

**Fulcrum Infrastructure Services Limited**

**Annual report and financial statements**

**for the year ended 31 March 2017**

Registered number: 06006363

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# **Fulcrum Infrastructure Services Limited**

## **Annual report and financial statements for the year ended 31 March 2017**

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# **Fulcrum Infrastructure Services Limited**

## **Strategic report for the year ended 31 March 2017**

The Directors present their report and the audited financial statements of Fulcrum Infrastructure Services Limited ("the Company") for the year ended 31 March 2017.

### **Principal Activities**

The principal activity of the Company is the provision of utility infrastructure and unregulated connections services in the UK.

The Company designs and project manages utility connections for customers seeking either new connections or the alteration or refurbishment of existing connections. These connections range from simple, single-site alterations to large, complex multi-utility, multi-site new connections. For all projects, the Group's team of skilled design and engineering staff are required to design the connections to detailed specifications and to ensure the connections are appropriate and comply with extensive health and safety requirements.

### **Business Review and Future Developments**

In 2017, we maintained our track record of continuous improvement to successfully deliver on our promises to grow the order book, improve operational efficiency to reduce costs and grow our asset estate. This strategy has delivered a record EBITDA at £5.9 million (2016: £4.1 million) and positive cash generation of £1.8 million.

The Company's order book has increased by £8.5 million (39%) to £30.3 million, from £21.8 million at 31 March 2016. This increase highlights progress within the business during FY2017 and includes £4.2 million for the gas conversion contract in the South West. The Company continues to secure electricity contracts and a broad base of gas and multi-utility projects.

The Company achieved a 3.9% improvement in the gross profit margin of 38.3% (2016: 34.4%) in the period. Our direct delivery model continues to mature, we have a broader mix of sales orders being won and delivered, all combining to increase the gross margin. In addition, continued progress has been made in reducing the cost base of the business to ensure that our competitive rates can be sustained in the long term. All costs are subject to rigorous reviews and efficiency savings are continually sought to enable reinvestment in winning more sales orders.

During the year the Company issued 8.1 million shares of £1 each at par. A capital reduction was subsequently undertaken during the year for the amount of £7.1 million.

Safety is paramount in our organisation. Our goal remains for everyone who works with us to return home unharmed at the end of each day, including customers, contractors, employees and the general public. Our employees and contractors are fully empowered to ensure that work is delivered safely.

### **Trading Update**

In FY2017, year on year revenue increased by £1.2 million or 3% to £36.2 million. Our strategy to grow sales has been successfully executed, as evidenced by the 39% increase in the sales order book year on year. The investment in our sales team is yielding results. In line with the stated intention to expand into electricity and multi-utility services, a greater proportion of electricity and multi-utility contracts have been tendered and won in FY2017. These wins are incremental to the core offering of gas projects.

We introduced customer satisfaction surveys in FY2017 to gauge how well our customer centric approach is being received. The first year results are encouraging, with 73% of customers rating our service as 'great'.

Our sales approach is maturing, with the dedicated teams covering our routes to market: key accounts (including British Gas), major projects, housing and technical sales.

# Fulcrum Infrastructure Services Limited

## Strategic report (continued)

### Key Accounts

Fulcrum's sustained emphasis on customer service excellence and listening to what our customers require have ensured that we have strong levels of repeat revenues.

We have delivered a 97% right first time service for British Gas, our largest customer, underlining our flexibility and delivery capabilities to meet this key customer's requirements.

Our dedicated and responsive key accounts team supports all of these repeat customers throughout the design to delivery process, providing tailored services that meet their individual needs.

### Major Projects

Our ability to deliver large and complex projects is well recognised. We work closely with our clients to design and build utility infrastructure solutions tailored to their needs. Fulcrum has continued to win major new gas, electricity and multi-utility contracts in FY2017, which include:

- A £4.2 million project to install a new 12km gas pipeline to a large food manufacturing plant in the South West, converting the site from its existing fuel oil source to natural gas, generating large cost savings for the manufacturer;
- A £1.4 million contract to install over two kilometres of gas pipeline infrastructure to a new manufacturing plant in the North East of England;
- A £1.0 million dual fuel contract to supply new gas and electricity infrastructure to two new UK power stations;
- A £1.1 million, 7.7km gas pipeline project to convert a Scottish distillery from its existing fuel source to natural gas;
- A £0.3 million multi-utility contract to install gas, electricity, water and telecoms to three commercial units in London.

With a focus on main contractors and mechanical and engineering consultants, the enlarged team of business development managers has grown the orders of major projects during the period and are consistently generating incremental quote opportunities, including electricity contracts.

