Public

ELEXON Limited

Report and Financial Statements

Company registration number 3782949

31 March 2016

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01 Officers and Professional Advisers

Directors

Michael Gibbons	(Chairman)
Volker Beckers	(Non-executive)
Alison Chappell	(Non-executive)

Nigel Cornwall
(Non-executive, resigned 30 September 2015)

Clare Duffy
(Non-executive, appointed 1 November 2015)

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

02 Report of the Chairman and Chief Executive Officer

2.1 Report from the Chairman

ELEXON is the Balancing and Settlement Code Company ('BSCCo') for the electricity market in Great Britain. This year, one of the main focuses of the BSCCo Board and BSC Panel has been 'governance'. The Board and Panel have worked in collaboration to define potential reforms to the governance of the BSCCo to introduce, amongst other things, clarity in the relationship between the BSCCo Board and BSC Panel. This initial 'straw man' has been handed over to industry and is being progressed via a modification to the Code, with a second modification addressing governance issues also being progressed.

Mindful of the direction of change that our governance is moving in and the clear intentions of these Modification Proposals to reform BSCCo's governance, we tried wherever possible to incorporate elements of the 'best practice.' We are seeking to implement these modifications to the development of the 2016/17 BSCCo Business Strategy. The prime example of this is our use of the BSC Panel's own strategy and work-plan as a starting point when formulating the BSCCo Strategy. This BSC Panel Strategy also reflects Ofgem's recommendation that industry panels produce their own forward looking work plans. The work-plan is now in its second year and has proved a useful planning tool for determining areas of focus and priority for both the Panel and BSCCo.

This document and set of statements summarise the activity of BSCCo over what has been a busy year. Looking ahead, there is no let-up in the volume of work facing the BSCCo, Panel and wider industry. Given the increasing demands on industry resource, I'd like to take this opportunity to thank my colleagues within ELEXON, the BSC Panel, the Panel Committees and the raft of industry members who contribute to various expert working groups for their continued commitment and dedication to the delivery and operation of the BSC.

Finally, I should note that 2016 is an election year for the BSC Panel, so I anticipate the potential for changes around the Panel table. Ahead of this potential change, 2015/16 was one of relative stability for the Panel. We lost Chris Alexander as the consumer representative, and I'd like to pass my thanks on to him for the contribution he made during his two year tenure. At Board level, we said goodbye to Nigel Cornwall, we thank Nigel for several years of service to the Board and we have welcomed Clare Duffy who joined the Board in November as the third Industry Non-Executive Director.

2.2 Report from the Chief Executive Officer

It was a busy year for ELEXON. Whilst keeping Settlement up and running 24 hours a day, 7 days a week, 365 days a year, we've been keeping abreast of industry change, contributing to significant pieces of work such as Ofgem's smarter markets work, Settlement reform, European developments and the Competition and Markets Authority's investigation. We've provided support to new entrants, acted as a source of expertise for the industry and, where appropriate, stimulated discussion and debate through workshops, the Annual BSC Meeting and joint initiatives with colleagues from across the industry. In addition to this 'business as usual' activity, we've dealt with some major issues including significant trading disputes, organisational restructure and complex, unusual BSC Releases.

In addition, this year marked the first full year of operation of EMRS Ltd: we've broadened our offering to industry through delivery of EMR activities, providing financial benefit to BSC Parties and increasing the breadth of opportunities to our staff.

Given the volume of work we've been asked to deliver I'm delighted that our focus on customer service has remained intact: the results of our 2015 customer survey were the best we've ever seen. The results showed a clear improvement on all of the main KPIs with Overall Satisfaction, Value for Money, and Advocacy at their highest levels to date.

Undoubtedly, the year ahead will bring significant change to the industry that ELEXON serves. We await with interest the final publication of the CMA's recommendations in the summer and will continue to work hard to anticipate its impacts on settlement and ELEXON's role. We have been and will continue to liaise with government and Ofgem to provide our expert input and viewpoint and look forward to playing our part in implementing the CMA's final recommendations.

Michael Gibbons CBE
Chairman
9 June 2016

Mark Bygraves
Chief Executive Officer
9 June 2016

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 (DECC) 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 suppliers and generators 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 12.21. 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 2016/17 can be found in the BSCCo Business Plan for 2016/17.

Business performance

ELEXON and its subsidiaries form a not-for-profit group which 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 DECC.

