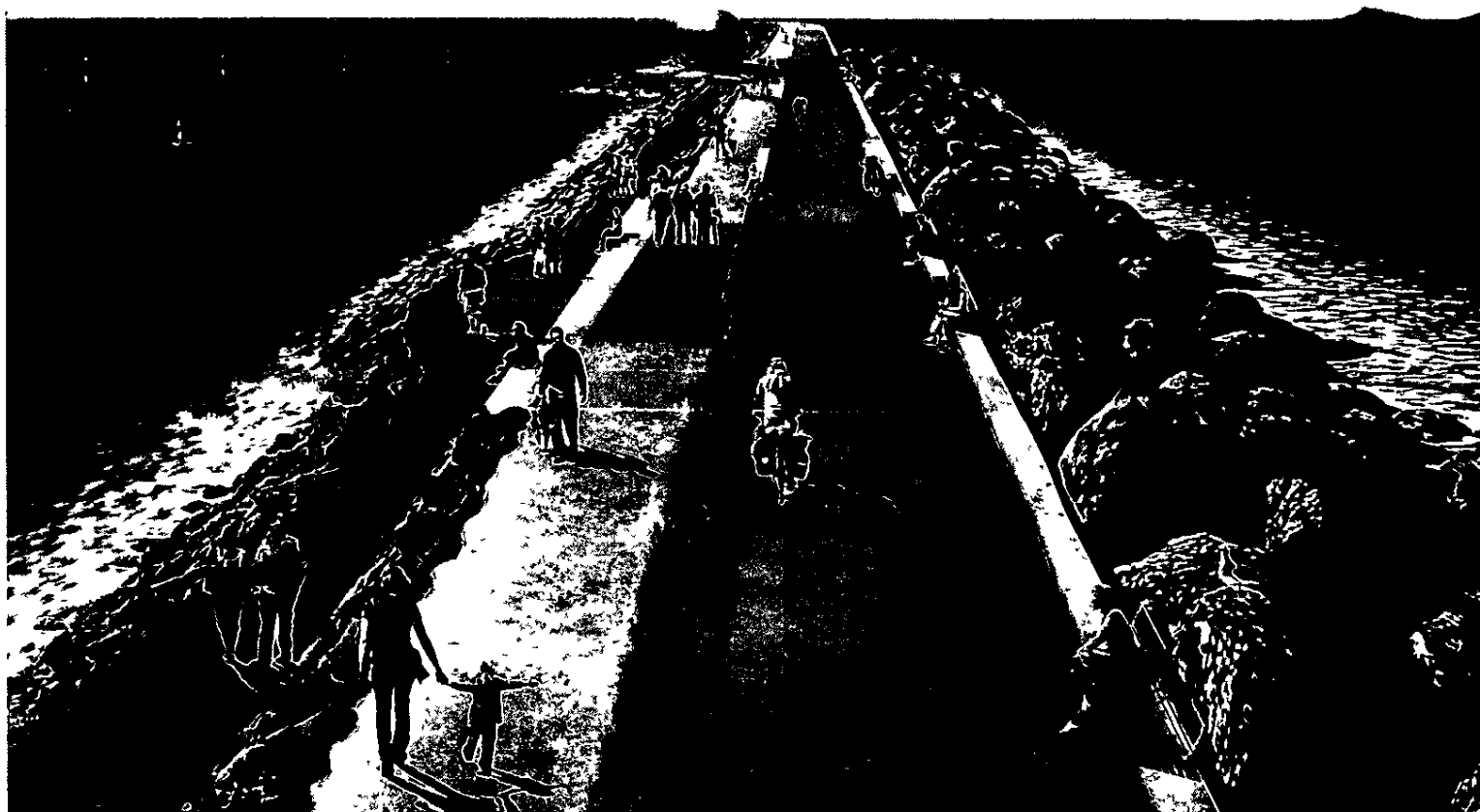


TIDAL LAGOON  
SWANSEA BAY



Tidal Lagoon (Swansea Bay) Plc

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE PERIOD FROM 12 JULY 2012 TO 31 DECEMBER 2013

MONDAY



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COMPANIES HOUSE

[www.tidallagoonswanseabay.com](http://www.tidallagoonswanseabay.com)

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## Company Information

### *Directors*

M C Shorrock

P J Carter

D H Slater

H Brockmueller

### *Company secretary*

P J Carter

### *Registered Number*

08141301 (England and Wales)

### *Registered office*

The Lypiatts

Lansdown Road

Cheltenham

Gloucestershire

GL50 2JA

### *Registrars*

SLC Registrars

Thames House

Portsmouth Road

Esher

KT10 9AD

### *Accountants & Statutory Auditors*

Davies Mayers Barnett LLP

Pillar House

113/115 Bath Road

Cheltenham

Gloucestershire

GL53 7LS

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## Company Information

### Introduction to Tidal Lagoons

The UK, as an island nation, is blessed with the second highest tidal range in the world making tidal power a natural energy choice. The UK is at an energy crossroads as it balances a requirement to renew its dated power generation infrastructure and meet carbon emission obligations. The high profile energy conversation, currently at the fore of UK politics, presents a perfect opportunity for tidal lagoons, spearheaded by this project, to become part of the strategic UK energy mix. This is therefore a tremendously exciting time for the Company as we herald a way to produce home grown, low carbon electricity from an infrastructure asset designed to have a 120 year lifespan.

