to the Board prior to their appointment and the Board is informed of any changes to those commitments.

The Chairman's other significant commitments are disclosed on page 22. The Chief Executive Officer has no other relevant directorships.

Development

All new Directors are provided with a full induction programme when they are appointed.

To strengthen the Directors' knowledge and understanding of the Company, Board members attend briefing sessions with different teams within the Company. Board meetings also regularly include briefings on specific topics of relevance to the Company's activities. During the course of this year, topics covered have included blockchain, half hourly settlement, market entry, and embedded benefits.

Information and Support

The Chairman, supported by the Company Secretary, ensures that the Board receives accurate, timely and clear information.

The formal agenda for each Board and Committee meeting is circulated, together with papers relating to each of the matters on the agenda, one week in advance. For significant matters, a member of the Executive team will contact each of the Directors in advance. A record of actions is circulated following each meeting and formal minutes of all Board and Committee meetings are circulated to all Directors before the next Board or Committee meeting and are considered for approval at that Board meeting.

All the Company's Directors are entitled to obtain independent professional advice at the Company's expense and have access to the services of the Company Secretary.

Evaluation and effectiveness

The Board's performance and that of its Committees and Directors is evaluated every year. The evaluation is externally facilitated every third year. Independent Board Evaluation, which is independent of the Company, undertook the 2017/18 evaluation.

Representatives of Independent Board Evaluation attended meetings of the Board, Audit and Risk Committee, Nominations Committee and Remuneration Committee and also interviewed all Board members, the Company Secretary, all members of the Executive team, other members of management below Board and Executive level who had presented to the Board and its Committees during the year and representatives from the BSC Panel and Ofgem. The evaluation was comprehensive and covered stakeholder accountability and engagement, strategy, governance and compliance, Board focus, risk management, succession planning, Board composition and culture, the relationship with senior management, decision making, the process for appointing and inducting new directors, performance evaluation, conduct of meetings and Board resources.

The overall findings of the evaluation were presented to the Board on 2 May 2018, and the Chairs of the Board Committees received specific reports on their respective Committees. The Chairman received feedback on individual Directors, which has been, or will be, discussed with them in one-to-one meetings. David Rigney, as the Senior Independent Director, received a report on the evaluation of the Chairman which he discussed with the Chairman.

The evaluation concluded that the Board, Committees and individual Directors are operating effectively. However, it also identified opportunities for the Board to improve its efficiency so that it can give greater focus to key areas, specifically stakeholder engagement, strategy, risk, succession planning. Key recommendations from the evaluation were:

- ▶ Reviewing the board calendar, with deep dives on substantial topics scheduled in advance
- ▶ Reviewing the process for developing and approving papers
- ▶ Reducing the number of Board meetings but increasing the amount of, and improving the quality of, engagement between the Company and the Non-executive Directors outside formal meetings
- ▶ Scheduling more regular debates about Board composition around the board table
- ▶ Building on the current Board culture, including by looking more deeply at Executive engagement with the Board and developing the culture of challenge and support
- ▶ Providing an opportunity at every Board meeting for the Non-executive Directors to meet without the Executive team present

Re-election of Directors

In accordance with the provisions of the BSC, each Director who had been appointed, or reappointed, during the previous year, is subject to re-election at the next Annual BSC Meeting. Consequently, Anne Heal will seek election and Clare Duffy will seek re-election at the Annual BSC Meeting scheduled for 12 July 2018.

Financial and Business Reporting

This Annual Report has been prepared in the light of the Corporate Governance Code requirement for the Annual Report to present a fair, balanced and understandable assessment of the Company's prospects. The drafting and review of the Annual Report is undertaken in parallel with the audit undertaken by the external auditors.

Risk Management and Internal Control

The Board is responsible for determining the nature and extent of the principal risks it is willing to take in achieving its strategic objectives. Further details of the principal risks facing the Company are set out on page 15. The Board maintains a sound risk management and internal control system. Further details of the Company's risk management and internal control system are set out on pages 15 to 18.

Audit Committee and Auditors

The Audit and Risk Committee report on page 35, sets out details of how the Committee has discharged its duties during the year.

The Level and Components of Remunerations

The Remuneration Committee is responsible for recommending to the Board the remuneration policy and remuneration for the Executive team and the Chairman. The Report of the Remuneration Committee on pages 35 to 39 outlines the activities of the Committee during the year and sets out excerpts of the Directors' remuneration policy.

Remuneration Procedure

Further details are available in the Report of the Remuneration Committee on pages 38 to 39. The Remuneration Committee's terms of reference are available on the Company's website.

Dialogue with Shareholders

The rights and responsibilities of the Company's sole shareholder, NGET, are constrained by the BSC. Having regard to the role of ELEXON under the BSC and its position as a central body for the electricity industry, the Company undertakes a dialogue with a broad range of stakeholders. ELEXON's relationship with BSC Parties, as the Company's funding parties, is particularly key. In recognition of that, and in order to ensure the accountability of the Board to BSC Parties, BSC Parties have the collective right to remove Board members and to vote on their re-election.

