



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	8
4. Directors' Report	19
5. Corporate governance statement	23
6. Directors' Responsibilities Statement	39
7. Independent Auditor's report to the members of ELEXON Limited	41
8. Consolidated profit and loss account	45
9. Consolidated balance sheet	47
10. Company balance sheet	49
11. Consolidated cash flow statement	51
12. Notes to the financial statements	53

1. Officers and Professional Advisers

Directors

Michael Gibbons - Chairman
Mark Bygraves - Chief Executive Officer, appointed as a director on 11 November 2016
Volker Beckers - Non-executive
Alison Chappell - Non-executive
Clare Duffy - Non-executive
David Rigney - Non-executive
Gillian Wilmot - 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

Deloitte LLP
Chartered Accountants and
Statutory Auditor
London
United Kingdom

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.

We are custodians of the Balancing and Settlement Code (BSC), administering the BSC and providing and procuring the services needed to implement it. Above all, we are trusted, independent, reliable market experts.

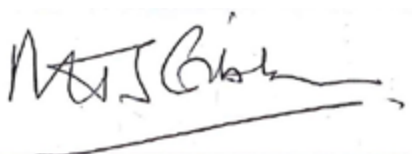
This year, ELEXON and the BSC Panel have continued to champion the need for a reduction in complexity and fragmentation of the industry Code landscape. We have acted as a focal point for the production of an industry-wide synopsis of change and issues, pioneering a more collaborative approach from all administrators for the wider benefit of stakeholders. In terms of the contribution we've made to the market, we have supported government and Ofgem in the development and implementation of policy, particularly around Electricity Market Reform, Half Hourly Settlement, European Policy, Faster Switching, Demand Side Flexibility and other strategic change.

ELEXON's governance arrangements have been strengthened by the implementation of Modification P324. This has introduced improved accountability to BSC Parties, giving them the opportunity to approve the appointment of directors and, in extremis, to vote to remove directors. P324 also gives the Board sole responsibility for approving the BSCCo Business Plan (but only after issuing it to BSC Parties for comment), allows the Board to decide on the makeup and membership of the Board and, for the first time, allows the Board to appoint up to two members of the Executive team as members of the Board. In my view, this is a great step forward that will continue to strengthen the relationship between the BSCCo Board and BSC Parties. Equally important, P324 clarifies the purpose of the Board and BSC Panel, aligning ELEXON's governance with best practice and increasing our accountability in delivering to the industry.

I should also note that 2016 was an election year for the BSC Panel. The biennial election resulted in the appointment of three new industry elected Panel members: Andy Knowles, Tom Edwards and Mitch Donnelly.

Barbara Vest and Stuart Cotten were both re-elected to serve another term. In addition, we've welcomed Stew Horne as the second Citizens Advice appointed Panel Member. Recent critiques of other industry Code Panels have suggested there is control by incumbents, e.g. by dominating panels and workgroups. I firmly believe that the make-up of the BSC Panel, with a broad, independent membership across the stakeholder community and the inclusion of two consumer representatives, avoids this perception and is a good template for Panel composition.

Finally, it is impossible to ignore developments within Europe and their potential for impact upon both the wider industry and ELEXON. In the absence of any alternative guidance, we are currently working on the assumption that the UK will continue to be part of the single European internal energy market although we shall keep this under review. We have set out the scope of work required to enable the BSC to comply with EU driven requirements and will continue to monitor European developments that would impact the BSC.



Michael Gibbons CBE
Chairman
31 May 2017

2.2 Report from the Chief Executive Officer

By Mark Bygraves, Chief Executive Officer



Last year was one of ELEXON's busiest yet.

More Modifications were raised than we've seen since the initial teething stages of the early days of NETA, we helped record numbers of new parties enter the market, we resolved more than 10,000 helpdesk calls and beat all of the system availability targets for our 24/7 settlement operation.

In addition to these core aspects of our role, we were delighted to be asked to apply our expert advice and guidance to a number of policy areas including: European Harmonisation, Smarter Markets, Faster Switching, EMR and the move towards full Half Hourly Settlement.

ELEXON's subsidiary company, EMR Settlement Ltd, has continued to provide settlement services for CfDs and the Capacity Market. Whilst this activity is completely ring-fenced and isolated from BSCCo, our EMR work enables us to apply our expertise to a wider range of activities and brings benefits to BSC Parties, specifically in the form of contribution towards existing fixed overheads that would otherwise have been borne by BSC Parties.

