

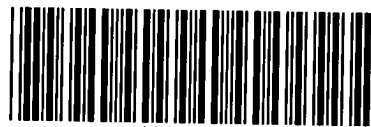
Registered number: 01506399

ENGIE URBAN ENERGY LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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ENGIE URBAN ENERGY LIMITED

COMPANY INFORMATION

| | |
|-----------------------------|--|
| DIRECTORS | S Pinnell P Rawson |
| COMPANY SECRETARY | S Gregory |
| REGISTERED NUMBER | 01506399 |
| REGISTERED OFFICE | ENGIE Q3 Office Quorum Business Park Benton Lane Newcastle-upon-Tyne Tyne and Wear NE12 8EX |
| INDEPENDENT AUDITORS | Ernst & Young LLP Citygate St James' Boulevard Newcastle-upon-Tyne NE1 4JD |

ENGIE URBAN ENERGY LIMITED

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ENGIE URBAN ENERGY LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2016

INTRODUCTION

The directors present their strategic report for the year ended 31 December 2016.

PRINCIPAL ACTIVITY AND REVIEW OF BUSINESS

The principal activity of ENGIE Urban Energy Limited ("the company") is the provision of heating and energy services.

Turnover for the year under review was £8,305,000 (2015: £13,918,000) and the loss before tax for the year under review was £13,000 (2015: profit of £368,000).

Turnover and underlying margin during the year were in line with the expectations within the scheme.

The key objective for 2017 remains the expansion of the core activities of the company, as well as growth in the group by acquisition as opportunities arise to acquire and operate existing schemes, resulting in additional services to fellow group members.

PRINCIPAL RISKS AND UNCERTAINTIES

The identification, assessment, pursuit and management of opportunities and the associated risks is an integral part of the management and processes of the company. The company has rigorous processes in place for managing the exposure within a specified opportunities and risk management framework that applies to all activities of the company, including:

External risks

The company continually addresses the impact of the external business environment, updating as appropriate, its strategy and medium term planning.

Strategic risks

In pursuit of business opportunities, the company is particularly aware of the potential for importing risk, whether by way of winning contracts, forming joint ventures, or acquiring businesses or investments. Rigorous processes are therefore in place for managing such exposure within a specified opportunity and risk management framework.

Organisation and management risks

The retention and recruitment of staff is a challenge faced by the company and the sector in which it operates. The company is conscious of the reliance placed on IT systems as a platform for efficient delivery of day-to-day operational activities and continues to develop and deliver further improvements.

Delivery and operational risks

In delivering contracts and business improvement initiatives, robust processes are in place for managing the potential risk exposure.

Health, safety and environmental risks

The health and safety of its employees and of the public is of the utmost importance to the company. The company has a responsible attitude to the environmental impact of the infrastructure, building, industrial development and other projects with which it is concerned. It seeks to always act in accordance with good practice, preserving and, where possible, enhancing the quality of the environment. The company's system for environmental issues continues to form a significant and integral part of its systems.

ENGIE URBAN ENERGY LIMITED

**STRATEGIC REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2016**

FINANCIAL KEY PERFORMANCE INDICATORS

The key performance indicators relevant to the company's performance and prospects are as follows:

Turnover

The company's turnover for the year totals £8,305,000 (2015: £13,918,000), a decrease of £5,613,000 (39%) on the previous year.

Operating profit excluding exceptional items

The company's operating profit excluding exceptional items for the year totals £317,000 (2015: £152,000), an increase of £165,000 (109%) on the previous year.

Net assets

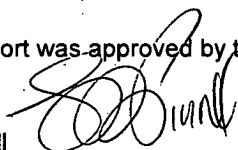
The company's net assets at the year end stand at £5,484,000 (2015: £5,461,000), an increase of £23,000 (0%) on the previous year. This increase is a result of the company's profit for the financial year and the share-based payments of £3,000.

GOING CONCERN

The directors have considered the company's current and future prospects and its availability of financing from within the ENGIE group and are satisfied that the company can continue to pay its liabilities as they fall due for a period of at least 12 months from the date of approval of these financial statements. For this reason the directors continue to adopt the going concern basis of preparation for these financial statements.

This report was approved by the Board 23 October 2017 and signed on its behalf.

S Pinnell
Director



ENGIE URBAN ENERGY LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2016

The directors present their report and the audited financial statements for the year ended 31 December 2016.