### Housing

The housing market presents a significant opportunity to grow our sales. To expand our work winning capability, we have increased the number of business development managers in this team and made further improvements to our cost effective delivery model. During the period, we have secured several significant, multi-utility housing schemes, including:

- A £0.2 million infrastructure contract to deliver new gas and electricity connections to a 100-plot housing development in Staffordshire.
- A £0.1 million infrastructure contract to deliver new gas, electricity and water connections to a housing development in Nottinghamshire.

### Technical Sales

The multi-skilled technical sales team have the expertise to take sales leads from a myriad of sources and convert the opportunities into customer led projects, with their knowledgeable and joined up design and sales approach.

Within this route to market, our web initiated sales continue to grow, increasing by 8% year on year to £6.4 million, accounting for 18% of our total revenue. Both the FirstGas and FirstElectricity brands, aimed at less technical users, have demonstrated year-on-year growth, increasing our penetration of this sub-sector.

## **Fulcrum Infrastructure Services Limited**

### **Strategic report (continued)**

With our established and growing customer base, clearly focused work-winning approach, competitive pricing model, trusted delivery and a significant utility market to penetrate, we are confident that sales orders will continue to grow.

#### **Operations**

We continually challenge internal and external constraints with the aim of simplifying the way we work, embedding systems and automation to drive efficiencies and encouraging our people to propose innovative ways of working.

Our direct delivery model continues to mature – new, low-cost applications have been developed and implemented for the mobile devices used by the construction teams to improve communications with customers and streamline internal processes to help to drive down the cost of delivery. There are further plans to improve our operational efficiency by developing new mobile applications that will reduce hand-offs between functions, empower construction teams and automate routine administrative activities.

We plan to expand the direct delivery capability, with more teams being upskilled to deliver electrical work across mainland UK. Our unique, end-to-end, fully branded operating model creates an agile and responsive platform to deliver continued growth through a multi-skilled work force and customer-focused operation. This model is a key differentiator and further enhances our customer service led, national, broad offering.

During the period, the Fulcrum IT team has successfully replaced all of the core infrastructure with a new solution that reduces operating costs and ensures that Fulcrum has a sustainable, reliable and simplified infrastructure that is flexible to provide for the changing needs of the business. The project was delivered on time and within budget and will realise operating savings of £0.2 million per annum from January 2017 over the next five years.

In order to maintain competitive advantage, we will continually review and improve existing working practices to ensure that the business model is efficient and lean. Our cost of delivery across all functions (direct, indirect and support) will be vigorously tested to drive improved levels of sales orders won and sustainable profitability.

#### **People**

At Fulcrum, we believe that our people underpin our competitive edge and I would like to thank them all for their outstanding contributions. We trust them to go above and beyond for the Company and our clients. Individual talent and collective expertise across the Company help us to win and deliver the diverse projects, while meeting our strategic objectives and delivering on stakeholders' expectations.

We aim to attract and retain the best people and continually develop their capabilities so that we can meet and exceed our clients' expectations. We have continued to invest in our people, making them increasingly multi-skilled, notably strengthening our electrical design and installation capabilities. Learning and development has been grounded in customer specific roles and the evolving needs of customers in the industry. Sustained investment will continue to be made to underpin employee engagement and continuous learning. We also actively review and manage our succession plans.

#### **Outlook**

The business has an established and growing market leading position. We will continue to focus on striving for sales growth, improving customer service whilst maintaining and improving operational disciplines.

We continue to move forward at pace with confidence for the future as we remain on course to deliver incremental value to all our stakeholders by being the UK's most trusted utility services partner.

# Fulcrum Infrastructure Services Limited

## Strategic report (continued)

### Key Performance Indicators

The emphasis of the Company's operations continue to be on customer service and health and safety.

In terms of customer service, the Company closely monitors its performance against targets for producing quotes, receiving customer acceptances, providing plan dates and meeting substantial completion dates. These levels of service are monitored internally. Customer service is geared toward individual customer requirements and key customers have dedicated Key Account Managers.

The Company continues to operate in accordance with the Gas Industry Registration Scheme (GIRS), Water Industry Registration Scheme (WIRS), National Electricity Registration Scheme (NERS), Multi-Utility Registration Scheme (MURS), ISO14001 and ISO9001.

In terms of health and safety, the Company monitors the incidence of work related accidents related to its own staff and that of its contractors.

The Directors also consider revenue and profit on ordinary activities before taxation to be key performance indicators.

### Principal Risks and Uncertainties

The management of the business and the execution of the Company's strategy are subject to a number of risks which are set out below.