While we've been busy delivering, we've been mindful of the need to understand our customers and deliver a good value service that meets their needs and expectations. We have continued our Executive team visits to Parties to understand how we can improve our services and published more blogs, briefings, data and reports to inform and comment on market developments, all of which have received wide spread praise. I'm delighted that this engagement coupled with our high standards of service, has resulted in our best ever set of independent customer survey results in terms of customer satisfaction and net recommendation, with our customers rating us more highly than any other code administrator within the industry. We scored similarly highly in Ofgem's own cross-industry survey of all 11 code administrators, where we came top overall.

As well as administering the Code, BSC Parties will be aware we deliver the services and are responsible for the systems that underpin it. I am pleased that as well as numerous Modifications and CPs being successfully implemented in four Releases this year, we also delivered the new BMRS platform which has provided increased performance to end users and will enable a simpler, cheaper change process for Reporting. We have also had to develop changes arising from the CMA findings such as Zonal Transmission Losses and from Europe such as TERRE, and are identifying changes to enable aggregators to participate in the Balancing Mechanism, key for this growing area of technology and innovation.

Going forward, one of my priorities will be for ELEXON to take a lead role in the discussion of licensing and code-related activities. We have for some time advocated consolidation of central code services and bodies, to enable a more efficient interface for industry and to improve the standards of other code services to the levels enjoyed by BSC Parties. In such discussions, my aim will be to ensure that the qualities that mark out ELEXON as trusted, independent and a reliable market expert and which have delivered those high levels of satisfaction from you, our customers, are maintained and preserved for the benefit of industry and ultimately the consumer, and that demands from Ofgem that we be licensed or that code bodies become homogenous do not result in their dilution.



Mark Bygraves
Chief Executive Officer
31 May 2017

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 supplier 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 is the Warm Homes Discount Reconciliation Mechanism Agent and, as such, ensures that Warm Homes scheme costs are shared equitably between the scheme's electricity suppliers; and
- ▶ 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 12.20 to the Financial Statements.

Strategy

ELEXON's strategic priorities are:

- ▶ **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 intends to achieve these strategic priorities during 2017/18 can be found in the BSCCo Business Plan for 2017/18.

BUSINESS PERFORMANCE

An explanation of the company's performance against ELEXON's 2016/17 strategic priorities are set out in the BSCCo Business Plan for 2017/18 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 2016/17 will also be published by 30 June 2017 (as specified in the BSC) and will be available on ELEXON's website.

Turnover of the Group for the year to 31 March 2017 was £37.1m (2016: £35.4m) including £5.4m (2016: £5.5m) of EMR income see note 12.2. Excluding the EMR income, turnover in relation to BSC was £31.7m compared with £29.9m in the previous year. The increase in turnover (or expenditure) of the Group from £35.4m to £37.1m 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 £31.7m, compared to the 2016/17 annual BSC budget of £36.3m (net of EMR). £5.4m of 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. Looking forward, the Group budget for 2017/18 has been set at £41.5m. For more details of our budget for 2017/18, please refer to our 2017/18 Business Plan on the ELEXON website.



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 and a grant from Department for Business, Energy and Industrial Strategy ("BEIS").

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 2016/17 financial year based on the final audited costs and interest charges shown in this report. A credit of £1.9m for the 2016/17 financial year will be returned to BSC Trading Parties in August 2017.

This is ELEXON's sixteenth 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 (which includes £13.2m NETA go live set-up costs) in 2001 to £31.7m (this represents group turnover of £37.1m less EMR income of £5.4m).

Table 1 - Five-year comparison figures

Item	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000	Year ended 31 March 2015 £'000	Year ended 31 March 2014 £'000	Year ended 31 March 2013 £'000
BSC Turnover	31,747	29,873	30,238	27,561	29,786
EMR Turnover	5,401	5,522	2,642	1,695	-
Cost of Sales	(37,156)	(35,410)	(32,926)	(29,316)	(29,829)
Net Interest Income	8	15	46	60	43



TRUSTED
INDEPENDENT
AND RELIABLE
MARKET EXPERTS

CORPORATE SOCIAL RESPONSIBILITY

ELEXON's Corporate Social Responsibility (CSR) Strategy is built around four spheres (Community, Marketplace, Workplace and Environment) and ensures that we behave in a sustainable and 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.

During the year, all lighting in the ELEXON office was replaced with energy-saving LED equipment, which uses less electricity.

Community

On 31 March 2017, we ended our three-year partnership with Age UK and the University College London Hospital as our employee-nominated company charities. During 2016/17, employees raised over £1,200 for each charity through various fundraising activities as well raising an additional £2,000 per charity through the sale of the company's decommissioned laptops.

As well as company activities, our employees are encouraged to continue to use volunteering days, or individually participate in fundraising activities. From running marathons, climbing mountains, growing moustaches and cycling counties, our staff are always 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.