The dialogue between the Board and stakeholders is conducted through a number of channels including:

- ▶ the Chairman of the Board also chairs the BSC Panel;
- ▶ the Chief Executive also attends the BSC Panel;
- ▶ the Chairman and Chief Executive hold regular meetings with stakeholders including BEIS and Ofgem. The results of these meetings are reported to the Board;
- ▶ attendance by Board members at informal Panel events;
- ▶ during the year, the Company seeks the comments from stakeholders on its Business Strategy and Budget for the forthcoming year;
- ▶ the Company conducts an annual customer survey which is considered by the Board, including any issues and concerns raised by BSC Parties;
- ▶ there are regular meetings between members of the Executive team and BSC Parties which are also reported, where relevant, to the Board;
- ▶ the BSC provides for an Annual BSC Meeting where BSC Parties can ask questions of the Board and the BSC Panel;
- ▶ in accordance with the BSC, a majority of the Non-Executive Directors on the Board are appointed from industry.

Constructive Use of General Meetings

The Annual BSC Meeting provides a key opportunity for the Board to communicate with and meet with BSC Parties. The next Annual BSC Meeting is scheduled for 12 July and will take place at ELEXON's offices.

Report of Audit and Risk Committee

The Audit and Risk Committee is chaired by David Rigney who has recent, relevant and significant financial experience. The other members of the Audit and Risk Committee are Clare Duffy and Volker Beckers.

Purpose

The Terms of Reference for the Audit and Risk Committee are available on ELEXON's website. Its main responsibilities include monitoring the integrity of the financial statements of the Company, reviewing and monitoring the external auditor's independence and objectivity, in particular, the provision of non-audit services that they provide and determining the nature and extent of the principal risks that the Company is willing to take in achieving its objectives, establishing the Company's system of risk management and internal control and reviewing the effectiveness of those systems.

In discharging these responsibilities, the Audit and Risk Committee considers reports from the external auditor, internal auditor and from management, and monitors the implementation of any necessary actions including an independent review of nominated areas of internal control.

Report

The key items considered by the Committee during the year were:

- ▶ the 2017 annual report
- ▶ the 2017 audit report from Deloitte
- ▶ the 2018 audit work plan and accounting policies
- ▶ the results of reviews carried out by the Company's internal auditor in respect of information security, business continuity, supply chain management, EMRS financial controls and EMRS' quality management system
- ▶ the principal risks and uncertainties faced by the Company, which are reviewed on a quarterly basis
- ▶ deep dives on cyber security risks and the risks associated with ELEXON's EMR role
- ▶ a quarterly review of the Company's cyber security arrangements
- ▶ the effectiveness of the Company's risk management and internal controls
- ▶ a continuing review of the Company's approach to risk management which is now being supported by PwC
- ▶ the Company's approach to producing a longer term viability statement
- ▶ a review of the company's whistleblowing procedures

Significant issues

The Committee did not consider that there were any significant issues in relation to the financial statements that needed to be addressed.

Effectiveness of the External Audit Process

The Audit and Risk Committee undertakes an annual assessment of the effectiveness of the annual audit process. This involves the completion of a comprehensive questionnaire by the Chief Financial Officer in consultation with the Audit and Risk Committee.

Following a competitive tender process conducted during 2017, the Committee recommended to the Board that Moore Stephens LLP be appointed auditor for the financial year commencing 1 April 2017. No contractual obligations existed that acted to restrict the choice of external auditors.

Deloitte has been the Company's auditors since 2001. The Committee expresses its thanks to Deloitte for its contribution to the Company over this period.

Non-Audit Services

Note 11.5 to the financial statements includes a description of non-audit services performed by ELEXON's external auditor during the year. The objectivity and independence of the auditor are safeguarded by limiting the value of non-audit services performed by the external auditor, the periodic rotation of the lead audit partner, independent reporting lines from the auditors to the Committee and the opportunity to meet with the Committee privately.

Report of Nominations Committee

The Nominations Committee is chaired by Michael Gibbons. Its other members are Alison Chappell, Clare Duffy, David Rigney, Volker Beckers, Gillian Wilmot (until 30 September 2017) and Anne Heal (from 1 October 2017).

Purpose

The Terms of Reference for the Nominations Committee are available on ELEXON's website. Its main responsibilities include:

- ▶ reviewing the structure, size and composition (including the skills, knowledge, experience and diversity) of the Board
- ▶ succession planning
- ▶ identifying and nominating, for the approval of the Board, candidates to fill Board vacancies as and when they arise.

Report

The key items considered by the Committee during the year were:

- ▶ the re-appointment of Clare Duffy, which took effect on 1 November 2017. As part of the re- appointment process the Committee satisfied itself that Clare continues to be committed and effective
- ▶ following the resignation of Gillian Wilmot, a review of the composition of the Board in the light of the Company's strategy so as to identify what skills, knowledge and experience should be targeted as part of the appointment process
- ▶ the appointment of Anne Heal, which took effect on 1 October 2017

The external search firm, Heidrick and Struggles, was used for the Non-executive Director appointment process. Heidrick and Struggles has no other connection with the Company. Anne was identified by the external search firm as a candidate who is an experienced non-executive director and who is independent from the electricity industry. She has considerable experience in strategy formulation and working in regulated environments. Anne met with three members of the Board and we collected references from companies where she had previously worked and from chairmen of other boards on which she serves.