RESULTS AND DIVIDENDS

The profit for the year, after taxation, amounted to £20,000 (2015: £388,000).

The directors do not recommend the payment of a dividend for the year ended 31 December 2016 (2015: £nil).

DIRECTORS

The directors who served during the year and up to the date of signing the financial statements were:

S Pinnell (appointed 1 January 2016)
P Rawson
R Blumberger (resigned 31 January 2016)

FUTURE DEVELOPMENTS

The directors expect there to be no changes in the future activities or prospects of the company.

FINANCIAL INSTRUMENTS

The company monitors its exposure to risk on an on-going basis. The company's activities do not expose it to any material price risk, interest rate cash flow risk or foreign exchange risk. Due to the nature of the company's business and the assets and liabilities contained within the balance sheet, the financial risks the directors consider relevant to the company are credit risk and liquidity risk. The company has not used financial instruments to change its exposure to these risks.

Credit risk

Credit risk arises on the company's principal financial assets, which are cash at bank, trade and other debtors and amounts owed by group undertakings. The credit risk associated with cash is limited, as the company uses financial institutions with a high credit rating for banking requirements. All customers are credit checked prior to any sales and only customers with an appropriate credit rating are offered credit terms. The company has no significant concentration of credit risk, with exposure spread over a large number of customers. The credit risk on amounts owed by group undertakings is not considered to be significant, given the group's strong credit rating.

Liquidity risk

The company is exposed to liquidity risk on its financial liabilities, including trade and other creditors and amounts owed to group undertakings. In order to maintain liquidity to ensure sufficient funds are available for on-going operations and future developments, the company has access to banking facilities and loans from group companies.

QUALIFYING THIRD PARTY INDEMNITY PROVISIONS

Company officers and duly appointed delegates thereof, are indemnified by the ENGIE global directors and officers policy ("the policy") in respect of proceedings brought by third parties, subject to the conditions set out in section 234 of the Companies Act 2006. This qualifying third party indemnity provision was in force throughout the year and remains in force as at the date of approving these financial statements.

ENGIE URBAN ENERGY LIMITED

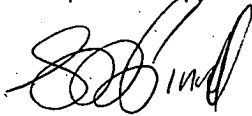
**DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2016**

DISCLOSURE OF INFORMATION TO AUDITORS

Each of the persons who are directors at the time when this directors' report is approved has confirmed that:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware, and
- the director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This report was approved by the Board on 23 October 2017 and signed on its behalf.



S Pinnell
Director

ENGIE URBAN ENERGY LIMITED

**DIRECTORS' RESPONSIBILITIES STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2016**

The directors are responsible for preparing the strategic report, the directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 'Reduced Disclosure Framework'. 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;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the 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 to 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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ENGIE URBAN ENERGY LIMITED

We have audited the financial statements of ENGIE Urban Energy Limited for the year ended 31 December 2016 which comprise the Income Statement, the Statement of Financial Position, the Statement of Changes in Equity and the related notes 1 to 26. 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 101 "Reduced Disclosure Framework".

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 set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. 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 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 and Financial Statements 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 company's affairs as at 31 December 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 101 "Reduced Disclosure Framework"; 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.
- ▶ the Strategic Report and Directors' Report have been prepared in accordance with applicable legal requirements.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ENGIE URBAN ENERGY LIMITED

Matters on which we are required to report by exception

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have identified no material misstatements in the Strategic Report or Directors' Report.

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

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



Caroline Mulley (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Newcastle upon Tyne
27 October 2017

ENGIE URBAN ENERGY LIMITED

INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2016

| | Note | 2016 £000 | 2015 £000 |
|---------------------------------------|------|--------------|--------------|
| Turnover | 4 | 8,305 | 13,918 |
| Cost of sales | | (8,252) | (13,242) |
| Gross profit | | 53 | 676 |
| Administrative expenses | | (1,671) | (2,301) |
| Exceptional administrative expenses | 11 | - | 636 |
| Other operating income | 5 | 1,935 | 1,777 |
| Operating profit | 6 | 317 | 788 |
| Interest payable and similar expenses | 9 | (330) | (420) |
| (Loss)/profit before tax | | (13) | 368 |
| Tax on (loss)/profit | 10 | 33 | 20 |
| Profit for the financial year | | 20 | 388 |

There were no recognised gains and losses for 2016 or 2015 other than those included in the income statement and therefore no statement of comprehensive income has been presented.