Significant risks are reviewed by the Audit and Risk Committee on a quarterly basis. The quarterly review includes a report from the Executive team with commentary on:

- ▶ the state of risk management and internal control;
- ▶ any significant failings or weaknesses identified during the period; and
- ▶ actions taken to remedy any significant weaknesses.

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 has undertaken a review of the Company's risk management and internal control system. Whilst the Company has in place effective processes for identifying, evaluating and managing the Company's significant risks, the Committee believes that there is scope to improve the Company's risk management system. Consequently, the Company is developing a risk management framework with a view to enabling it to more effectively manage risk in order to achieve the Company's strategic objectives.

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
- ▶ Ofgem's Future Code Governance proposals, including Ofgem's stated intention of introducing licensing and the need for ELEXON to be able to compete for its services
- ▶ promotion by the European Commission of a single European energy market, including the Guideline on Electricity Balancing, which may result in fundamental changes to the balancing and settlement arrangements
- ▶ the impact of Brexit on GB's 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 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>There is a 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 use (where appropriate) of third parties, implementing lessons learned from other projects, reviewing the effectiveness of previous mitigation actions and revising assurance reporting.</p>

Risk

BEIS/Ofgem proposals relating to institutional reform of central bodies by way of licencing, lead to the break-up of ELEXON or the introduction of arrangements that are unacceptable to ELEXON.

There is a risk that ELEXON may not be able to carry out its key business processes and/or some BSC obligations should a cyber-attack occur at 350 Euston Road or our key service providers which may have a negative impact on our reputation with industry.

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.

Managing the risk

Engagement with Ofgem and industry.

The Company continues to be ISO27001 and Cyber Essential Plus certified. The former certification included a review of service provider IT security controls.

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

The Company plans periodic tests of its BC/DR solution.

Develop vision for ELEXON in changing energy market and potential routes to achieve vision.

Engagement with Ofgem and industry.

Viability Statement

Having considered Provision C.2.2 in the UK Corporate Governance Code, the Directors have concluded, 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.

Consequently the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due.

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



Nicholas Brown
Company Secretary
31 May 2017

04 DIRECTORS' REPORT

04 / DIRECTORS' REPORT

The Directors present their annual report and the audited financial statements for the year ended 31 March 2017.

Principal risks and uncertainties

The principal risks and uncertainties for the Group, including financial risk management, are outlined on page 17.

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 12.4 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 2017 were equivalent to 19 days' purchases (2016: 9 days'), based on the average daily amount invoiced by suppliers to the Company during the year.

Directors and their interests

The membership of the Board during the year is set out below. Details of Directors' remuneration are given in note 12.4 to the financial statements. None of the Directors had any interests in the share capital of the Company or any other Group Companies.

Michael Gibbons is also Chairman of the Regulatory Policy Committee, Member of the International Advisory Board of Ocean Power Technologies Inc, 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.

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, exceptions noted, were as follows:

Michael Gibbons - Chairman

Mark Bygraves - Chief Executive Officer, appointed as a director on 11 November 2016

Volker Beckers - Non-executive

Alison Chappell - Non-executive

Clare Duffy - Non-executive

David Rigney - Non-executive

Gillian Wilmot - Non-executive

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
31 May 2017

05 CORPORATE GOVERNANCE STATEMENT

05 / CORPORATE GOVERNANCE STATEMENT

Corporate governance

ELEXON occupies a unique position of accountability and responsibility to the electricity industry. Accordingly, whilst ELEXON is not a listed company, the Company's Board recognises the value of good corporate governance and complies with the principles of the UK Corporate Governance Code (September 2014) to the extent this is applicable to the Group. 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 was updated in April 2016 and a copy 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	Resigned from Committee 6/6/2016
Volker Beckers	Appointed 1/3/2013	Resigned from Committee 6/6/2016	-	Appointed 1/3/2013
Alison Chappell	Appointed 1/3/2013	Appointed 1/3/2013	Appointed 1/3/2013	Resigned from Committee 6/6/2016
David Rigney	Appointed 1/5/2013	Resigned from Committee 6/6/2016	-	Chairman since 1/5/2013
Gillian Wilmot	Appointed 1/10/2013	Appointed 1/10/2013 Chairman since 4/12/2013	Appointed 30/4/2014	Resigned from Committee 6/6/2016
Clare Duffy	Appointed 1/11/2015	Appointed 1/11/2015	-	Appointed 1/11/2015
Mark Bygraves	Appointed 11/11/2016	-	-	-

Notes 1. The membership of the Remuneration Committee and the Audit and Risk Committee were re-structured on 6 July 2016 to better reflect best practice. The resignations set out in the table above reflect that re-structuring.