Diversity

ELEXON is committed to promoting equal opportunities in employment and maintains an Equal Opportunities Policy. The Board believes that diversity improves effectiveness and enhances the success of the Company. All appointments made by the Board include a consideration of the benefits of diversity.

Report of Remuneration Committee

The Remuneration Committee was chaired by Gillian Wilmot until her retirement on 30 September 2017 after which it was chaired by Alison Chappell from 1 October 2017. Michael Gibbons, Clare Duffy and Anne Heal are all members of this Committee.

Purpose

The Terms of Reference for the Remuneration Committee are available on ELEXON's website. Its main responsibilities include:

- ▶ making recommendations to the Board on the Executive Team Remuneration Policy and the Staff Remuneration Policy
- ▶ Determining objectives for the bonus element of Executive remuneration
- ▶ Determining Executive remuneration. In determining Executive remuneration the Committee adheres to a formal and transparent procedure.

The remuneration of Non-executive Directors is determined by non-conflicted members of the Board.

Report

The key items considered by the Committee during the year were:

- ▶ agreeing the Executive bonus award for 2016/17
- ▶ setting Executive objectives for 2017/18
- ▶ approving Executive salaries for 2017/18
- ▶ During the course of the year, the Committee appointed Innecto Reward Consulting to benchmark the remuneration of the Executive Team. The Committee undertook a review of Executive remuneration in the light of Innecto's report

[Note 11.4 to the Financial Statements sets out the Directors' remuneration for the year.](#)

Process

In determining Executive remuneration the Committee adheres to a formal and transparent procedure. The Committee is comprised entirely of independent Non-executive Directors who determine Executive remuneration in accordance with a policy that has been set by the Board. This policy is summarised below. Remuneration is set within the scope of the Company's total annual budget. Prior to approving the annual budget, the Board seeks comments from the Panel and BSC Parties.

Policy

The remuneration of the Executive team is designed to promote the long term success of the Company. Their remuneration consists of a base salary plus taxable benefits (including private health insurance and life assurance), a defined contribution pension scheme (unless already a member of the legacy defined benefit scheme) and a performance bonus.

Total remuneration is subject to an external benchmarking exercise every three years. The benchmarking has regard to a number of factors including information from comparator organisations. The last such review was undertaken in 2017.

The Executive bonus is determined by reference to performance against individual and corporate objectives.

Non-executive Director remuneration reflects the time commitments and responsibilities of the role as well as taking into account the need to attract and retain individuals with the necessary skills and experience. Directors' fees are benchmarked periodically taking into account the same comparator organisations that are used to benchmark Executive remuneration.

06 INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ELEXON LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ELEXON LIMITED

Opinion

We have audited the financial statements of ELEXON Limited (the "Parent Company") and its subsidiaries (the "Group") for the year ended 31 March 2018 which comprise the Consolidated Profit and Loss Account, the Consolidated and Parent Company Balance Sheets, the Consolidated Cash Flow Statement and notes to the financial statements, 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 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- ▶ give a true and fair view of the state of the Group's and the Parent Company's affairs as at 31 March 2018 and of the Group's result for the year then ended;
- ▶ have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice;
- ▶ have been prepared in accordance with the requirements of the Companies Act 2006.

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.

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. We are independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our 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 audit opinion.

Conclusions relating to going concern

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

- ▶ 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 Group's or the Parent 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 annual report, other than the financial statements and our auditor's report thereon.

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

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

- ▶ adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- ▶ the Parent Company 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 Directors' Responsibilities Statement set out on page 23, 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 Group's and the Parent 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 Group or the Parent 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 consolidated 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 consolidated financial statements.

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

Moore Stephens LLP

Benjamin Courts
Senior Statutory Auditor
For and on behalf of Moore Stephens LLP,
Statutory Auditor
150 Aldersgate Street London
EC1A 4AB

07 CONSOLIDATED PROFIT AND LOSS ACCOUNT

CONSOLIDATED PROFIT AND LOSS ACCOUNT

| Item | Notes | Year ended 31 March 2018 £'000 | Year ended 31 March 2017 £'000 |
|--|-----------|---|---|
| TURNOVER | 11.2/11.3 | 40,245 | 37,148 |
| Cost of sales | | (40,249) | (37,156) |
| OPERATING RESULT | 11.5 | (4) | (8) |
| Interest receivable and similar income | 11.6 | 4 | 8 |
| RESULT FROM ORDINARY ACTIVITIES BEFORE TAXATION | - | - | - |
| Tax on result from ordinary activities | 11.7 | - | - |
| RESULT FOR THE FINANCIAL YEAR | - | - | - |
| Retained result brought forward | - | - | - |
| Retained result carried forward | - | - | - |

There are no movements in reserves, shareholder's funds, or any other recognised gains or losses and consequently no Statement of change in equity and Statement of comprehensive income and retained earnings have been presented.

As permitted by Section 408 of the Companies Act 2006, the profit and loss account of the parent Company, ELEXON Limited, is not presented as part of these financial statements. The parent Company's result for the financial year was £nil (2017: £nil).