An explanation of the company's performance against ELEXON's 2015/16 strategic priorities are set out in the BSCCo Business Plan for 2016/17 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 2015/16 will also be published by 30 June 2016 (as specified in the BSC) and will be available on ELEXON's website.

Turnover for the year to 31 March 2016 was £35.4m including £5.5m (2015: £2.6m) of EMR income see note 12.3. Excluding the EMR income, turnover in relation to BSC was £29.9m compared with £30.2m in the previous year. This represents total expenditure incurred by the Group in relation to the operation of the BSC. The increase in turnover (or expenditure) from £32.9m to £35.4m was mainly due to the increased turnover of EMRS.

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 £29.1m, compared to the 2015/16 annual budget of £37.8m (net of EMR). The £8.7m underspend was mainly attributable to a change in our approach in our Transformation programme, as well as less market development activity, and fewer industry demand led changes. Looking forward, the budget for 2016/17 has been set at £36.3m. For more details of our budget for 2016/17, please refer to our 2016/17 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 amounts charged to Trading Parties for the 2015/16 financial year based on the final audited costs and interest charges shown in this report. A credit of £1.2m for the 2015/16 financial year will be returned to BSC Trading Parties in August 2016.

This is ELEXON's fifteenth full year of operation. Since the start of the balancing and settlement arrangements ELEXON's costs, net of interest, have fallen from £71.8m (which includes £13.2m NETA go live set-up costs) in 2001 to £29.9m (this represents group turnover of £35.4m less EMR income of £5.5m).

TABLE 1: FIVE-YEAR COMPARISON FIGURES

	Year ended 31 March 2016	Year ended 31 March 2015	Year ended 31 March 2014	Year ended 31 March 2013	Year ended 31 March 2012
	£'000	£'000	£'000	£'000	£'000
Turnover	**35,395**	32,880	29,256	29,786	30,361
Cost of Sales	**(35,410)**	(32,926)	(29,316)	(29,829)	(30,380)
Net Interest Income	**15**	46	60	43	19

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, we have maintained our electricity consumption compared with the previous year despite an increase in employee numbers.

Community

Age UK and the University College London Hospital are our employee-nominated company charities. During 2015/16, employees raised over £1,000 for each charity through various fundraising activities.

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

We have embedded 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

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
- implementation of the government's Electricity Market Reform introducing a Capacity Market, which aims to protect security of supply as existing generation capacity is retired, and Contracts for Difference to incentivise low carbon generation
- roll-out of smart metering
- Demand Side Flexibility and the development of smart grids
- promotion by the European Commission of a single European energy market which may result in fundamental changes to the balancing and settlement arrangements
- the outcome of the Competition and Markets Authority investigation into the energy market.

The Board has reviewed the Company's approach to risk management and will introduce its new approach for the year 2016/17. As part of that, the Board will be considering how to report on the Company's viability as required by C.2.2 of the Corporate Governance Code.

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
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.	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.
There is a risk that the significant industry changes in the UK and Europe fundamentally changes the balancing and settlement arrangements and our existing role will need to be delegated or assigned to us.	The Company actively monitors developments in the EU and the UK and has established contact with, or is engaged with, industry decision makers and industry groups and organisations to be close to these changes and to inform decisions.
The CMA has proposed that code administration should become a licensable activity. It is unclear what this would entail and how it might change the Company's risk profile.	The Company is engaging with Ofgem on what an efficient solution would look like.
The Company has initiated a number of IT projects that impact, or will impact, BSC central systems and data reporting systems. The risks to the successful delivery of IT system change include the potential for delays and increased costs.	The Executive team has reviewed the Company's capabilities (including through commissioning external consultancy support). Project management methodologies have been reviewed and changes implemented. In addition, the Company is reviewing its approach to change and its portfolio management tools.
The delivery of BSC system changes are dependent on industry participants over whom the Company has limited leverage in ensuring timescales and/or quality. This may result in late delivery of projects by ELEXON.	The Company has worked on developing a closer working relationship with key industry participants including building relationships with senior counterparts to whom issues can be escalated.

N. C. Brown

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

Nicholas Brown
Company Secretary
9 June 2016

04 Directors' Report

The Directors present their annual report and the audited financial statements for the year ended 31 March 2016.

Principal risks and uncertainties

The principal risks and uncertainties for the Group, including financial risk management, are outlined on pages 10-11.