The notes on pages 11 to 29 form part of these financial statements.

ENGIE URBAN ENERGY LIMITED
REGISTERED NUMBER: 01506399

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016

| | Note | 2016 £000 | 2015 £000 |
|---|------|---------------|---------------|
| Fixed assets | | | |
| Tangible assets | 12 | 1,611 | 1,401 |
| Investments | 13 | - | - |
| | | <u>1,611</u> | <u>1,401</u> |
| Current assets | | | |
| Stocks | 14 | - | 4 |
| Debtors: amounts falling due within one year | 15 | 22,292 | 32,652 |
| Cash at bank and in hand | 16 | 102 | 73 |
| | | <u>22,394</u> | <u>32,729</u> |
| Creditors: amounts falling due within one year | 17 | (9,951) | (28,518) |
| | | <u>12,443</u> | <u>4,211</u> |
| Net current assets | | | |
| | | <u>14,054</u> | <u>5,612</u> |
| Total assets less current liabilities | | | |
| Creditors: amounts falling due after more than one year | 18 | (8,500) | - |
| | | <u>5,554</u> | <u>5,612</u> |
| Provisions for liabilities | | | |
| Deferred taxation | 21 | (70) | (151) |
| | | <u>(70)</u> | <u>(151)</u> |
| Net assets | | | |
| | | <u>5,484</u> | <u>5,461</u> |
| Capital and reserves | | | |
| Called up share capital | 22 | 550 | 550 |
| Capital redemption reserve | 23 | 1,509 | 1,509 |
| Profit and loss account | | 3,425 | 3,402 |
| | | <u>5,484</u> | <u>5,461</u> |
| Total equity | | | |
| | | <u>5,484</u> | <u>5,461</u> |

The financial statements were approved and authorised for issue by the Board and were signed on its behalf on 23 October 2017.


S Pinnell
 Director

The notes on pages 11 to 29 form part of these financial statements.

ENGIE URBAN ENERGY LIMITED

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016**

| | Called up share capital | Capital redemption reserve | Profit and loss account | Total equity |
|--|----------------------------|----------------------------------|----------------------------|--------------|
| | £000 | £000 | £000 | £000 |
| At 1 January 2015 | 550 | 1,509 | 3,003 | 5,062 |
| Comprehensive income for the year | | | | |
| Profit for the financial year | - | - | 388 | 388 |
| Total comprehensive income for the year | - | - | 388 | 388 |
| Share-based payments | - | - | 11 | 11 |
| At 1 January 2016 | 550 | 1,509 | 3,402 | 5,461 |
| Comprehensive income for the year | | | | |
| Profit for the financial year | - | - | 20 | 20 |
| Total comprehensive income for the year | - | - | 20 | 20 |
| Share-based payments | - | - | 3 | 3 |
| At 31 December 2016 | 550 | 1,509 | 3,425 | 5,484 |

The notes on pages 11 to 29 form part of these financial statements.

ENGIE URBAN ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

1. GENERAL INFORMATION

The financial statements of ENGIE Urban Energy Limited for the year ended 31 December 2016 were authorised for issue by the Board of directors on 23 October 2017 and the statement of financial position was signed on the Board's behalf by S Pinnell.

The company is a private limited liability company, incorporated and domiciled in the United Kingdom. The address of its registered office is ENGIE Q3 Office, Quorum Business Park, Benton Lane, Newcastle-upon-Tyne, Tyne and Wear, NE12 8EX.

The results of the company are included in the consolidated financial statements of ENGIE S.A., which are available from ENGIE, Tour T1, 1 place Samuel de Champlain, Faubourg de l'Arche, 92930 Paris La Défense Cedex, France.

2. ACCOUNTING POLICIES

2.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' and the Companies Act 2006.

The functional and presentation currency of the company is Pounds Sterling ("£") and all values in these financial statements are rounded to the nearest thousand pounds ("£'000") except where otherwise indicated.

The preparation of financial statements in compliance with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the company's accounting policies (see note 3).

The company is itself a subsidiary company and is exempt from the requirement to prepare consolidated financial statements by virtue of section 400 of the Companies Act 2006. These financial statements therefore present information about the company as an individual undertaking and not about its group.

