Energetics Electricity Limited

Annual report

Registered number SC234694
Year ended 31 October 2009

Contents

Directors' report

The directors present their annual report and the audited financial statements of Energetics Electricity Limited for the year ended 31 October 2009.

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 operating year to 31 October 2009 has been one of continued success for the business whilst at the same time recognising that market conditions were deteriorating as a result of the global recession and the subsequent impact on the housing market in particular. The major downturn in the housing market resulted in smaller volumes of new domestic contracts being secured and also smaller volumes of new connections being made. Despite the difficult market conditions there is still a very strong demand for new housing in the UK and the forward order book for Energetics Electricity Ltd will deliver sufficient volumes while the UK economy starts on the slow road to recovery.

Also in the period, the company took operational control of the primary substations at Media City, Salford Quays and The Rock in Bury. These flagship projects represent the first primary infrastructure installations by an independent network company in the UK and have placed the company in a very strong position to secure additional major projects in the future.

Another significant development in the operating year was the decision by the regulator to apply boundary metering charges to the host network operator rather than the independents such as Energetics Electricity Ltd.

The impact of these changes for the operating year ended 31 October 2009 resulted in a net profit of £15,000 (2008: £23,000). The fall in net margin from the previous year is due to the significant rebate the company negotiated last year from the monopoly electricity companies following the withdrawal of capacity charges for domestic networks. The results to 31 October 2009 represent a 'normal' operating year albeit one affected by the global recession. With the numbers of live network connections continuing to grow and the impending major industrial and commercial load coming on-line, this increasing revenue will result in increasing profitability for the business. In addition, the new Common Distribution Charging Methodology (CDCM) initiative introduced from 1 April 2010 will result in positive net revenues across the whole of the UK and the expectation is that these changes will help to open up the electricity connections market.

Principal risks and uncertainties

The principle risk is the increasing level of competition in this particular 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 Ltd.

The risk to revenues has decreased over the last year with the Ofgem decision to move boundary metering costs to the host network operator and 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 and RPC also mitigates the effects of annual inflation through the annual quantities review that takes account of the movement in retail prices.

Proposed dividend

The profit for the year, after taxation, amounted to £207,000 (2008: £23,000). The Directors do not recommend payment of a dividend.

Directors

The Directors who held office during the year were:
Harry O'Donnell
William McClymont
Murray Robertson
Kenneth Stewart
Mark Cummings

Directors' report *(continued)*

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

	2009	2008
	£'000	£'000
Revenue	1,336	897
Revenue % increase	49%	107%
Operating Profit/(Loss)	15	26
Operating Profit/(Loss) %	1%	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. However, the impact of the UK recession has introduced another key risk due to the lack of affordable credit from the major financial institutions. The company's overall risk management strategy seeks to minimise potential adverse effects on the company's financial performance by controlling costs and focussing on working capital management with any resultant liquidity risk being managed through the ongoing financial support of our major shareholders.

Statement of directors' responsibilities in respect of the Annual Report and the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to 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 those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and 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 confirm that they have complied with the above requirements in preparing the financial statements.

Directors' report *(continued)*

The directors believe that the company will continue as a going concern into the foreseeable future (note 19) and have prepared the financial statements as such.

The directors are responsible for keeping proper accounting records that 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 company's website.

Change of accounting period

The directors have extended the current financial period from 12 months ending 31 October 2010 to 14 months ending 31 December 2010 to bring the company more into line with its customers and suppliers.

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.

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
4 June 2010

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 October 2009 which comprise the Profit and Loss Account, the Balance Sheet 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 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 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.

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 October 2009 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.

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
4 June 2010

Profit and Loss Account
For the year ended 31 October 2009

	Note	2009 £000	2008 £000
Turnover	1	1,336	897
Cost of sales		(592)	(359)
Gross Profit		744	538
Administrative expenses		(728)	(512)
Operating Profit	2	16	26
Interest receivable		-	3
Interest payable	5	(1)	(6)
Profit on ordinary activities before taxation		15	23
Tax on profit on ordinary activities	6	192	-
Profit for the financial year	13	207	23

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 for the financial year, and their historical cost equivalents, and all profits have been realised.