Going concern

The Group has arranged a £1.0m 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 12.5 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 2016 were equivalent to 9 days' purchases (2015: 23 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 12.5 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, Chairman of the Carbon Capture and Storage Association, Director of Sargas Power Yorkshire Limited, Member of the International Advisory Board of Ocean Power Technologies Inc, Director of the British Management Data Foundation, Director of the Association of Power Exchanges, 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)
Volker Beckers	(Non-executive)
Alison Chappell	(Non-executive)
Nigel Cornwall (Non-executive, resigned 30 September 2015)	
Clare Duffy (Non-executive, appointed 1 November 2015)	
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.

Deloitte LLP has expressed their willingness to continue in office as auditor and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

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

N. C. Brown

Nicholas Brown
Company Secretary
9 June 2016

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 Board and its Committees

The Board has a formal schedule of matters specifically reserved for its decision which include setting and reviewing the strategic direction of the Company (within the framework of the annual BSC Business Plan process), 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 Board has delegated authority to its committees to carry out those tasks defined in the committees' terms of reference, which are available on the ELEXON Website. Details of the committee structure and the workings of the committees are set out on pages 16 to 18.

Composition of the Board

The composition of ELEXON's Board is set out in the BSC and is comprised as follows:

- the Chairman
- two Non-executive Directors who are independent of industry
- three Non-executive Directors with relevant electricity industry experience.

All Directors have written terms of appointment setting out all relevant matters, including the time commitment required. Copies of these terms of appointments are available upon request.

There is a written division of responsibilities between the Chairman and Chief Executive Officer. The Chairman is responsible for running the Board, whilst the Chief Executive Officer has executive responsibility for the day-to-day management of the Company. The only Executive Director of the company is the Chairman. The BSC prevents the Chief Executive Officer from being a Director and the Board does not include any members of the Executive team so the Company is unable to fully comply with B.1 of the Corporate Governance Code. However, the Board receives the benefit of input from, and discussion with, the Chief Executive Officer (and members of the Executive team) by way of required attendance at Board meetings.

Senior Independent Director

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.

Independence

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 12.19 to the Financial Statements provides details of arms-length payments received by Volker Beckers and Nigel Cornwall 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

During the course of the year Nigel Cornwall stood down and the Board conducted an open process, which resulted in the appointment of Clare Duffy as an industry Non-executive Director. A report on the activities of the Nomination Committee is on page 18.

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
- an introduction to the Balancing and Settlement Code.

Evaluation and effectiveness

During 2015/16 the Board undertook a formal and rigorous evaluation of:

- the performance of individual Directors
- the performance of the Board.

The evaluation of individual directors 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 lead the evaluation of the Non-executive Directors and the Senior Independent Director lead the evaluation of the Chairman. The review concluded that all directors continued to contribute effectively and to demonstrate commitment to the role.

The Board also conducted a review of its own effectiveness led by the Chairman, the Chief Executive and was supported by the Company Secretary and independent expertise in the form of Patrick Dunne from Boardelta Limited.

The review commenced in July 2015 and findings and recommendations were presented and discussed at the 30 September Board meeting. It consisted of interviews with 22 people comprising Board and Panel members, Executive and other key stakeholders, a review of the previous 12 months board agendas, papers and minutes as well as a comparative analysis of the characteristics of high performing boards and observation of the 1 September 2015 board meeting.

The main conclusions of the evaluation were:

- there should be greater delegation by the Board to management to allow the Board more time to focus on strategic issues including the top three challenges facing ELEXON over the coming year
- in implementing the former, there was a need to review the Company's delegated signing authority, its policies and the Board's Schedule of Reserved Matters
- there was also a need to review and refresh the terms of reference of the Board's sub-committees
- Board agendas should place greater focus on matters for decision, with information being reported outside of the meetings rather than reserved for discussion at Board meetings
- an electronic system for board papers and board administration should be introduced.

Re-election of Directors

As a result of the BSC arrangements, which constrain the rights of National Grid Electricity Transmission PLC as the Company's sole shareholder, the Directors of the Company are not submitted for re-election and, in this regard, do not comply with B.7. of the UK Corporate Governance Code. However, BSC Parties do have a right to remove Directors at the Annual BSC Meeting where those Directors have not been appointed in accordance with the Nominations Committee's Terms of Reference.

Board and Committee meetings

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.