Description	Mitigating actions	Risk change
<b>Growth and strategy execution</b>		
It is possible that the growth of the business could take longer than expected, or that the anticipated improvements in financial performance may not be realised in full.	To mitigate this risk, the Company operates comprehensive annual strategic planning and budgeting processes together with regular financial reforecasts. Detailed monthly reporting and analysis of actual performance against the business plan ensures that corrective actions can be taken on a timely basis if necessary.	No change
<b>Dependence on key executives and personnel</b>		
In common with many smaller companies, the Company's future success is substantially dependent upon recruiting, retaining and motivating key executives with relevant industry experience.	The Company has put in place suitable executive and senior management incentive schemes linked to the successful delivery of our strategy. Appropriate staff development programmes are in place to assess, manage and develop the leadership skills of all staff throughout the organisation. In addition, a regular talent management/succession planning exercise is completed for the key members of our teams.	No change

## Fulcrum Infrastructure Services Limited

Description	Mitigating actions	Risk change
<b>Risks relating to operating in a competitive market</b>		
<p>The business strategy relies fundamentally on the ability to increase revenues and ensuring that the cost base is kept under control. However, the markets in which the Company operates are competitive. The Company faces significant competition, including from organisations that may be larger and/or have greater capital resources.</p> <p>The Company cannot predict the pricing or promotional activities of its competitors or their effect on its ability to market and sell its services. In order to ensure that its services remain competitive, the Company may be required to reduce its prices as a result of price reductions by its competitors. This could adversely affect the Company's results.</p> <p>There are no assurances that the strength of the Company's competitors will not improve or that the Company will win any additional market share from its competitors, or maintain its existing market share. Existing and/or increased competition could adversely affect the Company's market share and materially affect its business, financial condition and operating results.</p>	<p>These risks are managed through the corporate planning and review processes as outlined in the growth and strategy execution section above.</p>	<p>No change</p>
<b>Risks relating to the gas connections market</b>		
<p>Operating in the gas industry carries with it inherent risks, such as reliance on ageing infrastructure, potential injury to, or loss of, human life or equipment, as well as the risk of downtime or low productivity caused by weather interruptions or equipment failures. Losses could result from litigation or interruption of the Company's business should these risks materialise.</p> <p>There are also associated regulatory risks relating to the Company's reliance on a number of different licences which its fellow Company companies require in order to carry out the design and project management of connections to gas pipelines. In addition, Fulcrum Pipelines Limited is specifically licensed by Ofgem as an Independent Gas Transporter (IGT). This brings with it the risk that the regulatory environment could change, which may have a direct and significant impact on the Company's regulated activities.</p>	<p>The Company seeks to reduce the risk of losses arising from these circumstances through careful planning, robust operational guidelines and the sharing of risk with client and supplier organisations and by putting in place suitable insurance arrangements.</p>	<p>No change</p>

## Fulcrum Infrastructure Services Limited

Description	Mitigating actions	Risk change
<b>Reliance on key customers</b>		
A relatively small number of long-term commercial contracts exist between the Company and its customers.	<p>The relationship between the Company and many of its customers is not regulated by a contract. Instead, the majority of the Company's business with customers is based on purchase orders and an acceptance by customers of the Company's standard terms and conditions.</p> <p>The drive for customer service excellence will help to promote repeat customer revenues, further complemented by our established national position with a broad service offering and in-house design and build expertise.</p>	No change
<b>Reliance on significant suppliers</b>		
The physical works required to install gas connections managed by the Company have historically been carried out by an alliance subcontract partner on behalf of the Company. The move to the in-house management of operational delivery from 1 April 2015 has eliminated this reliance on the alliance partner. The Company does continue to rely upon one nominated subcontractor for the operational delivery in the South of England and as such the Company is exposed to the risk that the financial performance of this supplier may fluctuate or deteriorate in the future and that this could have an adverse impact on the operational or financial performance of the Company.	In order to manage this risk, the Company will regularly and jointly review the performance of the subcontractor against the contract.	No change
<b>Continuity of financing facilities</b>		
In November 2015, the business entered into a revolving credit facility which replaced the asset backed financing agreement with Lloyds Bank plc. At the year end, this facility was not utilised.	Sustained improvement in financial performance, the provision of regular management information and maintaining good working relationships with the Company's bankers will remain important in the future.	No change
<b>Changing mix of sales</b>		
A changing mix of new contract sales, moving away from payments in advance toward credit terms, may place a strain on working capital as the volume of credit sales increases.	In granting commercial credit terms, careful attention is paid to the timing of cash receipts and payments over the period of contract delivery. Where necessary, a deposit is requested from customers prior to commencing work and invoicing milestones with customers are matched	No change

## Fulcrum Infrastructure Services Limited

Description	Mitigating actions	Risk change
	where possible to the invoicing patterns with contractors.	