The following principal accounting policies have been applied:

ENGIE URBAN ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

2. ACCOUNTING POLICIES (CONTINUED)

2.2 Financial reporting standard 101 - reduced disclosure exemptions

The company has taken advantage of the following disclosure exemptions under FRS 101:

- the requirements of IFRS 7 Financial Instruments: Disclosures
- the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement
- the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:
 - paragraph 79(a)(iv) of IAS 1;
 - paragraph 73(e) of IAS 16 Property, Plant and Equipment;
- the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134-136 of IAS 1 Presentation of Financial Statements
- the requirements of IAS 7 Statement of Cash Flows
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
- the requirements of paragraph 17 and 18A of IAS 24 Related Party Disclosures
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member

2.3 Going concern

The directors have considered the company's current and future prospects and its availability of financing from within the ENGIE group and are satisfied that the company can continue to pay its liabilities as they fall due for a period of at least 12 months from the date of approval of these financial statements. For this reason the directors continue to adopt the going concern basis of preparation for these financial statements.

ENGIE URBAN ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

2. ACCOUNTING POLICIES (CONTINUED)

2.4 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the company and the revenue can be reliably measured. Revenue is measured as the fair value of the consideration received or receivable, excluding discounts, rebates, value added tax and other sales taxes. The following criteria must also be met before revenue is recognised:

Rendering of services

Revenue from a contract to provide services is recognised in the period in which the services are provided in accordance with the stage of completion of the contract when all of the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the company will receive the consideration due under the contract;
- the stage of completion of the contract at the end of the reporting period can be measured reliably; and
- the costs incurred and the costs to complete the contract can be measured reliably.

Connection charges, in line with the ENGIE group accounting policies, are recognised as turnover using the percentage of completion method as the connection is made. Expenditure relating to the connection is expensed as incurred to match revenue with expenses. All heating and maintenance charges are recognised in line with the accruals concept.

2.5 Long-term contracts

In respect of long-term contracts, the company enters into long-term contracts when connecting new customers to the heat and electricity supply facility.

Profit on long-term contracts is taken as the work is carried out if the final outcome can be assessed with reasonable certainty. The profit included is calculated on a prudent basis to reflect the proportion of the work carried out by the year end, by recording turnover and related costs as contract activity progresses. Turnover is calculated as that proportion of total contract value which costs incurred to date bear to total expected costs for that contract. Revenues derived from variations on contracts are recognised only when they have been accepted by the customer. Full provision is made for losses on all contracts in the year in which they are first foreseen.

2.6 Tangible fixed assets

Tangible fixed assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The company adds to the carrying amount of an item of fixed assets the cost of replacing part of such an item when that cost is incurred, if the replacement part is expected to provide incremental future benefits to the company. The carrying amount of the replaced part is derecognised. Repairs and maintenance are charged to profit or loss during the period in which they are incurred.

ENGIE URBAN ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

2. ACCOUNTING POLICIES (CONTINUED)

2.6 Tangible fixed assets (continued)

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method.

Depreciation is provided on the following basis:

| | |
|---------------------------|--|
| Plant and machinery | - 15% per annum on a reducing balance basis |
| Fixtures and fittings | - at appropriate rates varying from 15% to 33.3% |
| Office equipment | - 33.3% |
| Assets under construction | - No depreciation charged |

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the income statement.

2.7 Assets under construction

Assets under construction include those costs incurred on plant and machinery which are not yet fully commissioned. Assets under construction are not depreciated until they are ready for use, when they are transferred to the relevant asset class and depreciated over their useful economic lives.

2.8 Valuation of investments

Investments in subsidiaries are measured at cost less accumulated impairment. The carrying value of investments are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

2.9 Stocks

Stocks are stated at the lower of cost and net realisable value. Cost is based on the cost of purchase on a weighted average basis. Work in progress includes labour and attributable overheads.

At each reporting date, stocks are assessed for impairment. If stock is impaired, the carrying amount is reduced to its selling price. The impairment loss is recognised immediately in profit or loss.

2.10 Debtors

Short term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, plus transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

2.11 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

ENGIE URBAN ENERGY LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

2. ACCOUNTING POLICIES (CONTINUED)

2.12 Financial instruments

The company recognises financial instruments when it becomes a party to the contractual arrangements of the instrument. Financial instruments are de-recognised when they are discharged or when the contractual terms expire. The company's accounting policies in respect of financial instruments transactions are explained below:

Financial assets

The company classifies all of its financial assets as loans and receivables.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (e.g. trade receivables), but also incorporate other types of contractual monetary asset. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

Impairment provisions are recognised when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the company will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For trade receivables, which are reported net, such provisions are recorded in a separate allowance account with the loss being recognised within administrative expenses in the income statement. On confirmation that the trade receivable will not be collected, the gross carrying value of the asset is written off against the associated provision.