Attendance at Meetings

Details of attendance by Directors at Board and Committee meetings during 2016/17 are set out in the table below.

Name of Director	Board	Remuneration Committee	Nominations Committee	Audit and Risk Committee
Total number of meetings	10	6	2	3
Michael Gibbons	10 (10)	6 (6)	2 (2)	3 (3)
Volker Beckers	9 (10)	2 (2)	-	3 (3)
Alison Chappell	10 (10)	6 (6)	1 (1)	1 (1)
David Rigney	10 (10)	2 (2)	-	3 (3)
Gillian Wilmot	10 (10)	6 (6)	2 (2)	1 (1)
Clare Duffy	10 (10)	6 (6)	1 (1)	1 (1)
Mark Bygraves	4(4)	-	-	-

Notes 1. Numbers in brackets show how many meetings each Director was eligible to attend during the year. Board and Committee membership is on page 25.

2. Mark Bygraves was appointed as a director of the Company with effect from 11 November 2016. His first Board meeting as a director was on 30 November 2016. However, as Chief Executive Officer, Mark attended all Board meetings prior to being appointed as a director.

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.

The Board has appointed David Rigney as 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

Following the implementation of modification P324, the composition of ELEXON's Board is as follows:

- ▶ the Non-executive Chairman (as from 8 December 2016, prior to which the appointment was as Executive Chairman)
- ▶ two Non-executive Directors who are independent of industry
- ▶ three Non-executive Directors with relevant electricity industry experience
- ▶ the Chief Executive Officer (as from 11 November 2016).

The Board considers that all of the Non-executive Directors are independent in judgement and character.

Alison Chappell is a senior employee of RWE and Clare Duffy is a senior employee of ESB. As BSC Parties, RWE and ESB have a material business relationship with the Company. In addition, Note 12.18 to the Financial Statements provides details of arms-length payments received by Volker Beckers during the course of the year. These matters are relevant to the criteria identified in the UK Corporate Governance Code relating to Directors' independence. Notwithstanding these circumstances, the contribution of these Directors to the discussions and decisions of the Board demonstrate independent judgement and robust scrutiny.

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 36.

During the course of the year the BSC was modified so as to allow the Board to appoint up to two executive directors. Following the implementation of this modification, the incumbent Chief Executive Officer, Mark Bygraves, was appointed as an Executive Director of the Company.

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 Chairman is informed of any changes to those commitments.

The Chairman's other significant commitments are disclosed on page 21. The Chief Executive Officer has no other relevant directorships.

Development

All new Directors are provided with a full induction programme when they are appointed. The development of directors is an area which the Company plans to enhance over the forthcoming year.

Information and Support

The Chairman, supported by the Company Secretary, ensure that the Board receive 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. 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

During 2016/17 the Board undertook an evaluation of the performance of individual Directors.

The evaluation was conducted internally and was questionnaire based. The purpose of the process was to evaluate the independence, commitment, performance, values and involvement with stakeholders. The Chairman led the evaluation of the Non-executive Directors and the Senior Independent Director led the evaluation of the Chairman.

The Board continues to implement the findings of its last evaluation. During the course of 2016/17, the Board has made the following changes:

- ▶ the Board has implemented greater delegation to sub-committees and to the Executive team. As a consequence, the Board has more scope to focus on strategic issues and the key challenges facing the Company;
- ▶ the Board has undertaken a review of its reserved matters, delegated authorities and the terms of reference of the Audit Committee and the Remuneration Committee;
- ▶ in order to facilitate a greater focus on risk management, the Audit Committee has been reconstituted as an Audit and Risk Committee. The number of Audit and Risk Committee meetings has increased from three to four allowing more time to focus on risk;
- ▶ the Board has introduced an electronic system for Board papers and meeting administration.

The Board plans to undertake a further full evaluation of its performance in 2017. The evaluation will be externally facilitated.

Re-election of Directors

In accordance with the provisions of the BSC, no Directors were subject to re-election during 2016/17. However, following a modification to the BSC any Director who has been appointed, or reappointed, during the previous year, will be subject to election at the next Annual BSC Meeting. Consequently, Michael Gibbons, Mark Bygraves, Volker Beckers and Alison Chappell will be seeking re-election at the 2017 Annual BSC Meeting.

Financial and Business Reporting

The Board considers that this Annual Report presents 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 16. 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 page 17 to 18.

Audit Committee and Auditors

The Audit and Risk Committee report on page 34 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 37 to 38 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 37 to 38. 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 and holds 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 views of stakeholders on its Business Strategy and conducts an annual customer survey. The Board reviews and discusses the feedback from these exercises, 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.