The notes on pages 54 to 72 form part of these financial statements.

08 CONSOLIDATED BALANCE SHEET

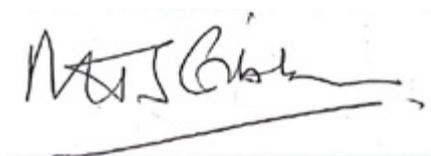
CONSOLIDATED BALANCE SHEET

| Item | Notes | Year ended 31 March 2018 £'000 | Year ended 31 March 2017 £'000 |
|--|-------|---|---|
| FIXED ASSETS | | | |
| Tangible assets | 11.8 | 627 | 616 |
| Intangible fixed assets | 11.9 | 2,799 | 4,519 |
| Total | | 3,426 | 5,135 |
| CURRENT ASSETS | | | |
| Debtors | 11.11 | 104,890 | 58,969 |
| Cash at bank and in hand | 11.12 | 89,659 | 58,414 |
| Total | | 194,549 | 117,383 |
| CREDITORS: amounts falling due within one year | 11.13 | (197,975) | (122,472) |
| NET CURRENT LIABILITIES | | (3,426) | (5,089) |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | - | 46 |
| CREDITORS: amounts falling due after more than one year | 11.14 | - | (46) |
| NET ASSETS | | - | - |
| CAPITAL AND RESERVES | | | |
| Called up share capital | 11.15 | - | - |
| SHAREHOLDER'S FUNDS | | - | - |

The notes on pages 54 to 72 form part of these accounts.

These financial statements were approved by the Board of Signed on behalf of the Board of Directors

Company Registration Number 3782949



Michael Gibbons, Director

09 COMPANY BALANCE SHEET

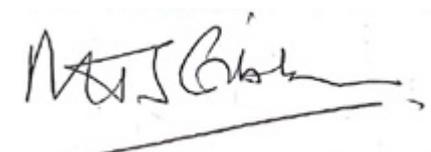
COMPANY BALANCE SHEET

| Item | Notes | Year ended 31 March 2018 £'000 | Year ended 31 March 2017 £'000 |
|--|-------|---|---|
| FIXED ASSETS | | | |
| Tangible assets | 11.8 | 627 | 616 |
| Intangible fixed assets | 11.9 | 2,798 | 4,519 |
| Investment | 11.10 | - | - |
| Total | | 3,425 | 5,135 |
| CURRENT ASSETS | | | |
| Debtors | 11.11 | 2,423 | 2,007 |
| Cash at bank and in hand | 11.12 | 2,035 | 1,139 |
| Total | | 4,458 | 3,146 |
| CREDITORS: amounts falling due within one year | 11.13 | (7,883) | (8,235) |
| NET CURRENT LIABILITIES | | (3,425) | (5,089) |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | - | 46 |
| CREDITORS: amounts falling due after more than one year | 11.14 | - | (46) |
| NET ASSETS | | - | - |
| CAPITAL AND RESERVES | | | |
| Called up share capital | 11.15 | - | - |
| SHAREHOLDER'S FUNDS | | - | - |

The notes on pages 54 to 72 form part of these financial statements.

These financial statements were approved by the Board of Directors and authorised for issue on 6 June 2018. Signed on behalf of the Board of Directors

Company Registration Number 3782949



Michael Gibbons, Director

10 CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED CASH FLOW STATEMENT

| Item | Notes | Year ended 31 March 2018 £'000 | Year ended 31 March 2017 £'000 |
|---|-------|---|---|
| Operating activities | | | |
| Net cash inflow/(outflow) from operating activities | 11.21 | 31,862 | 6,636 |
| Returns on investments and servicing of finance | | | |
| Interest received | | 4 | 8 |
| Net cash inflow from returns on investments and servicing of finance | | 4 | 8 |
| Capital expenditure and financial investment | | | |
| Payments to acquire tangible fixed assets | | (343) | (452) |
| Payments to acquire intangible fixed assets | | (278) | (2,709) |
| Net cash outflow from capital expenditure and financial investment | | (621) | (3,161) |
| Increase/(Decrease) in cash and cash equivalents | 11.22 | 31,245 | (3,484) |

The notes on pages 54 to 72 form part of these financial statements.

11 NOTES TO THE FINANCIAL STATEMENTS

11.1 / Accounting Policies

The financial statements are prepared in accordance with United Kingdom law and Financial Reporting Standard 102 – ‘The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland’ (‘FRS 102’), and with the Companies Act 2006.

They have all been applied consistently throughout the year and to the preceding year. The particular accounting policies adopted are described below.

Basis of accounting

ELEXON Limited is a company incorporated in the United Kingdom under the Companies Act. The address of the registered office is given on page 2. The nature of the Company’s operations and its principal activities are set out in the strategic report on pages 9 to 18.

The financial statements have been prepared under the historical cost convention, and in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council.

The financial statements cover the reporting period April 2017 to March 2018.

The functional currency of ELEXON Limited is in pounds sterling because that is the currency of the primary economic environment in which the Company operates.