Financial liabilities

The company classifies all of its financial liabilities as liabilities at amortised cost.

At amortised cost

Financial liabilities at amortised cost including bank borrowings are initially recognised at fair value net of any transaction costs directly attributable to the issue of the instrument. Such interest bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried into the statement of financial position.

2.13 Creditors

Creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers.

Creditors are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

ENGIE URBAN ENERGY LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

2. ACCOUNTING POLICIES (CONTINUED)

2.14 Foreign currency translation

Functional and presentation currency

The company's functional and presentation currency is GBP.

Transactions and balances

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

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement except when deferred in other comprehensive income as qualifying cash flow hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within 'finance income or costs'. All other foreign exchange gains and losses are presented in the income statement within 'administrative expenses'.

2.15 Finance costs

Finance costs are charged to the income statement over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

ENGIE URBAN ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

2. ACCOUNTING POLICIES (CONTINUED)

2.16 Share based payments

Where share options are awarded to employees, the fair value of the options at the date of grant is charged to the income statement over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each statement of financial position date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

The fair value of the award also takes into account non-vesting conditions. These are either factors beyond the control of either party (such as a target based on an index) or factors which are within the control of one or other of the parties (such as the company keeping the scheme open or the employee maintaining any contributions required by the scheme).

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to income statement over the remaining vesting period.

Where equity instruments are granted to persons other than employees, the income statement is charged with fair value of goods and services received.

The share-based payment charge of £3,000 for the year ended 31 December 2016 (2015: £11,000) is not deemed to be material for further disclosure in these financial statements.

2.17 Operating leases: the company as lessee

Rentals paid under operating leases are charged to the income statement on a straight line basis over the lease term.

Benefits received and receivable as an incentive to sign an operating lease are recognised on a straight line basis over the lease term, unless another systematic basis is representative of the time pattern of the lessee's benefit from the use of the leased asset.

2.18 Pensions

Defined contribution pension plan

The company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the company pays fixed contributions into a separate entity. Once the contributions have been paid the company has no further payment obligations.

The contributions are recognised as an expense in the income statement when they fall due. Amounts not paid are shown in accruals as a liability in the statement of financial position. The assets of the plan are held separately from the company in independently administered funds.

2.19 Borrowing costs

All borrowing costs are recognised in the income statement in the year in which they are incurred.

ENGIE URBAN ENERGY LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

2. ACCOUNTING POLICIES (CONTINUED)

2.20 Taxation

Tax is recognised in the income statement, except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the company operates and generates income.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the statement of financial position date, except that:

1. The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits; and
2. Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

2.21 Exceptional items

Exceptional items are transactions that fall within the ordinary activities of the company but are presented separately due to their size or incidence.

ENGIE URBAN ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

3. JUDGMENTS IN APPLYING ACCOUNTING POLICIES AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the statement of financial position date and the amounts reported for income and costs during the year. However, the nature of estimation means the actual outcomes could differ from those estimates.

The following judgements, estimates and assumptions have had the most significant effect on amounts recognised in the financial statements:

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the company and the revenue can be reliably measured. Revenue is measured as the fair value of the consideration received or receivable, excluding discounts, rebates, value added tax and other sales taxes. The following criteria must also be met before revenue is recognised:

Connection charges, in line with the ENGIE group accounting policies, are recognised as turnover using the percentage of completion method as the connection is made. Expenditure relating to the connection is expensed as incurred to match revenue with expenses. All heating and maintenance charges are recognised in line with the accruals concept.

Profit on long-term contracts is taken as the work is carried out if the final outcome can be assessed with reasonable certainty. The profit included is calculated on a prudent basis to reflect the proportion of the work carried out at the year end, by recording turnover and related costs as contract activity progresses. Turnover is calculated as that proportion of total contract value which costs incurred to date bear to total expected costs for that contract. Revenues derived from variations on contracts are recognised only when they have been accepted by the customer. Full provision is made for losses on all contracts in the year in which they are first foreseen.

Exceptional items

Judgements are required as to whether items that are material in size, unusual or infrequent in nature should be disclosed as exceptional. Details of items categorised as exceptional are outlined in note 11.