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 13 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 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 auditors 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 2016 annual report
- ▶ the 2016 audit report from Deloitte
- ▶ the results of reviews carried out by the Company's internal auditor including in respect of information security and business continuity
- ▶ the Company's approach to producing a longer term viability statement;
- ▶ the principal risks and uncertainties faced by the Company, which are reviewed on a quarterly basis
- ▶ the effectiveness of the Company's risk management and internal controls
- ▶ the approach of the Company and the Committee to risk management
- ▶ a review of the company's whistleblowing procedures
- ▶ the Company's approach to cyber security
- ▶ the 2017 audit plan from Deloitte.

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 Committee.

The Audit and Risk Committee plans to undertake a competitive tender in respect of the Company's external auditors during the course of 2017.

[Note 12.5 to the Financial Statements includes a description of non-audit services performed by ELEXON's external auditor during the year.](#)

Report of Nominations Committee

The Nominations Committee is chaired by Michael Gibbons. Its other members are Alison Chappell and Gillian Wilmot.



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 and 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-appointments of Alison Chappell and Volker Beckers, which took effect on 1 March 2017, and the re-appointment of David Rigney which took effect on 1 May 2017. The decision to appoint Mark Bygraves as an executive director was made by the Board and the decision to re-appoint Michael Gibbons as chairman was taken by the BSC Panel, in compliance with the provisions of the BSC then in force.

A review of the composition and remit of the Nomination Committee is scheduled for 2017/18.

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. Half of ELEXON's current Board members are women.

Report of Remuneration Committee

The Remuneration Committee is chaired by Gillian Wilmot. Michael Gibbons, Alison Chappell and Clare Duffy 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 changes to the terms and conditions of appointment of the Executive team, determining the policy for the remuneration of the Executive team and overseeing the salary and bonus arrangements for the Executive team. In determining Executive team remuneration the Committee adheres to a formal and transparent procedure.

Following the implementation of BSC Modification P324 in November 2016, all Non-executive Directors are entitled to be remunerated. 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 2015/16
- ▶ setting Executive objectives for 2016/17
- ▶ approving Executive salaries for 2016/17
- ▶ considering the terms of related party transactions with directors and approving a policy in respect of the same
- ▶ reviewing the Chairman's terms of appointment as a consequence of the Board changing his role from executive chairman to non-executive chairman following the implementation of BSC Modification P324

[Note 12.4 to the Financial Statements sets out the Directors' remuneration for the year.](#)

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 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, Director's fees are benchmarked periodically taking into account the same comparator organisations that are used to benchmark Executive remuneration.

06 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.

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

We have audited the financial statements of ELEXON Limited for the year ended 31 March 2017 which comprise the Consolidated Profit and Loss Account, the Consolidated and Parent Company Balance Sheets, the Consolidated Cash Flow Statement and the related notes 12.1 to 12.23.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

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.

Respective responsibilities of Directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- ▶ give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2017 and the result for the year then ended;
- ▶ have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- ▶ have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter 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.

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

Matters on which we are required to report by exception

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, 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.



Dean Cook, MA, FCA (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
31 May 2017

08 CONSOLIDATED PROFIT AND LOSS ACCOUNT

Item	Notes	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
TURNOVER	12.2/12.3	37,148	35,395
Cost of sales		(37,156)	(35,410)
OPERATING RESULT	12.5	(8)	(15)
Interest receivable and similar income	12.6	8	15
Interest payable and similar charges	-	-	-
RESULT FROM ORDINARY ACTIVITIES BEFORE TAXATION	-	-	-
Tax on result from ordinary activities	12.7	-	-
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 (Section 6) have been presented. All activities arise from continuing operations.

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 (2016: £nil).

The notes on pages 53 to 75 form part of these financial statements.

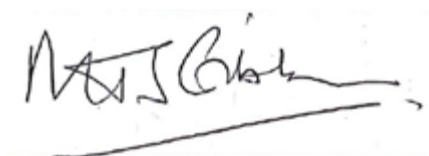
09 CONSOLIDATED BALANCE SHEET

Item	Notes	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
FIXED ASSETS			
Tangible assets	12.8	616	461
Intangible fixed assets	12.9	4,519	3,480
Total		5,135	3,941
CURRENT ASSETS			
Debtors	12.11	58,969	47,005
Cash at bank and in hand	12.12	58,414	54,931
Total		117,383	101,936
CREDITORS: amounts falling due within one year	12.13	(122,472)	(105,736)
NET CURRENT LIABILITIES		(5,089)	(3,800)
TOTAL ASSETS LESS CURRENT LIABILITIES		46	141
CREDITORS: amounts falling due after more than one year	12.14	(46)	(141)
NET ASSETS		-	-
CAPITAL AND RESERVES			
Called up share capital	12.15	-	-
SHAREHOLDER'S FUNDS		-	-

The notes on pages 53 to 75 form part of these accounts.