ELEXON Limited meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of the disclosure exemptions available to it in respect of its separate financial statements. Exemptions have been taken in these separate Company financial statements in relation to presentation of a profit and loss and cash flow statement.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and all its subsidiaries.

Basis of preparation

Arrangements are in place to manage financial risk, as stated on page 15 of the Strategic Report. As a result the Board considers that there is a reasonable expectation that the Company will continue in operating existence for the foreseeable future and has therefore used the going concern basis of accounting in the preparation of the financial statements.

Tangible fixed assets and depreciation

Tangible fixed assets are stated at original cost, together with any incidental cost of acquisition.

Depreciation is calculated on a straight-line basis over the useful life of the tangible fixed assets. The estimated useful life used for the purpose of these financial statements is:

| | |
|--|----------|
| Fixtures and fittings: | 4 years |
| Office and IT equipment: | 3 years |
| Operational assets – metering equipment: | 10 years |

Intangible fixed assets

Intangible fixed assets are stated at original cost, together with any incidental cost of acquisition.

Amortisation is calculated on a straight-line basis over the useful life of the intangible fixed assets. The estimated useful life used for the purpose of these financial statements is:

| | |
|-------------------|---------|
| Development cost: | 3 years |
|-------------------|---------|

Recognition of revenue

The financial statements have been prepared on the basis of revenue and cost incurred in the year, which are considered to reflect the services provided in the year relating to BSC Parties under the terms of the BSC. Income is therefore recognised over the periods necessary to match it the related costs which it is intended to compensate on a systematic basis.

Investments

Investments held as fixed assets are stated at cost less provision for any impairment.

Deferred taxation

Deferred tax is recognised in respect of all material timing differences that have originated or reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Leases

Operating lease rentals are charged to the profit and loss account in equal annual amounts over the lease term. Rent free periods are spread over the lease term on a straight-line basis.

Pension and other post-retirement benefits

As described in note 11.19, the Group contributes to the NGET section of the Electricity Supply Pension Scheme (ESPS), a defined benefit scheme. The Group is unable to identify separately its share of NGET's section of the Scheme's underlying assets and liabilities and, accordingly, contributions are accounted for as if it were a defined contribution scheme.

For the defined contribution scheme the amount charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as accruals or prepayments in the balance sheet.

Related party transactions

In line with Financial Reporting Standard 102 section 33 (Related Party Disclosures), the Company is not required to disclose transactions with wholly-owned subsidiaries.

Government grant

Government grants are recognised based on the accrual model and are measured at the fair value of the asset received or receivable. Grants are classified as relating either to revenue or to assets. Grants relating to revenue are recognised in income over the period in which the related costs are recognised. Grants relating to assets are recognised over the expected useful life of the asset. The government grants received by the Group are recognised as income over the periods necessary to match them with the related costs which they are intended to compensate on a systematic basis.

Debtors and Creditors

Debtors and creditors with no stated interest rate and receivable or payable within one year are recorded at transaction price. Any losses arising from impairment are recognised in the profit or loss in other operating expenses.

11.2 / Turnover

| Item | Year ended | Year ended |
|------------------------------------|---------------|------------|
| | 31 March | 31 March |
| | 2018 | 2017 |
| | £'000 | £'000 |
| BSC Section D charges | 35,183 | 31,656 |
| EMR grant income (See note 11.3) | - | 1,431 |
| EMR operational levy funded income | 4,984 | 3,971 |
| Other Income | 78 | 90 |
| Total | 40,245 | 37,148 |

Turnover in the year primarily represents amounts due from BSC Parties under the terms of the BSC. There is a reconciliation which charges/credits the difference between amounts invoiced to each BSC Party relating to the financial year and the amount due from each BSC Party under the terms of the BSC. Any difference is deferred or accrued as appropriate.

All turnover arises from activities in the UK.

11.3 / Government grant

There were no grants received in the current year.

EMRS takes on no financial risk on the settlement system and has no power to direct the operations of the CM and CFD projects other than under instructions from LCCC and ESC. EMRS has no future benefits from the alternative settlement systems it implemented for LCCC and ESC. Therefore EMRS has recognised the grant income and implementation costs of the alternative settlement systems as revenue and cost of sales respectively and has not recognised a fixed asset. The Company considers the likelihood of being required to repay the grant is remote such that no liability is provided for.

11.4 / Information regarding Directors and employees

The remuneration of Directors for the year ended 31 March 2018 is set out below:

| Item | Year ended 31 March 2018 £'000 | Year ended 31 March 2017 £'000 |
|---|---|---|
| Directors' remuneration | | |
| Emoluments | 606 | 373 |
| Remuneration of the highest paid director: | | |
| Emoluments | 289 | 160 |
| Company contribution to money purchase schemes | - | - |

The Directors received no other benefits. None of the Directors hold any shares or share options in the Company.

