Energetics Electricity Limited

Annual Report

Registered number SC234694

Year ended 31 December 2011

Contents

Directors' report

The directors present their annual report and the audited financial statements of Energetics Electricity Limited for the year ended 31 December 2011.

Principal activities

Energetics Electricity Limited is a licensed Independent Distribution Network Operator (IDNO) where the main activities are the ownership and operation of newly built electrical distribution network assets resulting in regulated use of system revenue together with associated costs.

Business review

The year to 31 December 2011 has seen the number of electricity connections energised increase by 70% from the previous year to 6,922 (2010: 3,800). The number of new domestic connections secured through new contract awards has increased by 13% from the previous year on the back of some large contract wins by Energetics Design & Build Limited, a fellow subsidiary of Energetics Networked Energy Limited, such as the Trumpington project with circa 1,200 homes scheduled to be built out over the next ten years.

Following the introduction of the Common Distribution Charging Methodology (CDCM) in April 2010 the independent networks operators such as Energetics Electricity Limited have been able to compete on a stronger footing with the monopoly Distribution Network Operators (DNO) and this initiative should continue to realise benefits for the wider industry in terms of bringing competition into new areas of the UK.

In addition to the benefits under CDCM, the independent operators have continued to lobby Ofgem and the DNO's for more transparent and fairer cost allocations with respect to their upstream charges. The operating year to 31 December 2011 saw the DNO's reduce their upstream charges for high voltage connections and this is yet another key element of delivering a fairer and more competitive market. This work will continue through 2013 by challenging the industry on their charges for low voltage connections.

The impact of these changes for the year ended 31 December 2011 resulted in profit after tax figures of £478,000 (2010: loss £36,000).

Events after the balance sheet date

At the date of signing these financial statements, the company's parent, Energetics Networked Energy Ltd, has signed a Facility Agreement with Macquarie Bank, a major financial institution for a significant injection of debt finance. In addition to the debt facility, Macquarie has also committed a considerable cash injection to acquire a major equity stake in the Energetics Group, albeit this equity would not constitute a controlling interest.

With this investment partner/debt provider now firmly aligned to the growth ambitions of the Energetics Group, the Directors are confident that the long-term funding is now in place to allow the business to deliver the long-term value aspirations of the various stakeholders.

Principal risks and uncertainties

The principal risk is the increasing level of competition in the sector which could lead to a downturn in securing new assets with a subsequent slowdown in growth. Energetics Electricity Limited manages this risk through the tailored commercial offerings to its customers and also securing high levels of service and on-site delivery through its fellow subsidiary, Energetics Design & Build Limited.

The risk to revenues has decreased over the last year with the introduction of specific IDNO tariffs under the CDCM initiative. Hand-in-hand with the fact that the electricity distribution sector is regulated on a Relative Price Control (RPC) basis, the resultant regulated income from each live connection is fairly predictable.

Dividends

The Directors do not recommend payment of a dividend (2010: £nil).

Directors' report *(continued)*

Directors

The Directors who held office during the period and up to the date of signing this annual report were:

Harry O'Donnell
William McClymont
Kenneth Stewart
Mark Cummings

Equal opportunities

Energetics Electricity Limited is committed to promoting equal opportunities for all, irrespective of age, colour, disability, ethnic origin, marital status, nationality, race, religion, belief, creed, sex, sexual orientation or any other considerations that do not impact on a person's ability to perform their role in the company.

Employee Involvement

Energetics Electricity Limited ensures that employees are kept informed of all relevant matters through communications channels such as group presentations, circulars, e-mail and informal 'tool box' talks.

Key performance indicators

The directors primarily consider financial KPIs in their evaluation of performance of the business. These include:

	2011 £'000	14 months 2010 £'000
Revenue	3,631	2,799
Revenue % increase	30%	110%
Operating profit	676	74
Operating profit %	19%	3%

Financial risk management

The activities of Energetics Electricity Limited expose it to a variety of financial risks: market risk in terms of pricing structures and material cost fluctuations, and credit risk as a result of previous trading history. Risk management is carried out by the board who regularly review these risks at both a company and group level. In response to these and other risks the Energetics group of companies has secured long term funding that will allow the company to continue to invest in the construction of new network assets, and support the growth plans of the group. This funding significantly mitigates any liquidity risk arising from the slow receipt of external funds, and allows the directors of the company and group to assert that the going concern basis of preparation of the financial statements continues to be appropriate.