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. Any Director who is physically unable to attend Board and Committee meetings is given the opportunity to attend by telephone conference.

The Chairman and Non-Executive Directors also meet informally, without any of the Executive Team present, to discuss matters in respect of the business.

Details of attendance by Directors at Board and Committee meetings during 2015/16 are set out in the table below.

Name of Director	Board	Remuneration Committee	Nominations Committee	Audit Committee
Total number of meetings	**14**	**3**	**4**	**3**
Michael Gibbons	14 (14)	3 (3)	4 (4)	3 (3)
Nigel Cornwall	7 (9)	2 (2)	- (-)	1 (1)
Volker Beckers	12 (14)	3 (3)	- (-)	3 (3)
Alison Chappell	14 (14)	3 (3)	4 (4)	3 (3)
David Rigney	13 (14)	3 (3)	1 (1)	3 (3)
Gillian Wilmot	13 (14)	3 (3)	4 (4)	3 (3)
Clare Duffy	5 (5)	1 (1)	- (-)	2 (2)

Notes

1. Numbers in brackets show how many meetings each Director was eligible to attend during the year.
2. Nigel Cornwall resigned as a Director on 30 September 2015 and was replaced by Clare Duffy with effect from 1 November 2015.
3. All Directors are members of the Audit Committee and the Remuneration Committee.
4. The Nominations Committee is comprised of Michael Gibbons, Alison Chappell and Gillian Wilmot. The Terms of Reference of that Committee prevent Directors from participating in decisions relating to their own appointment but require attendance from one industry director and one non-industry director. Where Committee members have been unable to, or have been prevented from, attending the Nomination Committee another Board member has attended instead.

Board Committees

The Board has established an Audit Committee, a Nominations Committee and a Remuneration Committee.

Audit Committee

The Audit Committee comprises all Directors and is chaired by David Rigney who has recent, relevant and significant financial experience.

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 the Company's internal financial control and risk management systems and making recommendations to the Board and reviewing and monitoring the external auditor's independence and objectivity, in particular, the provision of non-audit services that they provide.

In discharging these responsibilities, the Audit 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 2015 annual report
- the 2015 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 effectiveness of internal controls
- the approach of the Company and the Committee to risk management
- the Company's approach to cyber security
- the 2016 audit plan from Deloitte.

The Audit 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.

ELEXON acknowledges recent developments in the audit market including the Order by the Competition and Markets Authority, 'The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities)' and the EU Audit Directive & Regulation. ELEXON is not required to comply with the new regulations, nevertheless, the Group recognises that audit tendering represents good corporate governance and therefore the Audit Committee has considered the implications of the new regulations and the transitional rules set out therein as if it were a 'public interest entity'.

According to these transitional rules, if ELEXON were a public interest entity it would be required, at the latest, to run a competitive tender process in respect of the appointment of an external auditor for the financial year ending 31 March 2024. The Audit Committee has recommended to the Board that ELEXON adopt best practice and follow the transitional rules with an annual review of this approach.

Deloitte was appointed auditor in 2001 and no contractual obligations existed that acted to restrict the Audit Committee's choice of external auditors. The current Senior Statutory Auditor has completed eight years out of a possible ten permitted by APB Ethical Standard 3.

Note 12.6 to the Financial Statements includes a description of non-audit services performed by ELEXON's external auditor during the year.

Nominations Committee

The Nominations Committee is chaired by Michael Gibbons and also includes 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:

- a review of the composition of the Board
- conducting the process for the appointment of a new Non-executive Director.

The external search firm, Heidrick and Struggles, were used for the Non-executive Director appointment process. Heidrick and Struggles has no other connection with the company. The recruitment process was conducted in accordance with the BSC and the Nomination Committee's terms of reference and resulted in the appointment of Clare Duffy as an industry Non-executive Director.

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.

Remuneration Committee

The Remuneration Committee comprises of all Directors and is chaired by Gillian Wilmot.

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 framework 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.

Report

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

- approving the terms of appointment for new members of the Executive team, including the Chief Executive, and the Executive salary review for 2015
- agreeing the Executive bonus award for 2014/15
- setting Executive objectives for 2015/16
- approving the Executive Reward Strategy

Note 12.5 to the Financial Statements sets out the Directors' remuneration for the year. The BSC prevents Non-executive Directors with relevant industry experience from being remunerated. In addition, the remuneration of the Chairman is not set by the Company. Consequently the Company is unable to fully comply with D.1.3, D2.2 and D.2.3 of the Corporate Governance Code.