Information regarding employees is shown below.

| Item | Year ended 31 March 2018 | Year ended 31 March 2017 |
|--|---|---|
| Average number of persons employed | 150 | 136 |
| Staff costs during the year (including Directors) | | |
| | £'000 | £'000 |
| Wages and salaries | 8,637 | 7,623 |
| Social security costs | 969 | 893 |
| Pension costs (See note 12.19) | 1,472 | 1,358 |
| Total | 11,078 | 9,874 |

11.5 / Operating result

| Item | Notes | Year ended | Year ended |
|---|-------|------------|------------|
| | | 31 March | 31 March |
| | | 2017 | 2016 |
| | | £'000 | £'000 |
| Operating result is stated after charging | | | |
| Depreciation | 11.8 | 333 | 289 |
| Amortisation | 11.9 | 1,998 | 1,172 |
| Loss from Obsolescence | 11.9 | - | 498 |
| Operating lease rentals | | | |
| – land and buildings | | 1,872 | 1,667 |
| – plant and machinery | | 25 | 26 |
| Fees payable to the Company's auditor for the audit of the Company's accounts | | 65 | 61 |
| Total non-audit fees (tax, assurance and accounting advice) | | 8 | 122 |

Audit fees

Group audit fees payable to Moore Stephens LLP were £65,000 (2017: £61,000 payable to Deloitte LLP) of which £60,000 (2017: £53,000) relates to the Company.

11.6 / Interest receivable and similar income

| Item | Year ended | Year ended |
|---------------|------------|------------|
| | 31 March | 31 March |
| | 2018 | 2017 |
| | £'000 | £'000 |
| Bank interest | (4) | (8) |

11.7 / Tax on result from ordinary activities

| Item | Year ended 31 March 2018 £'000 | Year ended 31 March 2017 £'000 |
|--|---|---|
| United Kingdom corporation tax at 19% based on the result for the year | - | - |

11.8 / Tangible fixed assets

Group and Company

| Item | Operational assets £'000 | Fixtures and fittings £'000 | Office equipment £'000 | Total £'000 |
|---------------------------------|--------------------------------|-----------------------------------|------------------------------|----------------|
| Cost | | | | |
| At 1 April 2017 | 496 | 1,368 | 917 | 2,781 |
| Reclassification | - | (140) | 140 | - |
| Additions | - | 158 | 180 | 338 |
| Work In Progress | - | - | 5 | 5 |
| Disposals | - | - | (61) | (61) |
| At 31 March 2018 | 496 | 1,386 | 1,181 | 3,063 |
| Accumulated depreciation | | | | |
| At 1 April 2017 | 473 | 1,060 | 631 | 2,164 |
| Reclassification | - | (135) | 135 | - |
| Charge for the year | 18 | 115 | 200 | 333 |
| Disposals | - | - | (61) | (61) |
| At 31 March 2018 | 491 | 1,040 | 905 | 2,436 |
| Net book value | | | | |
| At 31 March 2018 | 5 | 346 | 276 | 627 |
| At 31 March 2017 | 22 | 308 | 286 | 616 |

11.9 / Intangible fixed assets

Group and Company

Intangible assets relate to the software development costs of the Balancing Mechanism and Reporting Service (BMRS) system and the relocating of our existing data centres used to host the BSC central systems to a commercial cloud infrastructure.

The BMRS system was developed in 2015/16, has an estimated remaining useful life of 1 year and the carrying amount as at 31 March 2018 was £902k. The commercial cloud, which was purchased in 2016/17, has an estimated remaining useful life of 1.8 years and the carrying amount as at 31 March 2018 was £1,789k.

£103k additions to Work in Progress relate to the installation of finance reporting software called Board, as the existing software is due to become obsolete. Once this work is complete it will allow the organisation access to more timely information.

These assets are capitalised because they will bring future economic benefit and ensure the stability of the central systems and will mitigate the risks of failure and overall deliver better value for money to BSC parties.

| Item | Intangible assets £'000 | WIP £'000 | Total £'000 |
|---------------------------------|--|----------------------|------------------------|
| Cost | | | |
| At 1 April 2017 | 5,935 | - | 5,935 |
| Additions | 175 | 103 | 278 |
| At 31 March 2018 | 6,110 | 103 | 6,213 |
| Accumulated depreciation | | | |
| At 1 April 2017 | 1,416 | - | 1,416 |
| Charge for the year | 1,998 | - | 1,998 |
| At 31 March 2018 | 3,414 | - | 3,414 |
| Net book value | | | |
| At 31 March 2018 | 2,696 | 103 | 2,799 |
| At 31 March 2017 | 4,519 | - | 4,519 |

11.10 / Investments

Company investments at cost were £179 at 31 March 2017 (2016: £179).

11.11 / Debtors

| Item | Group | | Company | |
|--------------------------------|---|---|---|---|
| | Year ended 31 March 2018 £'000 | Year ended 31 March 2017 £'000 | Year ended 31 March 2018 £'000 | Year ended 31 March 2017 £'000 |
| | Trade debtors | 24 | 150 | 24 |
| Trading Party balances | 102,753 | 57,163 | - | - |
| Taxation and social security | (4) | 7 | - | - |
| Prepayments and accrued income | 2,029 | 1,561 | 2,311 | 1,769 |
| Other debtors | 88 | 88 | 88 | 88 |
| Total | 104,890 | 58,969 | 2,423 | 2,007 |

£102,753,458 (2017: £57,163,219) of the Trading Party balances represents amounts due from trading parties under Section N of the BSC for the 30 days of trading from 2 March 2018 to 31 March 2018. An amount of £102,751,213 (2017: £57,129,112) is included in Creditors: amounts falling due within one year (see note 11.13). The rest of the Trading Party balances represents advance payments by trading parties as well as defaulted amounts due to be recharged to and collected from non-defaulting trading parties.