Balance Sheet

Registered number SC234694

As at 31 October 2009

	Note	2009 £000	2008 £000
Fixed Assets			
Tangible assets	7	**30,708**	21,984
Current Assets			
Debtors	8	**425**	244
Cash at bank and in hand		**80**	151
		505	395
Creditors: amounts falling due within one year	9	**(2,281)**	(1,987)
Net current liabilities		**(1,776)**	(1,592)
Total assets less current liabilities		**28,932**	20,392
Creditors: amounts falling due after more than one year	10	**-**	(24)
Deferred Revenue	11	**(29,160)**	(20,803)
Net liabilities		**(228)**	(435)
Capital and reserves			
Called up share capital	12	**-**	-
Share premium	13	**417**	417
Profit and loss account	13	**(645)**	(852)
Total Shareholders' deficit	16	**(228)**	(435)

The financial statements on pages 8 to 17 were approved by the board of directors on 4 June 2010 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. The principle accounting policies are set out below together with an explanation of where changes have been made to previous policies including those on the adoption of new accounting standards.

The directors are satisfied that it is appropriate to prepare the financial statements on the going concern basis for the reasons specified in note 19 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

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 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.

Related party transactions

All other transactions with related entities are disclosed in the notes to the accounts.

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 operates a 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 October 2009

1 Turnover

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

2 Operating profit

	2009 £000	2008 £000
Operating profit is stated after (crediting)/charging:		
Release of deferred revenue	**(242)**	(144)
Auditors' remuneration:		
Audit services	**40**	19
Depreciation	**338**	195

3 Remuneration of directors

The 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. Full details of the remuneration paid to the Directors can be found in the statutory accounts of Energetics Design & Build Limited for the year ended 31 October 2009.

During the year no director (2008: one) 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:

	2009	2008
Administrative staff	**3**	3

The aggregate payroll costs of these persons were as follows:

	2009 £000	2008 £000
Wages and salaries	**85**	86
Social security costs	**8**	10
Pension cost	**5**	5
	98	101

Notes *(continued)*

5 Interest payable & similar charges

	2009 £000	2008 £000
On bank loans and overdrafts	1	6
	1	6

6 Taxation on loss on ordinary activities

(a) Analysis of charge in the period

	2009 £000	2008 £000
Current tax		
UK Corporation tax .	-	-
Total current tax (note 6b)	-	-
Deferred tax		
Deferred tax – initial recognition of asset	(192)	-
Total tax (credit)/charge	(192)	-

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

(b) Factors affecting tax charge for the period

	2009 £000	2008 £000
Current tax reconciliation		
Profit on ordinary activities before tax	15	23
Tax charge on profit/(loss) on ordinary activities at standard rate 28% (2008: 28.8%)	4	7
Factors affecting the charge for the year:		
Expenses not deductible for tax purposes	-	2
Accelerated capital allowances	(35)	(21)
Group relief surrendered	31	12
Other timing differences	-	-
Capital transactions	-	-
Total current tax (note 6a)	-	-

The standard rate of Corporation Tax in the UK changed to 28% with effect from 1 April 2008.

The company has a deferred tax asset which is now reflected in these financial statements of £192,000. In the prior year an asset of £226,000 was not recognised as the realisation of that asset at that time was not reasonably certain based on suitable taxable profits arising in the foreseeable future.

Notes *(continued)*

7 Tangible fixed assets

	Network Equipment	Network Assets	Network Assets under construction	IT Infrastructure	Total
	£000	**£000**	**£000**	**£000**	**£000**
Cost					
At 1 November 2008	-	11,308	10,846	217	**22,371**
Additions	19	-	9,553	47	**9,619**
Disposals	-	(256)	(300)	-	**(556)**
Transfers	-	15,543	(15,543)	-	**-**
At 31 October 2009	19	26,595	4,556	264	**31,434**
Depreciation					
At 1 November 2008	-	214	2	172	**388**
Charge for the year	9	279	-	50	**338**
At 31 October 2009	9	493	2	222	**726**
Net book value					
At 31 October 2009	**10**	**26,102**	**4,554**	**42**	**30,708**
At 1 November 2008 as previously reported	-	11,093	10,846	45	21,984