Provisions and accruals for liabilities

Management estimation is required to determine the appropriate amounts of provisions for bad and doubtful debts, customer rebates and accruals for certain administrative expenses. The judgements, estimates and associated assumptions necessary to calculate these provisions are based on historical experience and other reasonable factors.

4. TURNOVER

All turnover arose within the United Kingdom from the company's principal activity, which is the provision of heating and energy services.

ENGIE URBAN ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

5. OTHER OPERATING INCOME

| | 2016 £000 | 2015 £000 |
|----------------------------|--------------|--------------|
| Management fees receivable | 1,935 | 1,777 |

6. OPERATING PROFIT

The operating profit is stated after charging:

| | 2016 £000 | 2015 £000 |
|---|--------------|--------------|
| Depreciation of tangible assets | 117 | 117 |
| Exchange differences | 2 | - |
| Defined contribution pension cost | 307 | 226 |
| Operating leases - minimum lease payments | 168 | 257 |

All directors' remuneration is paid by a fellow group undertaking in respect of their services to group companies. The directors' services to the company do not occupy a significant amount of time and consequently the directors do not feel that they have received any remuneration for their incidental services to this company for the year (2015: *£nil*).

7. AUDITORS' REMUNERATION

The company paid the following amounts to its auditors in respect of the audit of the financial statements:

| | 2016 £000 | 2015 £000 |
|-----------------------------------|--------------|--------------|
| Fees for the audit of the company | 40 | 32 |

The company has taken advantage of the exemption not to disclose amounts paid for non audit services as these are disclosed in the group accounts of the parent company.

ENGIE URBAN ENERGY LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

8. EMPLOYEES

Staff costs were as follows:

| | 2016 | 2015 |
|-------------------------------------|--------------|--------------|
| | £000 | £000 |
| Wages and salaries | 1,618 | 2,936 |
| Social security costs | 635 | 517 |
| Cost of defined contribution scheme | 307 | 226 |
| Share-based payments | 3 | 11 |
| | 2,563 | 3,690 |

The average monthly number of employees, including the directors, during the year was as follows:

| | 2016 | 2015 |
|-------------------------------------|-------------|-------------|
| | No. | No. |
| Operations and administrative staff | 116 | 110 |

9. INTEREST PAYABLE AND SIMILAR EXPENSES

| | 2016 | 2015 |
|---|-------------|-------------|
| | £000 | £000 |
| Interest payable to group undertakings | 18 | - |
| Interest payable on loans from group undertakings | 309 | 420 |
| Exchange differences | 3 | - |
| | 330 | 420 |

ENGIE URBAN ENERGY LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

10. TAX ON (LOSS)/PROFIT

| | 2016 £000 | 2015 £000 |
|--|--------------|--------------|
| CORPORATION TAX | | |
| Current tax on (loss)/profit for the year | 3 | (56) |
| Adjustments in respect of previous periods | 45 | 4 |
| | 48 | (52) |
| DEFERRED TAX | | |
| Origination and reversal of timing differences | 40 | 5 |
| Changes to tax rates | (23) | - |
| Adjustments in respect of previous periods | (98) | 27 |
| | (81) | 32 |
| | (33) | (20) |

FACTORS AFFECTING TAX CREDIT FOR THE YEAR

The tax assessed for the year is higher than (2015: lower than) the standard rate of corporation tax in the UK of 20.00% (2015: 20.25%). The differences are explained below:

| | 2016 £000 | 2015 £000 |
|--|--------------|--------------|
| (Loss)/profit before tax | (13) | 368 |
| | (3) | 75 |
| EFFECTS OF: | | |
| Expenses not deductible for tax purposes | 53 | 3 |
| Capital allowances for year in excess of depreciation | (4) | - |
| Adjustments to tax charge in respect of previous periods | (53) | 31 |
| Short term timing difference leading to decrease in taxation | (3) | - |
| Other tax on exceptional items | - | (129) |
| Changes to tax rates | (23) | - |
| | (33) | (20) |
| | (33) | (20) |

ENGIE URBAN ENERGY LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

10. TAX ON (LOSS)/PROFIT (CONTINUED)

FACTORS THAT MAY AFFECT FUTURE TAX CHARGES

The tax rate for the current year is lower than the prior year due to changes in the UK Corporation tax rate which decreased from 21% to 20% from 1 April 2015.