11.12 / Cash at bank and in hand

| Item | Year ended | Year ended |
|-------------------|---------------|------------|
| | 31 March | 31 March |
| | 2018 | 2017 |
| | £'000 | £'000 |
| Cash at Bank | 2,546 | 1,655 |
| Security Deposits | 87,113 | 56,759 |
| Total | 89,659 | 58,414 |

Group cash of £89,659,453 (2017: £58,414,155) includes £87,106,429 (2017: £56,784,960) of security deposits lodged by Trading Parties with ELEXON Clear under Section M of the BSC. Amounts lodged as security deposits are the absolute property of ELEXON Clear but can only be used as credit cover for trading balances as set out in the BSC. The BSC also sets out the limited instances whereby security deposits are repaid to Trading Parties. Interest accrued on cash deposits is paid to the lodging parties in accordance with the BSC.

Company cash of £2,034,959 (2017: £1,139,003) comprises of cash at bank only.

11.13 / Creditors: Amounts falling due within one year

| Item | Group | | Company | |
|---|----------------|----------------|--------------|--------------|
| | Year ended | Year ended | Year ended | Year ended |
| | 31 March | 31 March | 31 March | 31 March |
| | 2018 | 2017 | 2018 | 2017 |
| | £'000 | £'000 | £'000 | £'000 |
| Security deposits lodged by Trading Parties (see note 11.12.) | 87,106 | 56,784 | - | - |
| Trade creditors | 1,664 | 1,537 | 1,664 | 1,383 |
| Trading Party balances (see note 11.11) | 102,751 | 57,129 | - | - |
| Taxation and social security | 401 | 591 | 401 | 591 |
| Other creditors | 111 | 39 | 101 | 71 |
| Accruals and deferred income | 5,942 | 6,392 | 5,717 | 6,190 |
| Total | 197,975 | 122,472 | 7,883 | 8,235 |

11.14 / Creditors: Amounts falling due after more than one year

| Item | Group | | Company | |
|--------------|------------|------------|------------|------------|
| | Year ended | Year ended | Year ended | Year ended |
| | 31 March | 31 March | 31 March | 31 March |
| | 2018 | 2017 | 2018 | 2017 |
| | £'000 | £'000 | £'000 | £'000 |
| Rent charges | - | 46 | - | 46 |

Rent Charges

Under the terms of the lease for 350 Euston Road, ELEXON was granted an initial rent-free period of 11 months which has elapsed during the year, hence no creditors falling due after more than one year.

In 2017, in accordance with FRS 102 section 20 (Operating Lease Incentives), the value of the rent free period is shown in the Balance Sheet and is amortised to the Profit and Loss account on a straight-line basis over the duration of the lease. The value of the rent-free period that will be amortised to the Profit and Loss Account during financial years more than one year after the Balance Sheet date is shown within Creditors: amounts falling due after more than one year.

11.15 / Called up share capital

| Item | Year ended | Year ended |
|---|------------|------------|
| | 31 March | 31 March |
| | 2018 | 2017 |
| | £ | £ |
| Authorised: 100 Ordinary shares of £1 each | 100 | 100 |
| Called up, allotted and fully paid: One Ordinary share of £1 | 1 | 1 |

11.16 / Financial commitments

Operating lease commitments

Total future minimum lease payments under non-cancellable operating leases are as follows:

| Item | Group | | Company | |
|------------------------------|------------|---------------|------------|---------------|
| | Year ended | Year ended | Year ended | Year ended |
| | 31 March | 31 March 2017 | 31 March | 31 March 2017 |
| | 2018 | £'000 | 2018 | £'000 |
| | £'000 | (restated) | £'000 | (restated) |
| Leases which expire: | | | | |
| - within one year | 1,762 | 1,762 | 1,762 | 1,762 |
| - between one and five years | 7,050 | 7,050 | 7,050 | 7,050 |
| - after five years | 7,637 | 9,400 | 7,637 | 9,400 |

Operating lease commitments relate to land and buildings.

11.17 / Ultimate Parent Company

ELEXON is wholly-owned by NGET. The ultimate parent entity of NGET is National Grid plc.

The Directors are of the opinion that, under Financial Reporting Standard 102 (Accounting for Subsidiary Undertakings), the financial statements of ELEXON do not require consolidation within the financial statements of National Grid plc group. Under Section C of the BSC, NGET is prohibited from consolidating the financial results of ELEXON or its subsidiaries with its own or with any of its affiliated entities.

11.18 / Related Party transactions

| Item | Year ended | Year ended |
|---|------------|------------|
| | 31 March | 31 March |
| | 2018 | 2017 |
| | £'000 | £'000 |
| Volker Beckers – EU regulation and mentoring advice | - | 20 |

11.19 / Pension scheme

The total pension cost for the year ended 31 March 2018 from all schemes comprised regular contributions of £1,400,258 (2017: £1,357,835). At 31 March 2018, there were accrued pension liabilities of £49,867 (2017: £49,867).