These financial statements were approved by the Board of Directors and authorised for issue on 31 May 2017.

Signed on behalf of the Board of Directors
Company Registration Number 3782949



Michael Gibbons, Director

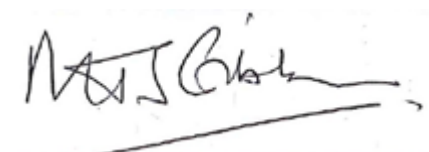
10 COMPANY BALANCE SHEET

Item	Notes	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
FIXED ASSETS			
Tangible assets	12.8	616	461
Intangible fixed assets	12.9	4,519	3,480
Investment	12.10	-	-
Total		5,135	3,941
CURRENT ASSETS			
Debtors	12.11	2,007	1,598
Cash at bank and in hand	12.12	1,139	1,320
Total		3,146	2,918
CREDITORS: amounts falling due within one year	12.13	(8,235)	(6,718)
NET CURRENT LIABILITIES		(5,089)	(3,800)
TOTAL ASSETS LESS CURRENT LIABILITIES		46	141
CREDITORS: amounts falling due after more than one year	12.14	(46)	(141)
NET ASSETS		-	-
CAPITAL AND RESERVES			
Called up share capital	12.15	-	-
SHAREHOLDER'S FUNDS		-	-

The notes on pages 53 to 75 form part of these financial statements.

These financial statements were approved by the Board of Directors and authorised for issue on 31 May 2017.

Signed on behalf of the Board of Directors
Company Registration Number 3782949



Michael Gibbons, Director

11 CONSOLIDATED CASH FLOW STATEMENT

Item	Notes	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
Operating activities			
Net cash inflow/(outflow) from operating activities	12.21	6,636	(1,608)
Returns on investments and servicing of finance			
Interest received		8	15
Net cash inflow from returns on investments and servicing of finance		8	15
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		(452)	(268)
Payments to acquire intangible fixed assets		(2,709)	(2,106)
Receipts from sales of tangible fixed assets		-	-
Net cash outflow from capital expenditure and financial investment		(3,161)	(2,374)
Increase/(Decrease) in cash and cash equivalents	12.22	3,484	(3,967)

The notes on pages 53 to 75 form part of these financial statements.

12 NOTES TO THE FINANCIAL STATEMENTS

12.1 / 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 8 to 10.

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 2016 to March 2017.

The financial statements cover ELEXON Limited and its subsidiary companies.

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 16 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 accounts is:

Fixtures and fittings:	Four years
Office and IT equipment:	Three 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 accounts is:

Development cost:	Three years
-------------------	-------------

Recognition of revenue

The accounts 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.

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 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 have been treated in accordance FRS 102 section 20 (Operating Lease Incentives) with the benefit being spread over the lease term on a straight-line basis.

Pension and other post-retirement benefits

As described in note 12.19, 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, under Financial Reporting Standard 102 (Retirement Benefits) 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

In line with FRS102 section 24.4 (Accounting for government grants), 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 income statement in other operating expenses.

12.2 / Turnover

Item	Year ended	Year ended
	31 March	31 March
	2017	2016
	£'000	£'000
BSC Section D charges	31,657	29,873
EMR grant income (See note 12.3)	1,431	1,960
EMR operational levy funded income	3,971	3,562
Other Income	90	-
Total	37,148	35,395

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.

12.3 / Government grant

EMRS implemented additional functionalities to the settlement system. The costs to implement the settlement system were met by EMR grant income of £1,431k (2016: £1,960k) from BEIS during the year, of which £984k (2016: £1,490k) was recognised in EMRS and the remaining £447k (2016: £470k) was recognised in ELEXON.

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 in line with the requirements of Financial Reporting Standard (FRS 102) Section 21 (Provisions and Contingencies).

As a result of the delay in the build and testing of the original planned system, the contract between EMRS and its then principal subcontractor was terminated on 9 November 2015. The dispute referred to in the 2015/16 financial statement was settled. Confidentiality prevents disclosure of further details but there was no liability to the group.

EMR operational levy funded income of £3,971k (2016: £3,562k) was received from LCCC and ESC under the terms of the SSPA. This related to the operation of the CFD and CM settlement function. A matching amount was included in cost of sales.

12.4 / Information regarding Directors and employees

Under the BSC, and following the implementation of BSC Modification P324 in November 2016, all Non-executive Directors are entitled to be remunerated. The remuneration of Non-executive Directors is determined by non-conflicted members of the Board. Mark Bygraves CEO was appointed as a director of the Company with effect from 11 November 2016.