Transactions with group companies

With effect from 1 January 2011 the directors of the company and its fellow subsidiaries, Energetics Design and Build Limited and Energetics Gas Limited, agreed to revise the commercial arrangement under which construction projects featuring intra group transactions take place. This change was applied retrospectively to all such contracts and the cumulative change is recorded in the current year.

Due to the nature of projects involving more than one subsidiary, the previous commercial arrangement was put in place to ensure project revenues and risks were adequately understood at the inception of the project to ensure each entity was able to deliver shareholder value as a standalone company.

As the market becomes more competitive, the directors of all subsidiaries agreed to amend the calculations to ensure each entity continues to be able to demonstrate that the acceptance of construction projects and the related risks continue to deliver shareholder value for each entity involved.

Directors' report *(continued)*

Statement of directors' responsibilities

The directors are responsible for preparing 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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and 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 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.

Disclosure of information to the auditors

So far as each of the directors is aware, there is no relevant information that has not been disclosed to the company's auditors and each of the directors believe that all steps have been taken to make them aware of any relevant audit information and to establish that the company's auditors have been aware of that information.

Independent auditors

PricewaterhouseCoopers LLP have expressed a wish to continue in office. A resolution concerning their reappointment will be proposed at the AGM.

On behalf of the board

H O'Donnell
Director
9th August 2013

Independent auditors' report to the members of Energetics Electricity Limited

We have audited the financial statements of Energetics Electricity Limited for the year ended 31 December 2011 which comprise the Profit and Loss Account, the Balance Sheet, the Accounting Policies and the related notes. 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).

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities 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.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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 to identify material inconsistencies with the audited financial statements. 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 2011 and of its profit for the year then ended;

- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and

- have been prepared in accordance with the requirements of the Companies Act 2006.

Independent auditors' report to the members of Energetics Electricity Limited (continued)

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in 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, 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.

Michael Timar (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Glasgow
9 August 2013

Profit and Loss Account
For the year ended 31 December 2011

	Note	2011 £000	14 months to 31 December 2010 £000
Turnover	1	**3,631**	2,799
Cost of sales		**(1,431)**	(1,353)
Gross profit		**2,200**	1,446
Administrative expenses		**(1,524)**	(1,372)
Operating profit	2	**676**	74
Profit on ordinary activities before taxation		**676**	74
Taxation on profit on ordinary activities	5	**(198)**	(110)
Profit/(loss) for the financial year/period		**478**	(36)

All turnover and operating profit of the company is derived from continuing operations.

There is no difference between the profit on ordinary activities before taxation and the profit/(loss) for the financial period, and their historical cost equivalents, and all profits have been realised.

Balance Sheet

Registered number SC234694

As at 31 December 2011

	Note	2011 £000	2010 £000
Fixed assets			
Tangible assets	*6*	**55,759**	42,072
Current assets			
Debtors	*7*	**435**	437
Cash at bank and in hand	*17*	**453**	764
		888	1,201
Creditors: amounts falling due within one year	8	**(9,085)**	(4,790)
Net current liabilities		**(8,197)**	(3,589)
Total assets less current liabilities		**47,562**	38,483
Provisions for liabilities and charges	*9*	**(117)**	-
Deferred revenue	*10*	**(47,231)**	(38,747)
Net assets/(liabilities)		**214**	(264)
Capital and reserves			
Called up share capital	*11*	**-**	-
Share premium	*12*	**417**	417
Profit and loss account	*12*	**(203)**	(681)
Total shareholders' funds/(deficit)	*15*	**214**	(264)

The financial statements on pages 8 to 18 were approved by the board of directors on 9 August 2013 and were signed on its behalf by:

H O'Donnell
Director

Accounting Policies

Basis of preparation

These financial statements are prepared on the going concern basis, under the historical cost convention and in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom. The principal accounting policies are set out below, and have been applied consistently throughout.

The directors are satisfied that it is appropriate to prepare the financial statements on the going concern basis for the reasons specified in note 18 to these accounts.