Changes to the UK corporation tax rates were substantively enacted as part of the Finance Bill 2015 (on 26 October 2015) and the Finance Bill 2016 (on 7 September 2016). These include reductions to the main rate to reduce the rate to 19% from 1 April 2017 and to 17% from 1 April 2020. This will reduce the company's tax charges accordingly.

Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

11. EXCEPTIONAL ITEMS

| | 2016 | 2015 |
|---|-------------|-------------|
| | £000 | £000 |
| Included in administrative expenses: | | |
| Write-back of intercompany amounts | - | (636) |

ENGIE URBAN ENERGY LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

12. TANGIBLE ASSETS

| | Plant and machinery £000 | Fixtures and fittings £000 | Office equipment £000 | Assets under construction £000 | Total £000 |
|---------------------------|--------------------------------|----------------------------------|-----------------------------|---|---------------|
| COST | | | | | |
| At 1 January 2016 | 1,787 | 281 | 726 | - | 2,794 |
| Additions | - | - | - | 417 | 417 |
| Disposals | - | - | (90) | - | (90) |
| Transfers between classes | 132 | (132) | - | - | - |
| At 31 December 2016 | <u>1,919</u> | <u>149</u> | <u>636</u> | <u>417</u> | <u>3,121</u> |
| DEPRECIATION | | | | | |
| At 1 January 2016 | 585 | 210 | 598 | - | 1,393 |
| Charge for the year | 81 | 7 | 29 | - | 117 |
| Transfers between classes | 93 | (93) | - | - | - |
| At 31 December 2016 | <u>759</u> | <u>124</u> | <u>627</u> | <u>-</u> | <u>1,510</u> |
| NET BOOK VALUE | | | | | |
| At 31 December 2016 | <u>1,160</u> | <u>25</u> | <u>9</u> | <u>417</u> | <u>1,611</u> |
| At 31 December 2015 | <u>1,202</u> | <u>71</u> | <u>128</u> | <u>-</u> | <u>1,401</u> |

13. FIXED ASSET INVESTMENTS

The cost and net book value of the company's investment in subsidiary companies is £100.

The directors believe that the carrying value of the investment is supported by its underlying net assets.

SUBSIDIARY UNDERTAKINGS

The following were subsidiary undertakings of the company:

| Name | Class of shares | Holding |
|---|-----------------|---------|
| Industrielle de Chauffage Enterprise United Kingdom Limited | Ordinary | 100% |

The company was incorporated in England and Wales to provide design engineering services.

The registered office of Industrielle de Chauffage Enterprise United Kingdom Limited is ENGIE Q3 Office, Quorum Business Park, Benton Lane, Newcastle-upon-Tyne, Tyne and Wear, NE12 8EX

ENGIE URBAN ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

14. STOCKS

| | 2016 £000 | 2015 £000 |
|-------------------------------|--------------|--------------|
| Raw materials and consumables | - | 4 |

Replacement costs of stock

The difference between purchase price of stocks and their replacement cost is not material.

15. DEBTORS

| | 2016 £000 | 2015 £000 |
|------------------------------------|---------------|---------------|
| Trade debtors | 101 | 172 |
| Amounts owed by group undertakings | 18,578 | 30,102 |
| Other debtors | 535 | 1,058 |
| Prepayments and accrued income | 3,078 | 1,320 |
| | <u>22,292</u> | <u>32,652</u> |

16. CASH AND CASH EQUIVALENTS

| | 2016 £000 | 2015 £000 |
|--------------------------|--------------|--------------|
| Cash at bank and in hand | <u>102</u> | <u>73</u> |

ENGIE URBAN ENERGY LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

17. CREDITORS: Amounts falling due within one year

| | 2016 | 2015 |
|---|--------------|---------------|
| | £000 | £000 |
| Trade creditors | 2,098 | 1,955 |
| Amounts owed to group undertakings | 7,335 | 25,858 |
| Group relief payable owed to group undertakings | 50 | 2 |
| Other taxation and social security | 166 | 111 |
| Other creditors | 33 | 104 |
| Accruals and deferred income | 269 | 488 |
| | 9,951 | 28,518 |
| | 9,951 | 28,518 |

Included within amounts owed to group undertakings, is an intercompany balance with ENGIE Treasury Management S.A.R.L of £nil (2015: £11,643,000), which is unsecured and accrues interest at an effective rate of 1.54% per annum.

All other amounts owed to group undertakings are unsecured and interest free.