The remuneration of Directors for the year ended 31 March 2017 is set out below:

Item	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
Directors' remuneration		
Emoluments	373	206
Amount receivable (other than shares and share options) under long-term incentive schemes	-	-
Company contributions to money purchase schemes	-	17
The number of directors who:		
Are members of a defined benefit pension scheme	-	-
Are members of a money purchase pension scheme	-	1
Remuneration of the highest paid director:		
Emoluments	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 2017	Year ended 31 March 2016
Average number of persons employed	136	137
Staff costs during the year (including Directors)	£'000	£'000
Wages and salaries	7,623	7,528
Social security costs	893	823
Pension costs (See note 12.19)	1,358	1,719
Total	9,874	10,070

12.5 / Operating result

Item	Notes	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
Operating result is stated after charging			
Fixed Assets Depreciation	12.8	289	237
Amortisation of Intangible	12.9	1,172	-
Loss from Obsolescence	12.9	498	-
Operating lease rentals			
– land and buildings		1,667	1,667
– plant and machinery		26	27
Fees payable to the Company's auditor for the audit of the Company's accounts		61	60
Total non-audit fees (tax, assurance and accounting advice)		122	131

Audit fees

Group audit fees payable to Deloitte LLP were £61,000 (2016: £60,000) of which £53,000 (2016: £52,000) relates to the Company. Other fees payable to Deloitte LLP were £122,334 for tax, assurance and accounting advice (2016: £130,868).

12.6 / Interest receivable and similar income

Item	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
Bank interest	(8)	(15)

12.7 / Tax on result from ordinary activities

Item	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
United Kingdom corporation tax at 20% based on the result for the year	-	-

12.8 / Tangible fixed assets

Group and Company

Item	Operational assets £'000	Fixtures and fittings £'000	Office equipment £'000	Total £'000
Cost				
At 1 April 2016	496	1,134	1,459	3,089
Additions	-	81	218	299
Work In Progress	-	154	-	154
Disposals	-	(1)	(760)	(761)
At 31 March 2017	496	1,368	917	2,781
Accumulated depreciation				
At 1 April 2016	436	1,008	1,184	2,628
Charge for the year	38	51	200	289
Disposals	-	-	(752)	(752)
At 31 March 2017	473	1,060	631	2,165
Net book value				
At 31 March 2017	22	308	286	616
At 31 March 2016	60	126	275	461

12.9 / Intangible fixed assets

Group and Company

Development costs have been capitalised in accordance with FRS 102 Section 18 Intangible Assets other than Goodwill and are therefore not treated, for dividend purposes, as a realised loss.

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 1.9 years and the carrying amount as at 31 March 2017 was £1,895k. The commercial cloud, which was purchased in 2016/17, has an estimated remaining useful life of 2.7 years and the carrying amount as at 31 March 2017 was £2,613k.

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.

Disposal of intangible assets relate to the software development costs of the company's Business Process Reporting (BPR) system. During the year, this software was deemed no longer fit for purpose and declared obsolete. At this point its value was written down to nil, and disposed of.

Item	Intangible assets £'000	WIP £'000	Total £'000
Cost			
At 1 April 2016	2,235	1,724	3,959
Additions	-	2,709	2,709
Transfers	4,433	(4,433)	-
Disposals	(733)	-	(733)
At 31 March 2017	5,935	-	5,935
Accumulated depreciation			
At 1 April 2016	479	-	479
Charge for the year	1,172	-	1,172
Disposals	(235)	-	(235)
At 31 March 2017	1,416	-	1,416
Net book value			
At 31 March 2017	4,519	-	4,519
At 31 March 2016	1,756	1,724	3,480

12.10 / Investments

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

12.11 / Debtors

Item	Group		Company	
	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
	Trade debtors	150	441	150
Trading Party balances	57,163	45,423	-	-
Taxation and social security	7	210	-	100
Prepayments and accrued income	1,561	857	1,769	983
Other debtors	88	74	88	74
Total	58,969	47,005	2,007	1,598

£57,163,219 (2016: £45,423,189) of the Trading Party balances represents amounts due from trading parties under Section N of the BSC for the 26 days of trading from 4 March 2017 to 29 March 2017. An amount of £57,129,112 (2016: £45,423,189) is included in Creditors: amounts falling due within one year (see note 12.13). 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 (see note 12.13).

12.12 / Cash at bank and in hand

Item	Year ended	Year ended
	31 March	31 March
	2017	2016
	£'000	£'000
Cash at Bank	1,655	1,703
Security Deposits	56,759	53,228
Pre-payment of trading charges	-	-
Borrowing	-	-
Total	58,414	54,931

Group cash of £58,414,155 (2016: £54,930,603) includes £56,784,960 (2016: £53,228,350) 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. (See note 12.13).