Defined benefit scheme

As of 31 March 2018, 9% (2017: 11%) of the Group's employees were members of NGET's section of the Electricity Supply Pension Scheme ('ESPS'), a defined benefit scheme. The ratio has reduced and is diluted as the number of staff employed has increased and this pension scheme is closed to new joiners. The assets of the Scheme are held in a separate trustee administered fund. The Scheme is divided into sections, one of which relates to NGET. NGET's section of the scheme provides final salary defined benefits and was closed to new entrants on 1 April 2006. The Group's pension contributions are determined on a section-wide basis as advised by the actuary and are fully expensed in the Profit and Loss Account.

For the scheme year 2017/18, ELEXON incurred employer pension contribution costs of £939,177 (2017: £911,308) for its defined benefit scheme, of which £598,404 (2017: £598,404) was towards the deficit repair.

The ESPS, in accordance with the Pensions Act 2004, is subject to a full actuarial valuation every three years. The last review (completed in March 2017) set out the position as at 31 March 2016. The actuary used is Aon Hewitt Limited. The results of this actuarial valuation have been used as the basis for assessing pension costs. In summary, the results of the last full actuarial review available showed that as at 31 March 2016:

- ▶ the total assets of the NG Scheme were £2,552.7m
- ▶ liabilities i.e. the cost of providing the pensions/benefits were £3,053.2m
- ▶ the deficit was therefore £500.5m, a decrease of £307.7m from the deficit of £808.2m identified in the previous 2013 valuation. The NG Scheme assets were calculated as being sufficient to meet 83.6% of its accrued liabilities (at the previous 2013 valuation assets were sufficient to meet 70.2% of accrued liabilities)
- ▶ the Group was 61.1% funded using a solvency measure (53.7% in 2013).

The main reasons for the deficit continued to be increases in longevity, altering the profile of active members versus pensioners.

Following the last review, employers' contributions have increased from 25.7% (twice members' normal contributions, 2 x 6%, plus 13.7%) to 35.3% (twice members' normal contributions, 2 x 6%, plus 23.3%). ELEXON's share of the Deficit Repair continues to be £49,867 per month to 31 March 2022.

Defined contribution scheme

Since 1 September 2006, all new permanent employees have only been offered the option to join a new ELEXON Pension Scheme. The ELEXON Pension Scheme is a defined contribution Group Stakeholder Pension Plan. ELEXON matches employee contributions on a two for one basis to a maximum of 12% of basic salary. All eligible staff were auto enrolled. In the scheme year of 2017/18, ELEXON incurred employer's contribution costs of £460,068 (2017: £385,486) for its defined contribution scheme.

11.20 / Additional information on subsidiary undertakings

| Subsidiary undertaking | Country of registration | Activity | Portion of ordinary shares held % | Physical Address |
|------------------------|-------------------------|--|-----------------------------------|--|
| Poolserco Limited | England and Wales | Dormant | 100 | 4th Floor 350 Euston Road London |
| Poolit Limited | England and Wales | Holder of intellectual property rights and licences, non-trading | 100 | 4th Floor 350 Euston Road London |
| ELEXON Clear Limited | England and Wales | Legal counterparty to balance and imbalance transactions per the BSC | 100 | 4th Floor 350 Euston Road London |
| BSC Co. Limited | England and Wales | Dormant | 100 | 4th Floor 350 Euston Road London |
| EMR Settlement Limited | England and Wales | Undertakes settlement functions for Electricity Market Reform | 100 | 4th Floor 350 Euston Road London |

The results of all of the above entities are included within the consolidated financial statements.

Poolserco [3646729], BSC Co. Limited [3837126] and Poolit Limited [3646741] have taken advantage of the S448a exemption from preparing individual accounts as they are dormant entities, and the directors of these companies are exempt from the requirement to deliver a copy of the company's individual accounts to the register.

11.21 / Reconciliation of operating result to net cash flow from operating activities

| Item | Year ended | Year ended |
|---|---------------|--------------|
| | 31 March | 31 March |
| | 2018 | 2017 |
| | £'000 | £'000 |
| Operating result | (4) | (8) |
| Depreciation | 333 | 289 |
| Amortisation | 1,998 | 1,172 |
| Loss on disposal of fixed assets | - | 8 |
| Loss on obsolescence of intangible assets | - | 498 |
| Increase in debtors | (45,921) | (11,963) |
| Increase in creditors | 45,134 | 13,085 |
| Increase in trading deposit | 30,322 | 3,555 |
| Net Cashflow from Operating Activities | 31,862 | 6,636 |

11.22 / Reconciliation of net cash flow to movement in net cash

| Item | Year ended | Year ended |
|-----------------------------|---------------|---------------|
| | 31 March | 31 March |
| | 2018 | 2017 |
| | £'000 | £'000 |
| Net cash at 1 April | 58,414 | 54,930 |
| Increase/(Decrease) in cash | 31,245 | 3,484 |
| Net cash at 31 March | 89,659 | 58,414 |

11.23 / Subsequent Events

There are no events subsequent to 31 March 2018 requiring disclosure.

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