18. CREDITORS: Amounts falling due after more than one year

| | 2016 | 2015 |
|------------------------------------|--------------|-------------|
| | £000 | £000 |
| Amounts owed to group undertakings | 8,500 | - |
| | 8,500 | - |
| | 8,500 | - |

Included within amounts owed to group undertakings, is an intercompany balance with ENGIE Treasury Management S.A.R.L of £8,500,000 (2015: £nil), which is unsecured and accrues interest at an effective rate of 1.54% per annum.

19. LOANS

Analysis of the maturity of loans is given below:

| | 2016 | 2015 |
|--------------------------------------|--------------|-------------|
| | £000 | £000 |
| AMOUNTS FALLING DUE 2-5 YEARS | | |
| Amounts owed to group undertakings | 8,500 | - |
| | 8,500 | - |
| | 8,500 | - |

ENGIE URBAN ENERGY LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

20. FINANCIAL INSTRUMENTS

| | 2016 | 2015 |
|--|-----------------|-----------------|
| | £000 | £000 |
| FINANCIAL ASSETS | | |
| Cash and receivables | <u>21,074</u> | <u>31,976</u> |
| FINANCIAL LIABILITIES | | |
| Financial liabilities measured at amortised cost | <u>(18,101)</u> | <u>(28,456)</u> |

Financial assets measured at amortised cost comprise cash and cash equivalents, trade debtors, amounts owed by group undertakings, group relief receivable from group undertakings, other debtors (other than statutory amounts) and accrued income.

Financial liabilities measured at amortised cost comprise trade creditors, amounts owed to group undertakings, group relief payable owed to group undertakings, other creditors and accruals.

21. DEFERRED TAXATION

| | 2016 | 2015 |
|--|-------------|--------------|
| | £000 | £000 |
| At beginning of year | (151) | (119) |
| Credited/(charged) to the income statement | 81 | (32) |
| AT END OF YEAR | <u>(70)</u> | <u>(151)</u> |

The provision for deferred taxation is made up as follows:

| | 2016 | 2015 |
|--------------------------------|-------------|--------------|
| | £000 | £000 |
| Accelerated capital allowances | (77) | (151) |
| Short-term timing differences | 7 | - |
| | <u>(70)</u> | <u>(151)</u> |

ENGIE URBAN ENERGY LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

22. CALLED UP SHARE CAPITAL

| | 2016 | 2015 |
|---|-------------|-------------|
| | £000 | £000 |
| Shares classified as equity | | |
| Allotted, called up and fully paid | | |
| 550,000 Ordinary shares of £1 each | 550 | 550 |
| | <u>550</u> | <u>550</u> |

23. CAPITAL REDEMPTION RESERVE

The capital redemption reserve has arisen as a result of the transfer of amounts owed to the company's parent undertaking to reserves as a capital contribution.

24. PENSION COMMITMENTS

The cost of contributions to the defined contribution scheme amounts to £307,000 (2015: £226,000). There were outstanding contributions totalling £38,000 (2015: £125,000) payable to the scheme at the year end, which are included within other creditors.

25. COMMITMENTS UNDER OPERATING LEASES

At 31 December 2016 the company had future minimum lease payments under non-cancellable operating leases as follows:

| | 2016 | 2015 |
|--|-------------|-------------|
| | £000 | £000 |
| Land and buildings | | |
| Not later than 1 year | 67 | 75 |
| Later than 1 year and not later than 5 years | 5 | 71 |
| | <u>72</u> | <u>146</u> |
| | <u>72</u> | <u>146</u> |
| Plant and machinery | | |
| Not later than 1 year | 87 | 82 |
| Later than 1 year and not later than 5 years | 162 | 168 |
| | <u>249</u> | <u>250</u> |
| | <u>249</u> | <u>250</u> |

ENGIE URBAN ENERGY LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

26. CONTROLLING PARTY

The immediate parent company of ENGIE Urban Energy Limited is ENGIE Urban Energy Group Limited, a company registered in England and Wales. The directors regard ENGIE S.A. as the ultimate parent company and controlling party of ENGIE Urban Energy Limited. ENGIE S.A. is registered in France.

The parent undertaking of the smallest and largest group which includes the company for which consolidated financial statements are prepared is ENGIE S.A.

Copies of the group's consolidated financial statements may be obtained from ENGIE, Tour T1, 1 place Samuel de Champlain, Faubourg de l'Arche, 92930 Paris La Défense Cedex, France.