Relations with stakeholders

As noted above, the rights and responsibilities of ELEXON's sole shareholder, NGET, are constrained by the BSC. Regarding 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. That dialogue 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 DECC and Ofgem. Where relevant, 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 customers 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 customers
- presentations by industry participants at the Board strategy event
- there are regular meetings between members of the Executive team and customers 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.

Internal control

The Board, via the Audit Committee, is responsible for the Group's system of internal control and for reviewing its effectiveness. The system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against misstatement or loss.

The Board believes that a comprehensive process for identifying, evaluating and managing the Group's significant risks has been in place for the entire reporting period and up to the date of the approval of this document.

The Directors (sitting either as the Board or as the Audit Committee) review significant risks on a six monthly basis. This includes reviewing 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
- actions taken to remedy any significant weaknesses.

Both corporate and business 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, both at a corporate and business level, 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.

ELEXON has an internal audit function that provides the Audit 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 Committee agrees a programme of internal audit work annually and reviews progress at each of its meetings with the head of the internal audit function.

06 Statement of Directors' responsibilities

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 2016 which comprise the Group Profit and Loss Account, the Group Statement of Comprehensive Income, the Group and Parent Company Balance Sheets, the Group and Parent Company Statement of Changes in Equity, the Group Cash Flow Statement and the related notes 1 to 24. 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 2016 and of the group's 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 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.

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 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.

Dean Cook, MA, FCA (Senior statutory auditor)
for and on behalf of **Deloitte LLP**
Chartered Accountants and Statutory Auditor
London, UK
9 June 2016

08 Consolidated profit and loss account

	Notes	**Year ended 31 March 2016 £'000**	Year ended 31 March 2015 £'000
TURNOVER	12.3/12.4	**35,395**	32,880
Cost of sales		**(35,410)**	(32,926)
OPERATING RESULT	12.6	**(15)**	(46)
Interest receivable and similar income	12.7	**15**	46
Interest payable and similar charges		**-**	-
RESULT FROM ORDINARY ACTIVITIES BEFORE TAXATION		**-**	-
Tax on result from ordinary activities	12.8	**-**	-
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 accounts. The parent Company's result for the financial year was £nil (2015: £nil).

The notes on pages 27 to 40 form part of these accounts.

09 Consolidated balance sheet

	Notes	**Year ended 31 March 2016 £'000**	Year ended 31 March 2015 £'000
FIXED ASSETS			
Tangible assets	12.09	**461**	430
Intangible fixed assets	12.10	**3,480**	1,809
		3,941	2,239
CURRENT ASSETS			
Debtors	12.12	**47,005**	62,022
Cash at bank and in hand	12.13	**54,931**	58,897
		101,936	120,920
CREDITORS: amounts falling due within one year	12.14	**(105,736)**	(123,018)
NET CURRENT LIABILITIES		**(3,800)**	(2,098)
TOTAL ASSETS LESS CURRENT LIABILITIES		**141**	141
CREDITORS: amounts falling due after more than one year	12.15	**(141)**	(141)
NET ASSETS		**-**	-
CAPITAL AND RESERVES			
Called up share capital	12.16	**-**	-
SHAREHOLDER'S FUNDS		**-**	-

The notes on pages 27 to 40 form part of these accounts.
These financial statements were approved by the Board of Directors and authorised for issue on 9 June 2016.
Signed on behalf of the Board of Directors
Company Registration Number 3782949

Michael Gibbons
Director

10 Company balance sheet

	Notes	**Year ended 31 March 2016 £'000**	Year ended 31 March 2015 £'000
FIXED ASSETS			
Tangible assets	12.09	**461**	430
Intangible fixed assets	12.10	**3,480**	1,809
Investments	12.11	**-**	-
		3,941	2,239
CURRENT ASSETS			
Debtors	12.12	**1,598**	3,450
Cash at bank and in hand	12.13	**1,320**	2,478
		2,918	5,928
CREDITORS: amounts falling due within one year	12.14	**(6,718)**	(8,027)
NET CURRENT LIABILITIES		**(3,800)**	(2,098)
TOTAL ASSETS LESS CURRENT LIABILITIES		**141**	141
CREDITORS: amounts falling due after more than one year	12.15	**(141)**	(141)
NET ASSETS		**-**	-
CAPITAL AND RESERVES			
Called up share capital	12.16	**-**	-
SHAREHOLDER'S FUNDS		**-**	-

The notes on pages 27 to 40 form part of these accounts.