The UK has one of the largest tidal ranges in the world with most of that range adjacent to major cities Liverpool, Bristol, Cardiff and Swansea and the Directors believe that tidal power should therefore form a significant part of the future UK energy mix.

Conceptually, a tidal lagoon is a man-made impoundment of water created from a sand core breakwater incorporating a section of concrete turbine housings containing a series of hydro turbines, similar to those found on large scale run-of-river hydro plants the world over, delivering predictable ebb and flood power generation and whose reliability has been demonstrated from their operational track record spanning more than 50 years.

### How do tidal lagoons work?

The Lagoon, once built, will harness the everyday rise and fall of the tides and will utilise controlled differences between water levels inside the lagoon basin and the open sea, known as the 'head', to generate electricity by using hydro turbine technology as shown by the diagram (right).

The flood tide rises around an empty lagoon. When the sluice gates are opened the resulting inward flow of water drives turbines to generate electricity. When the lagoon is full, the gates are shut. The tide ebbs but leaving the lagoon full. Gates are reopened and water leaves the lagoon, turning the turbines again to generate power.

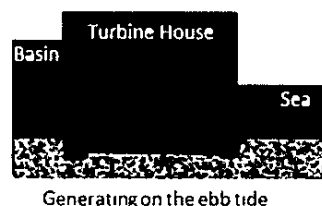
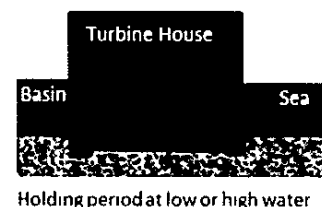
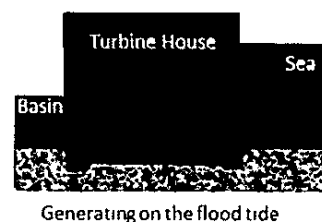
### A timely opportunity

The UK imports a significant proportion of its energy needs in diverse forms. The UK has a political imperative to assure security of supply. Concurrent to that, it has a legally binding commitment to deliver 15% of its electricity from renewables by 2020. It currently achieves just 11% from renewable sources.

UK peak winter electricity load is approximately 57,000 MW of power.

Approximately 20,000 MW of capacity is due to be lost over the next 10 years as power stations are set to be decommissioned due to a tightening of EU carbon emissions legislation and ageing power plant assets. The capital requirement to replace these ageing power stations and upgrade the UK's electricity infrastructure is estimated at in excess of £100bn.

The Directors believe that tidal lagoons have the potential to be a cost effective, predictable and fully renewable source of electricity utilising this tidal range energy in UK waters. Tidal lagoons offer a renewable power source at significant scale over relatively short timeframes.