Turnover

Turnover is recognised to the extent that it is probable that the economic benefits will flow to the company and the turnover can be readily measured. Turnover is measured at the fair value of the consideration received, excluding rebates and VAT and represents the invoiced value of regulated electricity distribution use of system charges invoiced to UK electricity supply companies for the use of the company's electricity distribution networks as established from industry data flows and includes accruals for income not yet billed. Turnover is generated wholly within the United Kingdom.

Cash flow statement

The company has taken advantage of the exemption from preparing a cash flow statement conferred by Financial Reporting Standard No.1 (revised) on the grounds that it qualifies as a small company as defined by the Companies Act 2006.

Tangible fixed assets and depreciation

The cost of tangible fixed assets is their agreed purchase price together with the costs attributable to bringing the asset to its working condition for its intended use.

Depreciation is provided to write off the cost or valuation less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Electricity Networks - On a straight line basis over 40 years
IT Infrastructure - On a straight line basis over 5 years
Network equipment - On a straight line basis over 5 years

Network assets under construction are not depreciated and are transferred to Electricity Networks upon achieving 75% completion.

Current taxation

Current tax, including UK Corporation tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date. The taxation liabilities of certain group companies may be reduced, wholly or in part, by the surrender of losses by fellow group companies. The decision to charge group relief is made on a case by case basis.

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not 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. Timing differences are the differences between the company's taxable profits and its results as stated in the financial statements. Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Financial assets and liabilities

Financial assets and liabilities are measured at the lower of historic costs or their expected recoverable amount.

Accounting Policies *(continued)*

Provisions for liabilities and charges

A provision is recognised when the company has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation and the amount can be reliably estimated. Provision is made for deferred taxation in line with the policy detailed above.

Deferred revenue

Deferred revenue relates to customer contributions receivable towards the construction cost of electricity network assets. Deferred revenue is amortised to the profit and loss account over a period of 40 years in direct proportion to the depreciation charge incurred on the asset to which it relates.

Post-retirement benefits

The company is party to the Energetics Networked Energy Limited defined contribution pension scheme. Contributions payable for the year are charged in the profit and loss account.

Notes to the Financial Statements
For the year ended 31 December 2011

1 Turnover

Turnover is generated wholly within the United Kingdom and from the single activity of ownership of electricity network connections.

2 Operating profit

	2011 £000	14 months 2010 £000
Operating profit is stated after (crediting)/charging:		
Release of deferred revenue	**(852)**	(736)
Auditors' remuneration:		
Audit services	**29**	33
Depreciation	**913**	782

3 Remuneration of directors

	2010 £000	14 months 2010 £000
Aggregate emoluments	**67**	63
Pension contributions	**3**	3
	70	66

Retirement benefits are accruing to one (2010: one) director under a defined contribution scheme. Other directors of Energetics Electricity Limited are also directors of other group companies and the services provided to Energetics Electricity Limited are considered ancillary in comparison to the services they provide to these other group companies. As such no recharge is made to Energetics Electricity Limited for their services other than one director. Full details of the remuneration paid to the Directors can be found in the statutory accounts of Energetics Design and Build Limited for the year ended 31 December 2011.

During the year no director (2010: nil) was granted options to purchase shares in Energetics Networked Energy Limited, the ultimate parent company under an Enterprise Management incentive scheme. No options were exercisable during the year.

4 Staff numbers and costs

The average number of persons employed by the company (including directors) during the year, analysed by category, was as follows:

	2011	14 months 2010
Administrative staff	**4**	3

The aggregate payroll costs of these persons were as follows:

	2011 £000	14 months 2010 £000
Wages and salaries	**151**	191
Social security costs	**19**	11
Pension cost (note 14)	**8**	16
	178	218

Notes *(continued)*

5 Tax on profit on ordinary activities

(a) Analysis of charge in the period

	2011 £000	2010 £000
Current tax		
UK Corporation tax	-	-
Total current tax (note 5b)	-	-
Deferred tax		
Origination and reversal of timing differences	198	110
Total tax charge/(credit)	198	110

The current tax balance for the year differs from the standard rate of corporation tax in the UK of 26.49% (2010:28%). The differences are explained below.