These financial statements were approved by the Board of Directors and authorised for issue on 9 June 2016.

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

Michael Gibbons
Director

11 Consolidated cash flow statement

	Notes	**Year ended 31 March 2016 £'000**	Year ended 31 March 2015 £'000
Operating activities			
Net cash (outflow)/inflow from operating activities	12.22	**(1,608)**	(7,560)
Returns on investments and servicing of finance			
Interest received		**15**	46
Net cash inflow from returns on investments and servicing of finance		**15**	46
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		**(268)**	(315)
Payments to acquire intangible fixed assets		**(2,106)**	(973)
Receipts from sales of tangible fixed assets		**-**	-
Net cash outflow from capital expenditure and financial investment		**(2,374)**	(1,288)
(Decrease)/Increase in cash and cash equivalents	12.23	**(3,967)**	(8,801)

The notes on pages 27 to 40 form part of these accounts.

12 Notes to the accounts

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 3. The nature of the Company's operations and its principal activities are set out in the strategic report on pages 6 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 2015 to March 2016.

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 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 11 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 tangible 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 12.20, 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 Transition to FRS 102

This is the first year in which the group has presented its financial statements under Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council applicable in the UK since it has come into effect on 1 January 2015. ELEXON has prepared the comparatives for the first set of financial statements for the period ending 31 March 2016.

The last financial statements under previous UK GAAP were for the year ended 31 March 2015 and the date of transition to FRS 102 was therefore 1 April 2015. As a consequence of adopting FRS 102, a number of accounting policies have changed to comply with that standard.

The prior year financial statements were assessed and no material adjustments were identified on adoption of FRS 102 in the current year.

12.3 Turnover

	Year ended 31 March 2016 £'000	Year ended 31 March 2015 £'000
BSC Section D charges	**29,873**	30,238
EMR grant income (See note 12.4)	**1,960**	2,361
EMR operational levy funded income	**3,562**	282
	35,395	32,880

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.

12.4 Government grant

Due to the delay of EMRS's principal IT service provider in the build and testing of the originally planned EMR settlement systems, EMRS implemented an alternative solution. The costs to implement the alternative settlement system were met by EMR grant income of £1,960k (2015:£2,361k) from DECC during the year. EMRS takes on no financial risk on the alternative 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 originally planned system, the contract between EMRS and its principal subcontractor was terminated on 9 November 2015. EMRS is pursuing a compensatory claim against this subcontractor with any benefit from this claim being for LCCC, ESC and DECC and as the claim is at an early stage, the directors have concluded that it is not appropriate currently to recognise an asset in respect of the claim. The directors have concluded that the likelihood of any loss to EMRS is remote and accordingly no liability is recognised in the group financial statements.

EMR operational levy funded income of £3,562k (2015: £282k) was received from LCCC and ESC under the terms of the SSPA. This related to the operation of the CFD settlement function and the element of the CM mechanism required before the start of the first CM delivery year on 1 October 2016. A matching amount was included in cost of sales.

12.5 Information regarding Directors and employees

Under the BSC, the Chairman, after consultation with the Panel, determines the remuneration of the two independent Non-executive Directors. The Industry Non-executive Directors, in accordance with the BSC, are not entitled to remuneration other than costs and expenses properly incurred in attending meetings or otherwise in conducting the business of the Board. The current Chairman's remuneration was determined by the Authority (Ofgem). For more information about the ELEXON's Board of Directors, please refer to Section 5 Corporate Governance Statement.

The remuneration of individual Directors for the year ended 31 March 2016 is set out below:

Basic salary and fees	**Year ended 31 March 2016 £'000**	Year ended 31 March 2015 £'000
Michael Gibbons (appointed 1 October 2013)	**140**	140
Volker Beckers	**-**	-
Alison Chappell	**-**	-
Nigel Cornwall	**-**	-
David Rigney (appointed 1 May 2013)	**34**	28
Gillian Wilmot (appointed 1 October 2013)	**32**	25
Clare Duffy (appointed 1 November 2015)	**-**	-
	206	193

Michael Gibbons has an annual remuneration amount of £156.8k including £16.8k pension contribution. Michael also received a taxable benefit in kind equivalent to £1,161 during the year. 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.