### Change in balance of contract value

As the sales mix of the business changes and the relative mix of large and small contracts changes over the period of delivery, it is possible that revenue may fluctuate materially from one period to another. As a result, future revenue performance may prove more volatile than the past revenue performance of the business would indicate.

No  
change

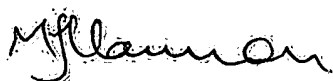
### Going concern

The Company had net cash at 31 March 2017 of £3.7 million. Also, the Company has access to a Group undrawn revolving credit financing facility of £4.0 million.

As a matter of course the Directors regularly prepare financial forecasts for the business and these are reviewed and adopted by the Board. These forecasts are subject to "stress testing" with appropriate sensitivity analysis and scenario planning to ensure that any adverse impact can be managed and mitigated such that the business can continue to operate within its existing financing facilities.

The Company's forecasts and projections, after taking account of sensitivity analysis of changes in trading performance and corresponding mitigating actions, show that the Company has adequate cash resources for the foreseeable future.

Therefore, after making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly they continue to adopt the going concern basis in preparing the annual report and financial statements.



M Harrison  
Chief Executive Officer  
10 November 2017

# **Fulcrum Infrastructure Services Limited**

## **Directors' report for the year ended 31 March 2017**

### **Results and dividends**

The profit for the year ended 31 March 2017 is set out in the profit and loss account on page 11. No dividend has been declared or proposed (2016: Nil).

### **Directors**

The Directors of the Company during the financial year and up to the date of signing the financial statements were:

M Donnachie (resigned 31 July 2017)

M Harrison

I Foster (appointed 1 August 2017)

### **Directors' indemnities and insurance**

The Company indemnifies its officers against liabilities arising from the conduct of the Company's business, to the extent permitted by law, by the placing of Directors' and officers' insurance. The insurance indemnifies individual Directors' and officers' personal legal liability and cost for claims arising out of actions taken in connection with the Company's business.

### **Employees**

All employee contracts are held and owned by Fulcrum Group Holdings Limited.

### **Immediate parent and ultimate parent company**

The immediate parent company is Fulcrum Utility Investments Limited, which is registered in the Cayman Islands. The ultimate parent company is Fulcrum Utility Services Limited, which is registered in the Cayman Islands and consolidates the financial statements of the Group. The consolidated financial statements of Fulcrum Utility Services Limited are available on its website at [www.fulcrumutilityserviceslimited.co.uk](http://www.fulcrumutilityserviceslimited.co.uk).

### **Statement of directors' responsibilities**

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 they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework.

# **Fulcrum Infrastructure Services Limited**

## **Directors' report for the year ended 31 March 2017 (continued)**

### **Statement of directors' responsibilities (continued)**

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 estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

### **Disclosure of information to auditor**

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

### **Reappointment of auditor**

Pursuant to section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

On behalf of the board



M Harrison  
Chief Executive Officer  
10 November 2017

## Fulcrum Infrastructure Services Limited

### Independent auditor's report to the Members of Fulcrum Infrastructure Services Limited

We have audited the financial statements of Fulcrum Infrastructure Services Limited for the year ended 31 March 2017 set out on pages 11 to 23. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK 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 8, 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

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate).

#### 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 March 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

#### Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic report and the Directors' Report:

- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

#### 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.



David Morritt (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

1 Sovereign Square, Sovereign Street, Leeds, LS1 4DA

28 November 2017

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# Fulcrum Infrastructure Services Limited

## Statement of comprehensive income for the year ended 31 March 2017

	Notes	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
Revenue	2	36,237	35,052
Cost of sales		(22,362)	(22,983)
Gross profit		13,875	12,069
Administrative expenses		(8,008)	(7,955)
Operating profit	3	5,867	4,114
<b>Analysed as:</b>			
EBITDA before share based payments and exceptional items		5,897	4,135
Depreciation and amortisation	7	(30)	(21)
		5,867	4,114
Profit before taxation		5,867	4,114
Taxation	6	(1,716)	(321)
Profit for the year attributable to equity holders of the parent and other comprehensive income		4,151	3,793