(b) Factors affecting tax charge for the period

	2011 £000	2010 £000
Current tax reconciliation		
Profit on ordinary activities before tax	676	74
Tax charge on profit/(loss) on ordinary activities at standard rate 26.49% (2010: 28%)	179	21
Factors affecting the charge for the year:		
Accelerated capital allowances	(199)	(106)
Group relief surrendered	20	85
Total current tax (note 5a)	-	-

The company has a deferred tax liability of £117,000 (2010: asset of £81,000) per note 9.

During the year, a change in the UK corporation tax rate from 28% to 26%, effective from 1 April 2011 was substantively enacted in March 2011. A further reduction to 25%, effective from 1 April 2012 was substantively enacted in July 2011 and the relevant deferred tax balances have been re-measured accordingly.

In addition to the change in rate of corporation tax disclosed above, a number of further changes to the UK Corporation tax system were announced in the March 2012 and March 2013 UK Budget Statements. The main corporation tax rate is to be further reduced to 24%, effective from 1 April 2012, 23% effective from 1 April 2013, 21% effective from 1 April 2014 and 20% from 1 April 2015.

None of these rate reductions had been substantively enacted at the balance sheet date and, therefore, are not included in these financial statements. Had the change in rate to 20% been substantively enacted as of the balance sheet date, there would have been no significant impact on the accounts.

Notes *(continued)*

6 Tangible fixed assets

	Network Equipment £000	Network Assets £000	Network Assets under construction £000	IT Infrastructure £000	Total £000
Cost					
At 1 January 2011	19	36,134	7,161	264	**43,578**
Additions	-	-	14,586	14	**14,600**
Transfers	-	12,181	(12,181)	-	**-**
At 31 December 2011	19	48,315	9,566	278	**58,178**
Depreciation					
At 1 January 2011	14	1,259	-	233	**1,506**
Charge for the year	3	897	-	13	**913**
At 31 December 2011	17	2,156	-	246	**2,419**
Net book value					
At 31 December 2011	**2**	**46,159**	**9,566**	**32**	**55,759**
At 31 December 2010	5	34,875	7,161	31	42,072

7 Debtors

	2011 £000	2010 £000
Due within one year		
Trade debtors	**22**	7
Prepayments	**128**	121
Deferred tax asset	**-**	81
Accrued revenue	**285**	228
	435	437

8 Creditors: amounts falling due within one year

	2011 £000	2010 £000
Trade creditors	**114**	23
Other creditors	**23**	29
Amount owed to group undertakings	**8,447**	3,899
Amounts owed to related parties (see note 16)	**150**	150
Accruals	**351**	689
	9,085	4,790

Amounts owed to group undertakings primarily relate to the acquisition of fixed assets, are unsecured, interest free and have no fixed date of repayment.

Notes (continued)

9 Provisions for liabilities and charges

	Deferred Tax 2011 £'000	Deferred Tax 2010 £000
Opening balance at 1 January (asset)	**(81)**	(191)
Charged to profit and loss account (note 5)	**198**	110
At 31 December	**117**	(81)

Provision for deferred tax consists of:

	2011 £000	2010 £000
Accelerated capital allowances	**328**	146
Other short term timing differences – losses	**(211)**	(227)
Total provision for deferred tax liability/(asset) *	**117**	(81)

**The comparative deferred tax asset is disclosed within note 7 "Debtors".*

10 Deferred revenue

	At 1 January 2011 £'000	Receivable during the year £'000	Released to the profit and loss account £'000	**At 31 December 2011 £'000**
Customer contributions	38,747	9,336	(852)	**47,231**

11 Called up share capital

	2011 £	2010 £
Authorised		
Equity: 100,000 Ordinary shares of £1 each	**100,000**	100,000
Allotted and fully paid		
Equity: 244 Ordinary shares of £1 each	**244**	244

12 Reserves

	Share Premium £000	**Profit & loss account £000**
At 1 January 2011	417	(681)
Profit for the financial period	-	478
At 31 December 2011	417	(203)

Notes (continued)

13 Capacity charges and operating leases

The company has financial commitments for the year ending 31 December 2011 in respect of paying variable network capacity charges in connection with electricity networks owned. Such costs are incurred as part of the normal course of business as a regulatory cost of sale and are compensated for through regulated revenue streams. The company has no annual commitments under non-cancellable operating leases.

14 Pension scheme

The pension cost in respect of the defined contribution scheme is £7,676 (2010: £15,648).