	Year ended 31 March 2016	Year ended 31 March 2015
Average number of persons employed	**137**	110
Staff costs during the year (including Directors)	**£'000**	£'000
Wages and salaries	**7,528**	7,674
Social security costs	**823**	847
Pension costs (See note 12.21)	**1,719**	1,561
	10,070	**10,082**

12.6 Operating result

	Year ended 31 March 2016 £'000	Year ended 31 March 2015 £'000
Operating result is stated after charging		
Depreciation	**238**	224
Operating lease rentals		
– land and buildings	**1,667**	1,671
– plant and machinery	**27**	22
Fees payable to the Company's auditor for the audit of the Company's accounts	**60**	60
Total non-audit fees (tax, assurance and accounting advice)	**131**	112

Audit fees

Group audit fees payable to Deloitte LLP were £60,000 (2015: £60,000) of which £52,000 (2015: £52,000) relates to the Company. Other fees payable to Deloitte LLP were £130,868 for tax, assurance and accounting advice (2015: £111,514).

12.7 Interest receivable and similar income

	Year ended 31 March 2016 £'000	Year ended 31 March 2015 £'000
Bank interest	**15**	46

12.8 Tax on result from ordinary activities

	Year ended 31 March 2016 £'000	Year ended 31 March 2015 £'000
United Kingdom corporation tax at 20% based on the result for the year	**-**	-

12.9 Tangible fixed assets

Group and Company

	Operational assets £'000	Fixtures and fittings £'000	Office equipment £'000	Total £'000
Cost				
At 1 April 2015	496	1,054	1,271	2,821
Additions	-	80	191	271
Disposals	-	-	(3)	(3)
At 31 March 2016	**496**	**1,134**	**1,459**	**3,089**
Accumulated depreciation				
At 1 April 2015	389	981	1,021	2,391
Charge for the year	47	27	164	238
Disposals	-	-	(1)	(1)
At 31 March 2016	**436**	**1,008**	**1,184**	**2,628**
Net book value				
At 31 March 2016	**60**	**126**	**275**	**461**
At 31 March 2015	107	73	250	430

12.10 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 company's Business Process Reporting (BPR) system and the Balancing Mechanism and Reporting Service (BMRS) system. 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.

	Intangible assets £'000
Cost	
At 1 April 2015	1,853
Additions	382
Work In Progress	1,724
Disposals	-
At 31 March 2016	**3,959**
Accumulated amortisation	
At 1 April 2015	44
Charge for the year	435
Disposals	-
At 31 March 2016	**479**
Net book value	
At 31 March 2016	**3,480**
At 31 March 2015	1,809

12.11 Investments

Company investments at cost were £179 at 31 March 2016 (2015: £179).

12.12 Debtors

	Group		Company	
	2016 £'000	2015 £'000	**2016 £'000**	2015 £'000
Trade debtors	**441**	1,456	**441**	1,516
Trading Party balances	**45,423**	58,587	**-**	-
Taxation and social security	**210**	662	**100**	638
Prepayments and accrued income	**857**	1,235	**983**	1,214
Other debtors	**74**	82	**74**	82
	47,005	62,022	**1,598**	3,450

£45,423,189 (2015: £58,563,904) of the Trading Party balances represents amounts due from trading parties under Section N of the BSC for the 28 days of trading from 2 March 2016 to 31 March 2016. A corresponding balance is included in Creditors: amounts falling due within one year (see note 12.14). The rest of the Trading Party balances of £1,643 represents advance payments by trading parties (2015:£22,971 represents defaulted amounts due to be recharged to and collected from non-defaulting trading parties see note 12.13).

12.13 Cash at bank and in hand

	Year ended 31 March 2016 £'000	Year ended 31 March 2015 £'000
Cash at Bank	**1,703**	2,824
Security Deposits	**53,228**	56,096
Pre-payment of trading charges	**-**	-
Borrowing	**-**	(23)
	54,931	58,897

Group cash of £54,930,603 (2015: £58,897,431) includes £53,228,350 (2015: £56,096,280) 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 12.12).