Company cash of £1,139,003 (2016: £1,320,300) comprises of cash at bank only.

12.13 / 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
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
Security deposits lodged by Trading Parties (see note 12.11.)	56,784	53,228	-	-
Trade creditors	1,537	727	1,383	586
Trading Party balances (see note 12.12)	57,129	45,423	-	-
Taxation and social security	591	256	591	255
Other creditors	39	88	71	200
Accruals and deferred income	6,392	6,014	6,190	5,677
Total	122,472	105,736	8,235	6,718

12.14 / 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
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
Rent charges	46	141	46	141

Rent Charges

Under the terms of the lease for 350 Euston Road, ELEXON was granted an initial rent-free period of 11 months. 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.

12.15 / Called up share capital

Item	Year ended	Year ended
	31 March	31 March
	2017	2016
	£	£
Authorised: 100 Ordinary shares of £1 each	100	100
Called up, allotted and fully paid: One Ordinary share of £1	1	1

12.16 / 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	31 March	31 March
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
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	9,691	11,456	9,691	11,456

Operating lease commitments relate to land and buildings.

12.17 / 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.

12.18 / Related Party transactions

Transactions between related parties are on normal commercial terms and conditions, which are no more favourable than those that are available to other parties.

During the year, the Company entered into the following related party transactions:

Item	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
Cornwall Consulting Limited – Conference room hire income	-	(1)
Cornwall Energy Associates – Consultancy	-	7
Nigel Cornwall – Regulatory advice	-	9
Volker Beckers – EU regulation and mentoring advice	20	42
Board mentoring Limited	-	3

Volker Beckers is one of the Non-executive Directors of the Company. During the period, the Company has purchased advisory and mentoring services in the ordinary course of its business from Volker Beckers in the amounts of £20k (2016: £42k). All transactions were at arm's length.

12.19 / Pension scheme

The total pension cost for the year ended 31 March 2017 from all schemes comprised regular contributions of £1,357,835 (2016: £1,718,907). At 31 March 2017, there were accrued pension liabilities of £49,867 (2016: £61,362).

Defined benefit scheme

As of 31 March 2017, 12% (2016: 13%) of the Group's employees were members of NGET's section of the Electricity Supply Pension Scheme ('ESPS'), a defined benefit scheme. 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 2016/17, ELEXON incurred employer pension contribution costs of £911,308 (2016: £1,110,547) for its defined benefit scheme, of which £598,404 (2016: £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 June 2014) set out the position as at 31 March 2013. 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 2013:

- ▶ the total assets of the NG Scheme were £1,899.5m
- ▶ liabilities i.e. the cost of providing the pensions/benefits were £2,707.7m
- ▶ the deficit was therefore £808.2m, an increase of £301.2m from the deficit of £507m identified in the previous 2010 valuation. The NG Scheme assets were calculated as being sufficient to meet 70.2% of its accrued liabilities (at the previous 2010 valuation assets were sufficient to meet 75% of accrued liabilities)
- ▶ the Group was 53.7% funded using a solvency measure (62% in 2010).

The main reasons for the deficit continued to be increases in longevity, altering the profile of active members versus pensioners, as well as lower than expected returns on assets.

Following the last review, employers' contributions have decreased from 27.7% (twice of the members' normal contributions, 2 x 6%, plus 15.7%) to 25.7% (twice of the members' normal contributions, 2 x 6%, plus 13.7%). 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 2016/17, ELEXON incurred employer's contribution costs of £385,486 (2016: £605,319) for its defined contribution scheme.

12.20 / Additional information on subsidiary undertakings

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

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 S3949a 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.

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

Item	Year ended	Year ended
	31 March	31 March
	2017	2016
	£'000	£'000
Operating result	(8)	(15)
Fixed assets depreciation	289	237
Amortisation of intangible	1,172	435
Loss on disposal of fixed assets	8	-
Loss on obsolescence of intangible assets	498	-
(Increase)/Decrease in debtors	(11,963)	15,017
Increase/(Decrease) in creditors	13,085	(14,414)
Increase/(Decrease) in trading deposit	3,555	(2,868)
NET CASH FLOW from OP. ACTIVITIES	6,636	(1,608)

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

Item	Year ended	Year ended
	31 March	31 March
	2017	2016
	£'000	£'000
Net cash at 1 April	54,930	58,897
Increase/(Decrease) in cash	3,484	(3,967)
Change in net cash resulting from cash flows	3,484	(3,967)
Net cash at 31 March	58,414	54,930

12.23 / Subsequent Events

There are no events subsequent to 31 March 2017 requiring disclosure.

ELEXON.CO.UK