# Fulcrum Infrastructure Services Limited

## Statement of changes in equity for the year ended 31 March 2017

		Share capital £'000	Retained earnings £'000	Total equity £'000
Balance at 1 April 2015			(25,055)	(25,055)
Profit for the year			3,793	3,793
Balance at 31 March 2016			(21,262)	(21,262)
Issue of new shares	13	8,100		8,100
Capital reduction	13	(7,100)	7,100	
Profit for the year			4,151	4,151
Balance at 31 March 2017		1,000	(10,011)	(9,011)

# Fulcrum Infrastructure Services Limited

## Balance sheet as at 31 March 2017

	Notes	31 March 2017 £'000	31 March 2016 £'000
<b>Non-current assets</b>			
Property, plant and equipment	7	47	26
Deferred tax assets	6	819	2,535
		<b>866</b>	<b>2,561</b>
<b>Current assets</b>			
Inventories	8	1,388	1,403
Trade and other receivables	9	13,009	6,059
Cash and cash equivalents	10	3,731	1,944
		<b>18,128</b>	<b>9,406</b>
<b>Total assets</b>		<b>18,994</b>	<b>11,967</b>
<b>Current liabilities</b>			
Trade and other payables	11	(28,005)	(33,229)
		<b>(28,005)</b>	<b>(33,229)</b>
<b>Total liabilities</b>		<b>(28,005)</b>	<b>(33,229)</b>
<b>Net liabilities</b>		<b>(9,011)</b>	<b>(21,262)</b>
<b>Equity</b>			
Share capital	13	1,000	-
Retained earnings		(10,011)	(21,262)
<b>Total equity</b>		<b>(9,011)</b>	<b>(21,262)</b>

The financial statements were approved by the Board of Directors on 24 October 2017 and were signed on its behalf by:



M Harrison  
Chief Executive Officer  
10 November 2017

Company registered number: 06006363

# Fulcrum Infrastructure Services Limited

## Notes to the financial statements

### 1. Accounting policies

Fulcrum Infrastructure Services Limited (the "Company") is a company incorporated and domiciled in the UK.

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101"). The amendments to FRS 101 (2014/15 Cycle) issued in July 2015 and effective immediately have been applied.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

The Company's ultimate parent undertaking, Fulcrum Utility Services Limited includes the Company in its consolidated financial statements. The consolidated financial statements of Fulcrum Utility Services Limited are prepared in accordance with International Financial Reporting Standards and are available to the public and may be obtained from 2 Europa View, Sheffield Business Park, Sheffield, S9 1XH.

In these financial statements, the company has applied the exemptions available under FRS 101 in respect of the following disclosures

- a Cash Flow Statement and related notes;
- Comparative period reconciliations for share capital, tangible fixed assets and intangible assets;
- Disclosures in respect of transactions with wholly owned subsidiaries
- Disclosures in respect of capital management;
- The effects of new but not yet effective IFRSs;
- An additional balance sheet for the beginning of the earliest comparative period following the retrospective change in accounting policy;
- Disclosures in respect of the compensation of key management personnel; and
- Disclosures of transactions with a management entity that provides key management personnel services to the company.

The Company proposes to continue to adopt the reduced disclosure framework of FRS 101 in its next financial statements.

The principal accounting policies set out below, unless otherwise stated, have been applied consistently to all periods presented in these financial statements.

### Measurement convention

The financial statements have been prepared on the historical cost basis.

### Going concern

The Company's business activities, together with the factors likely to affect future development, performance and position, are set out in the Strategic Report on pages 1 to 7. The financial position of the Company and liquidity position are also described in the Strategic Report on pages 1 to 7. In addition, note 14 to the financial statements includes the Company's processes for managing its capital and its exposure to credit and liquidity risks.

As at 31 March 2017 the Company had net liabilities of £9.0 million (2016: net liabilities of £21.3 million), including cash of £3.7 million (2016: £1.9 million) as set out in the balance sheet on page 13, and is meeting its obligations as they arise. In the year ended 31 March 2017, the Company generated a profit of £4.2 million and had net cash inflows of £1.8m.

The Company's forecasts and projections, after taking account of sensitivity analysis of changes in trading performance and corresponding mitigating actions, show that the Company has adequate cash resources for the foreseeable future. As a consequence, the Directors have a reasonable expectation that the Company has adequate resources to fund its operations for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

### Accounting estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results could differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis.

# Fulcrum Infrastructure Services Limited

## 1. Accounting policies (continued)

Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation uncertainty in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is included for revenue recognition. For longer projects the stage of completion of the works is assessed when considering recognition of revenue. Use of this percentage completion method requires the Company to estimate the services performed to date as a proportion of the total services to be performed.

### Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Leases in which the Company assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Where land and buildings are held under leases the accounting treatment of the land is considered separately from that of the buildings. Leased assets acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and less accumulated impairment losses. Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Depreciation is recognised on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term. The estimated useful lives are as follows:

Fixtures and fittings	2 and 5 years
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Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

### Impairment

#### Financial assets (including receivables)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

#### Non-financial assets

The carrying amounts of the Company's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets ("the cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units, or CGU. Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce

# Fulcrum Infrastructure Services Limited

## 1. Accounting policies (continued)

the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (or group of units) on a pro-rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

### **Inventories**

Work in progress is valued at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less applicable costs to complete and variable selling expenses.

### **Employee benefits**

#### ***Pension plans***

The Company operates a defined contribution pension plan for the benefit of its employees under which the Company pays a fixed contribution into a separate entity and will have no legal or constructive obligation to pay further amounts. Contributions are recognised in the income statement as they become payable in accordance with the rules of the scheme.

#### ***Short-term benefits***

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

### **Provisions**

A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation.

### **Revenue**

Utility infrastructure and gas connection activities are recognised as "services revenue". The majority of projects are completed in a short timeframe and, as such, revenue is recognised on project completion. For longer projects, where the outcome of a contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the reporting date. This is normally measured by the proportion that contracts costs incurred for work performed to date bear to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are recognised only to the extent that the amount can be measured reliably and its receipt is considered probable. Where the outcome of a contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred where it is probable they will be recoverable. When it is probable that total contract costs will exceed total contract revenue, the total expected loss is recognised as an expense immediately. Services revenue is recognised excluding VAT and other indirect taxes. An accrual is made for services revenue in respect of work completed where invoices are yet to be generated. When payment is received in advance of the provision of services, these receipts are recorded as deferred income.

Revenue recognised following the adoption of pipeline assets (included within revenue) is recognised at the point the asset is adopted by the Group. The value at which the revenue is recognised is the fair value of the asset held with the corresponding entry to tangible fixed assets within a fellow Group undertaking.

### **Exceptional items**

Exceptional items are those that in management's judgement need to be disclosed separately by virtue of their size or incidence in order to provide greater visibility of the underlying results of the business and which management believes provide additional meaningful information in relation to ongoing operational performance.

### **Taxation**

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

# Fulcrum Infrastructure Services Limited

## 1. Accounting policies (continued)

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

### Classification of financial instruments issued by the Company

Following the adoption of IAS 32, financial instruments issued by the Company are treated as equity only to the extent that they meet the following two conditions:

- they include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company; and
- where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called-up share capital and share premium account exclude amounts in relation to those shares.

### Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

#### Trade and other receivables

Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

#### Trade and other payables

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

#### Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

### Changes in accounting policy and disclosures

New standards, amendments and interpretations that are in issue but not yet effective

The following adopted IFRSs have been issued but have not been applied by the Group in these financial statements. Their adoption is not expected to have a material effect on the financial statements unless otherwise indicated.

- IFRS 9: Financial Instruments (effective date 1 January 2018)
- IFRS 15: Revenue from Contracts with Customers (effective date 1 January 2018)
- IFRS 16: Leases (effective date 1 January 2019)

The adoption of IFRS 15 may have an impact on the financial statements when introduced; however, a detailed analysis of the effect is not yet possible. The adoption of other standards is not expected to have a material effect on the financial statements.

## Fulcrum Infrastructure Services Limited

### 2. Revenue

The Company's activities consist solely of the provision of utility infrastructure and unregulated connections services. All activities occur in the United Kingdom.

### 3. Operating profit

Included in operating profit are the following charges:

	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
Depreciation of property, plant and equipment: owned	30	21
Fulcrum Group Holdings services recharge	2,614	2,828
<i>Amounts receivable by the auditors, KPMG LLP, and their associates in respect of:</i>		
Auditor's remuneration:		12
<i>Amounts receivable by auditors and their associates in respect of:</i>		
– Taxation compliance services		4

The audit fee is met by another Group company.

Shared services costs are allocated and recharged to each subsidiary owned by Fulcrum Utility Services Limited on the basis of the costs incurred by Fulcrum Group Holdings Limited. These costs include legal and professional fees, insurance, and other executive costs. These costs are then allocated across the subsidiaries based on an appropriate allocation basis.

### 4. Staff numbers and costs

	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
Wages and salaries	8,088	7,426
Social security costs	727	664
Other pension costs	220	232
	9,035	8,322

Employees have employment contracts with the Company's associate, Fulcrum Group Holdings Limited. The above costs are those re-charged from Fulcrum Group Holdings Limited and the average monthly number of persons employed by the Company during the financial year was therefore nil (2016: nil).