12.14 Creditors: Amounts falling due within one year

	Group		Company	
	2016 £'000	2015 £'000	**2016 £'000**	2015 £'000
Security deposits lodged by Trading Parties (see note 12.14.)	**53,228**	56,096	**-**	-
Trade creditors	**727**	1,614	**586**	1,484
Trading Party balances (see note 12.13)	**45,423**	58,564	**-**	-
Taxation and social security	**256**	246	**255**	247
Other creditors	**88**	122	**200**	1,628
Accruals and deferred income	**6,014**	6,376	**5,677**	4,668
	105,736	123,018	**6,718**	8,027

12.15 Creditors: Amounts falling due after more than one year

	Group		Company	
	2016 £'000	2015 £'000	**2016 £'000**	2015 £'000
Rent charges	**141**	141	**141**	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.

12.16 Called up share capital

	Year ended 31 March 2016 £	Year ended 31 March 2015 £
Authorised:		
100 Ordinary shares of £1 each	**100**	100
Called up, allotted and fully paid:		
One Ordinary share of £1	**1**	1

12.17 Financial commitments

Operating lease commitments

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

	Group		Company	
	2016 £'000	2015 £'000	**2016 £'000**	2015 £'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	**11,456**	1,762	**11,456**	1,762

Operating lease commitments relate to land and buildings.

12.18 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.

12.19 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 period, the Company entered into the following related party transactions:

	Year ended 31 March 2016 £'000	Year ended 31 March 2015 £'000
Cornwall Consulting Limited – Conference room hire income	**(1)**	(1)
Cornwall Energy Associates – Consultancy	**7**	8
Nigel Cornwall – Regulatory advice	**9**	16
Volker Beckers – EU regulation and mentoring advice	**42**	19
Board Mentoring Limited	**3**	-

Nigel Cornwall is one of the Non-Executive Directors of the Company. He is also a Director of Cornwall Consulting Limited and Cornwall Energy Associates. During the period, Cornwall Consulting Limited has paid the Company £1k for the use of conference rooms. The Company has purchased advisory services and subscriptions in the ordinary course of its business from Cornwall Energy Associates and Nigel Cornwall in the amounts of £7k (2015: £8k) and £9k (2015: £16k) respectively. All transactions were at arm's length.

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 £42k (2015: £19k). All transactions were at arm's length.

Gillian Wilmot is one of the Non-executive Directors of the Company. During the period, the Company purchased mentoring services in the ordinary course of its business, provided by Cheryl Black of Board Mentoring Ltd, which is wholly owned by Gillian Wilmot, in the amounts of £3k (2015: £Nil). All transactions were at arm's length.

12.20 Pension scheme

The total pension cost for the year ended 31 March 2016 from all schemes comprised regular contributions of £1,718,907 (2015: £1,561,174). At 31 March 2016, there were accrued pension liabilities of £61,362 (2015: £108,401).

Defined benefit scheme

As of 31 March 2016, 13% (2015: 17%) 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 2015/16, ELEXON incurred employer pension contribution costs of £1,110,547 (2015: £1,160,621) for its defined benefit scheme, of which £598,404 (2015: £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 increased from 23.9% (twice of the members' normal contributions, 2 x 6%, plus 11.9%) to 27.7% (twice of the members' normal contributions, 2 x 6%, plus 15.7%). 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 2015/16, ELEXON incurred employer's contribution costs of £605,319 (2015: £400,553) for its defined contribution scheme.

12.21 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 [3646741], BSC Co. Limited [3837126] and Poolit Limited [3646729] 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.

12.22 Reconciliation of operating result to net cash flow from operating activities

	Year ended 31 March 2016 £'000	Year ended 31 March 2015 £'000
Operating result	**(15)**	(46)
Tangible Fixed Assets Depreciation	**237**	224
Intangible Fixed Assets Depreciation	**435**	44
(Increase)/Decrease in debtors	**15,017**	7,696
Increase/(Decrease) in creditors	**(14,414)**	(8,036)
(Decrease)/Increase in trading deposit	**(2,868)**	(7,442)
NET CASH FLOW from OP. ACTIVITIES	**(1,608)**	(7,560)

12.23 Reconciliation of net cash flow to movement in net cash

	Year ended 31 March 2016 £'000	Year ended 31 March 2015 £'000
Net cash at 1 April 2015	**58,897**	67,699
Decrease in cash in the period	**(3,967)**	(8,802)
Change in net cash resulting from cash flows	**(3,967)**	(8,802)
Net cash at 31 March 2016	**54,930**	58,897

12.24 Subsequent events

There are no events subsequent to 31 March 2016 requiring disclosure.

ELEXON Limited

Report and Financial Statements

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