Notes *(continued)*

8 Debtors

	2009 £000	2008 £000
Due within one year		
Trade debtors	7	36
Other debtors	16	113
Prepayments	90	18
Deferred tax asset	192	-
Accrued revenue	120	77
	425	244

9 Creditors: amounts falling due within one year

	2009 £000	2008 £000
Trade creditors	136	83
Bank loans	-	43
Other creditors	-	4
Amount owed to group undertakings	1,955	1,578
Amounts owed to related parties	150	150
Accruals	40	129
	2,281	1,987

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

10 Creditors: amounts falling due after more than one year

	2009 £000	2008 £000
Bank loans (2-5 years)	-	24
	-	24

Term loan
Bank loans represented a 5-year term loan with an initial maturity date of 13 June 2010. The term loan was initially drawn down at a value of £180,000. The outstanding loan amount was fully repaid during the reporting period.

Notes *(continued)*

11 Deferred Revenue

	At 1 November 2008 £'000	Receivable during the year £'000	Released to the profit and loss account £'000	**At 31 October 2009 £'000**
Customer contributions	**20,803**	8,599	(242)	**29,160**

12 Called up share capital

	2009 £	2008 £
Authorised		
Equity: 100,000 Ordinary shares of £1 each	**100,000**	100,000
Allotted, called up & fully paid		
Equity: 244 Ordinary shares of £1 each	**244**	244

13 Reserves

	Share Premium £000	**Profit & loss account £000**
At 1 November 2008	417	(852)
Profit for the financial year	-	207
At 31 October 2009	**417**	**(645)**

14 Capacity charges and operating leases

The company has financial commitments for the year ending 31 October 2010 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.

15 Pension scheme

The pension cost in respect of the defined contribution scheme is £4,636 (2008: £4,735).

16 Reconciliation of movement in shareholders deficit

	2009 £000	2008 £000
Opening shareholders deficit	**(435)**	(458)
Profit for the financial year	**207**	23
Closing shareholders' deficit	**(228)**	(435)

Notes *(continued)*

17 Related party disclosures

Energetics Electricity Limited contracted with Energetics Design & Build Limited during the period. Asset purchases from Energetics Design & Build Limited amounted to £9,553K (2008: £13,145K) while customer contributions collected by Energetics Design & Build Limited on behalf of Energetics Electricity Limited totalled £8,599K (2008: £12,737K).

Energetics Design & Build Limited made salary payments on behalf of Energetics Electricity Limited of £98K (2008: £46K) in the period.

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. Loan amounts during 2007 remained outstanding in full as at 31 October 2009 and amounted to £150,000 (2008: £150,000). The loan was in relation to working capital provision. Personal guarantees were provided by shareholders to underpin banking/regulatory guarantees until June 2009 after which the regulatory guarantees were required to be cash backed.

18 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 year end was £nil as the required amount was held in the Escrow account of a fellow subsidiary, Energetics Gas Limited, which held a total of £570,000.

19 Going concern

The company reported a profit before tax for the year ended 31 October 2009 of £15,000 (2008: £23,000). At the balance sheet date the company's liabilities exceeded its total assets by £228,000 (2008: £435,000) and its net current liabilities amounted to £1,776,000 (2008: £1,592,000). The net current liabilities and overall net liabilities 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 during the "credit crunch" as Energetics Design and Build Limited ("EDB") 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 company's negative net asset risk is managed on a daily basis with the support of the company's major shareholders.

The financial statements have been prepared on a going concern basis which assumes that the company will continue in operational existence for the foreseeable future. The company has the support of its parent and fellow subsidiaries, and amounts owed to group undertakings will not be repaid unless funds are available to do so. The directors have also prepared 5 year cash flow forecasts to show that the company can trade positively in that period.

If the company was unable to continue in operational existence for the foreseeable future, adjustments would have to be made to reduce the balance sheet values of assets to their recoverable amounts, to provide for further liabilities that might arise. The directors believe that it is appropriate for the financial statements to be prepared on a going concern basis.

20 Ultimate parent undertaking

The company's immediate and ultimate parent undertaking is Energetics Networked Energy Limited, a company registered in Scotland. 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.