### 5. Directors' emoluments

Both directors of the Company were remunerated through Fulcrum Group Holdings Limited and their emoluments are disclosed in the financial statements of that Company. The amount of their emoluments recharged to Fulcrum Infrastructure Services Limited was as follows:

	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
Total emoluments recharged	492	420

Included in the total emoluments above is the aggregate value of company contributions made to the pension scheme of 2 (2016: 2) directors in respect of directors' qualifying services. These costs are included in the shares services recharge.

## Fulcrum Infrastructure Services Limited

Highest paid director:

	2017	2016
Emoluments	317	271
Contributions to a defined contribution scheme	14	14
	331	285

Shared services costs are allocated and recharged to each subsidiary owned by Fulcrum Utility Services Limited on the basis of the costs incurred by Fulcrum Group Holdings Limited. These costs include legal and professional fees, insurance and other executive costs. These costs are then allocated across the subsidiaries based on an appropriate allocation basis.

### 6: Taxation

	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
Current tax	-	-
Deferred tax	(1,716)	(321)
Total tax charge	(1,716)	(321)

Deferred tax has been recognised in respect of tax losses carried forward that are expected to be utilised against future taxable profits. Reductions in the UK corporation tax rate from 23% to 21% (effective from 1 April 2015) and 20% (effective from 1 April 2016) were substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015. An additional reduction to 17% (effective from 1 April 2020) was announced in the Budget on 16 March 2016.

The deferred tax assets at balance sheet date has been calculated based on these rates.

#### Reconciliation of effective tax rate

	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
Profit before taxation	5,867	4,114
Tax using the UK corporation tax rate of 19% (2016: 20%)	(1,115)	(823)
Non-deductible expenses	-	1
Effect of change in rate of corporation tax	61	118
Capital allowances in excess of depreciation	(3)	-
Recognition of tax effect of previously unrecognised tax losses	(659)	385
Total tax charge	(1,716)	(321)

#### Movement in deferred tax balances

	31 March 2017 £'000	31 March 2016 £'000
Deferred tax assets		
At 1 April 2016	2,535	2,252
Recognised in profit or loss		
Tax losses carried forward	(1,777)	400
Effect of change in rate of corporation tax	61	(118)
At 31 March 2017	819	2,535

## Fulcrum Infrastructure Services Limited

### 7. Property, plant and equipment

	Fixtures and fittings £'000
<b>Cost</b>	
At 1 April 2015	
Additions	47
<b>At 31 March 2016</b>	<b>47</b>
Additions	51
<b>At 31 March 2017</b>	<b>98</b>
<b>Accumulated depreciation</b>	
At 1 April 2015	
Depreciation charge for the period	(21)
<b>At 31 March 2016</b>	<b>(21)</b>
Depreciation charge for the period	(30)
<b>At 31 March 2017</b>	<b>(51)</b>
<b>Net book value</b>	
<b>At 31 March 2017</b>	<b>47</b>
At 31 March 2016	26
At 1 April 2015	

### 8. Inventories

	31 March 2017 £'000	31 March 2016 £'000
Work in progress	1,388	1,403

Work in progress balances reflect direct works costs including direct labour and other attributable variable costs relating to jobs classed as incomplete. Inventories recognised as cost of sales in the period amounted to £16.7 million (2016: £17.0 million). There have been no write-downs in the year (2016: nil).

### 9. Trade and other receivables

	31 March 2017 £'000	31 March 2016 £'000
Trade receivables	4,127	3,642
Amounts owed by Group undertakings	6,534	-
Other receivables	-	1
Prepayments and accrued income	2,348	2,416
	<b>13,009</b>	<b>6,059</b>

Trade and other receivables are non-interest bearing. The credit risk associated with this receivable is managed through the Group's standard credit processes. The Directors consider that the carrying amount of trade receivables approximates to their fair value. No interest is receivable on amounts due from Group undertakings.