15 Reconciliation of movement in shareholders' funds

	2011	2010
	£000	£000
Opening shareholders' deficit	**(264)**	(228)
Profit/(loss) for the financial year/period	**478**	(36)
Closing shareholders' funds/(deficit)	**214**	(264)

Notes *(continued)*

16 Related party disclosures

Energetics Electricity Limited contracted with Energetics Design and Build Limited, a fellow subsidiary of Energetics Networked Energy Limited, during the year.

Asset purchases from Energetics Design & Build Limited amounted to £14,586,000 (2010: £12,146,000) while customer contributions collected by Energetics Design & Build Limited on behalf of Energetics Electricity Limited totalled £9,336,000 (2010: £10,323,000).

The former shareholders of Energetics Electricity Limited (prior to the Company becoming a wholly owned subsidiary of Energetics Networked Energy Limited), who are also the shareholders of Energetics Networked Energy Limited, are also shareholders in Bishop Loch (Gartloch) Limited.

Energetics Electricity Limited has a £150,000 loan from Bishop Loch (Gartloch) Limited. This loan is unsecured and has no fixed date of repayment. The loan was in relation to working capital provision.

17 Financial commitments

The company is required to maintain an Escrow Account as part of its regulatory licence for the purpose of holding six months operating costs and one month of upstream Use of System (UoS) charges. This licence condition is updated every six months (January and July) and will be in place until such times as the company achieves an investment grade credit rating or the regulator introduces any changes. The amount held in Escrow at the period end was £236,400 (2010: £220,000). This amount is included in 'Cash in bank and at hand'.

18 Going concern

The company reported a profit after tax for the year ended 31 December 2011 of £478,000 (2010: loss of £36,000). At the balance sheet date the company's assets exceeded its liabilities by £214,000 (2010: deficit £264,000) however it had net current liabilities of £8,197,000 (2010: £3,589,000). The net current liabilities and overall net assets arise due to intercompany amounts payable to Energetics Design & Build Limited in respect of the element of network construction costs not funded by the third party customer contributions. These amounts are essentially recovered by the company through the future regulated revenue streams derived from those assets.

The company meets its day to day working capital requirements through prudent cash management.

The company has continued to achieve growth post year end as Energetics Design & Build Limited complete more electricity network connections in the housing sector and increases megawatt load from contracts won in the industrial and commercial sectors. These new electricity connections contribute new regulated revenue streams for the company.

The directors believe that it is appropriate for the financial statements to be prepared on a going concern basis due to the additional funding facilities secured as detailed in note 19 allowing the debts of the business to be paid as they fall due.

19 Events after the balance sheet date

Towards the end of the first quarter of 2012 the Energetics Group of Companies secured a £1.5m rolling credit facility from Barclays Bank that allowed Energetics Gas Ltd and Energetics Electricity Ltd the ability to fund, at least in part, the cost incurred by Energetics Design & Build Ltd in the construction of network assets for adoption within the Group. However, it was identified early in the 2012 operating year that this level of funding was insufficient to support the build-out of work-in-hand and also continue to grow the business in the post-recession period.

During May 2012 the Directors and major Shareholders of Energetics Networked Energy Ltd decided to embark on a corporate transaction with the specific objective of raising significant investment, be that debt and/or equity finance, that would secure the future of the business for some considerable time.

At the date of signing these financial statements the company's parent, Energetics Networked Energy Ltd has signed a Facility Agreement with Macquarie Bank, a major financial institution for a significant injection of debt finance. In addition to the debt facility, Macquarie has also committed a considerable cash injection to acquire a major equity stake in the Energetics Group, albeit this equity would not constitute a controlling interest.

Notes *(continued)*

With this investment partner/debt provider now firmly aligned to the growth ambitions of the Energetics Group, the Directors are confident that the long-term funding is now in place to allow the business to deliver the long-term value aspirations of the various stakeholders.

20 Ultimate parent undertaking and controlling party

The Directors regard Energetics Networked Energy Limited, a company registered in Scotland, as the company's ultimate parent undertaking and controlling party. The company is managed on a unified basis along with other companies within the Energetics Networked Energy Limited. Copies of the parent company accounts are available from The Registrar of Companies, Companies House, 4th Floor, Edinburgh Quay 2, 139 Fountainbridge, Edinburgh EH3 9FF.