## Fulcrum Infrastructure Services Limited

### Ageing trade receivables

	31 March 2017		31 March 2016	
	Gross £'000	Impairment £'000	Gross £'000	Impairment £'000
Not past due	1,881	-	2,828	-
Past due less than one month	1,538	-	314	-
Past due one to two months	289	-	167	-
More than two months past due	525	(106)	439	(106)
	<b>4,233</b>	<b>(106)</b>	<b>3,748</b>	<b>(106)</b>

The carrying value of trade and other receivables are stated after the following allowance for doubtful debts:

	31 March 2017 £'000	31 March 2016 £'000
At 1 April 2016	106	163
Impairment loss charged	-	(26)
Impairment loss reversed	-	(31)
<b>At 31 March 2017</b>	<b>106</b>	<b>106</b>

### 10. Cash and cash equivalents

	31 March 2017 £'000	31 March 2016 £'000
Cash at bank and on hand	3,731	1,944

### 11. Trade and other payables

	31 March 2017 £'000	31 March 2016 £'000
Trade payables	2,578	1,895
Amounts owed to Group undertakings	-	8,098
Accruals and deferred income	21,627	20,096
Other payables	3,800	3,140
	<b>28,005</b>	<b>33,229</b>

Of the £21.6 million accruals and deferred income, £14.5 million (2016: £13.7 million) relates to deferred income. Deferred income represents contracted sales for which services to customers will be provided in future periods. No interest is borne on amounts payable to Group undertakings.

### 12. Pension benefits

The Group operates a defined contribution pension plan; the total expense relating to this plan in the current year was £220,000 (2016: £232,000).

## Fulcrum Infrastructure Services Limited

### 13. Share capital

	31 March 2017 £'000	31 March 2016 £'000
<b>Allotted, issued and fully paid</b>		
1,000,001 ordinary shares of £1 each (2016: 1 ordinary share of £1)	1,000	-

During the year the Company issued 8.1m shares of £1 each at par. A capital reduction was also undertaken during the year for the amount of £7.1 million.

### 14. Financial risk management

The Company's principal financial instruments are cash, trade receivables and payables. The Company does not have any financial instruments that are measured at fair value on a recurring basis. The fair values of all financial instruments are equal to their book values (see notes 9, 10 and 11) and there is no difference between the carrying amount and contracted cash flows. All contracted cash flows are due within one year.

#### Credit risk

Credit risk arises from cash and cash equivalents and credit exposure to the Company's customers. Over half of the Company's customers pay in advance of works commencing, with the remaining profile consisting of established listed businesses. The credit worthiness of new customers is assessed by taking into account their financial position, past experience and other factors. It is considered that the failure of any single counterparty would not materially impact the financial wellbeing of the Company, other than one customer, for which the risk of failure is considered to be minimal based on current market conditions and performance.

The Company has a policy of ensuring cash on deposits are made with the primary objective of security of the principal. Deposits are held with Lloyds Bank plc, which is rated A+ by Fitch and A by Standards and Poor.

These credit ratings are regularly monitored to ensure that they meet the required minimum criteria set by the Board through the treasury policy.

#### Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Board is responsible for ensuring that the Company has sufficient liquidity to meet its financial liabilities as they fall due without incurring unacceptable losses or risking damage to the Company and does so by monitoring cash flow forecasts and budgets. The Company's exposure to liquidity risk reflects its ability to readily access the funds to support its operations. The Group's policy is to maintain an undrawn revolving credit facility in order to provide the flexibility required in the management of the Company's liquidity. The Company's liquidity requirements are continually reviewed and additional facilities put in place as appropriate.

Liquidity forecasts are produced on a regular basis and include the expected cash flows that will occur on a weekly, monthly and quarterly basis. This information is used in conjunction with the weekly reporting of actual cash balances at bank in order to calculate the level of funding that will be required in the short and medium-term. The Group holds a combination of short and medium-term deposits and a £4.0 million revolving credit facility committed to November 2018. These committed facilities are deemed to be sufficient to meet projected liquidity requirements.

#### Capital risk

The Company defines capital as total equity. The Company's objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain a capital structure which optimises the cost of capital. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares. Decisions regarding the balance of equity and borrowings, dividend policy and all major borrowing facilities are reserved for the Board.

### 15. Operating leases

At 31 March 2017 the Company had no commitments in respect of operating leases (2016: £nil). All external leases are held by Fulcrum Group Holdings Limited and recharges are made under the shared services recharge arrangements (note 3).

## **Fulcrum Infrastructure Services Limited**

### **16. Immediate parent and ultimate parent undertaking and controlling party**

The immediate parent company is Fulcrum Utility Investments Limited, which is registered in the Cayman Islands.

The ultimate parent and controlling company is Fulcrum Utility Services Limited. The largest and smallest Group of companies which include the company and for which consolidated financial statements were prepared are headed by Fulcrum Utility Services Limited. The consolidated financial statements of Fulcrum Utility Services Limited are available on its website at [www.fulcrumutilityserviceslimited.co.uk](http://www.fulcrumutilityserviceslimited.co.uk).