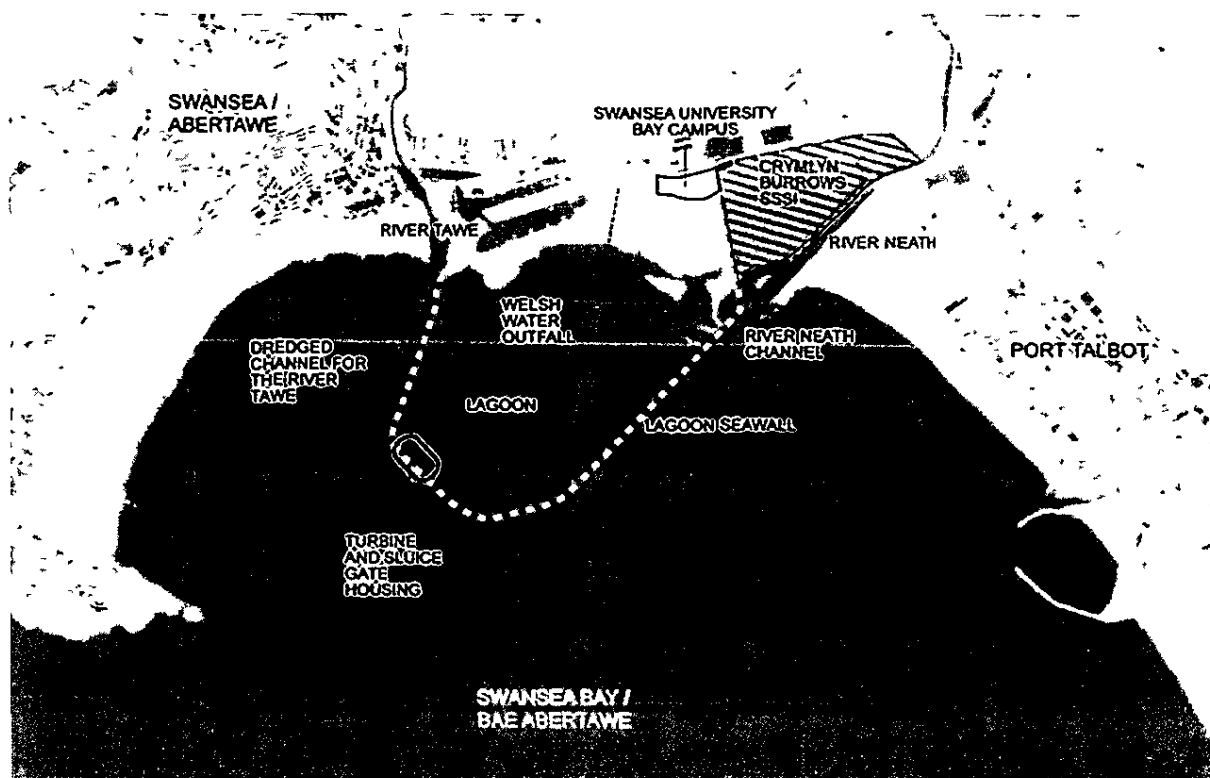


## Company Information

### Review of Swansea Bay Tidal Lagoon

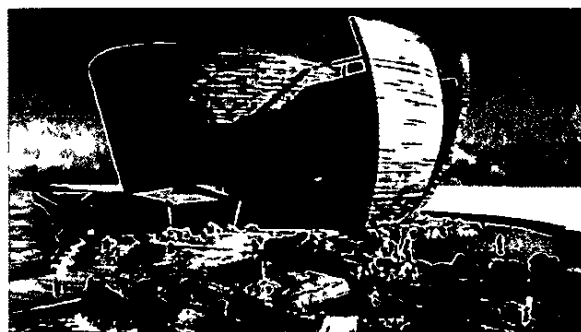
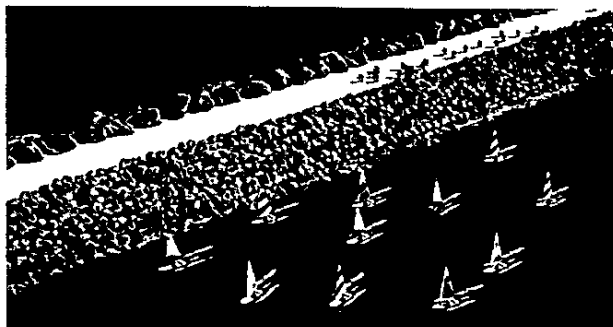
Tidal Lagoon (Swansea Bay) Plc ("TLSB") was established in 2012 as a special purpose vehicle company to develop, finance, build and operate a first-of-kind tidal range powered energy plant (the "Project" or "Lagoon") comprising a 9.5km land-attached breakwater structure within Swansea Bay, at the western end of the Severn Estuary, within which a section of hydro turbines will be installed, specifically designed to generate electricity from the 8.5m tidal range.

The Severn Estuary has the second highest tidal range in the world and Swansea Bay spring tides reach up to 12m, allowing for significant tidal head and thus power potential. Tidal range presents a long term 120 year opportunity far exceeding the typical design life for a wind farm, gas fired power station, or even a nuclear power plant.



The Lagoon will impound an estimated 11.5 km<sup>2</sup> of water by means of the construction of a breakwater structure within Swansea Bay in the western end of the Severn Estuary. To generate power, hydro turbines will be installed in a single section of the outer reaches of the breakwater wall through which estuarine water can flow four times daily. Once operational, the Lagoon is expected to be capable of delivering over 495GWh of the UK's base-load energy needs per annum in a predictable fashion sufficient electricity to power over 155,000 homes, more than the entire of Swansea's domestic electricity use requirement. It will also have the potential to hold back the tides allowing some control over when energy is generated to maximise revenues. The resulting development is understood to be the first man-made tidal lagoon and the largest tidal energy plant in the world. The Project is also expected to result in the construction of a visitor centre, sporting facilities, mariculture farm and other amenities for the benefit of the local community.

## Company Information



Due to the expected scale of power generation, the Project is deemed a Nationally Significant Infrastructure Project and, as such, an application must be made for a Development Consent Order ("DCO") to the Planning Inspectorate ("PINS") for determination by the Secretary of State for Energy (under the Planning Act 2008)

This first-of-kind, high profile, renewable energy project may also contribute towards local regeneration objectives in South Wales, create a renewable energy education and visitor resource, an impactful art and cultural icon and a national water sports venue suitable for sailing, triathlon, canoeing and rowing events. It will produce sustainable and predictable electricity during its expected useful economic life of 120 years.

The Lagoon, when operational, is expected to benefit from a fixed term renewable energy incentive under a government backed Contract for Difference which will underwrite the price receivable for electricity generated, after which it will revert to the market price.

### **Wider benefit to Swansea, Wales & UK**

We aim to create a power plant that means something positive to everyone in Swansea Bay. Swansea Bay Tidal Lagoon is an opportunity for Wales to lead the UK's tidal energy industry, while enjoying wider benefits that are diverse and often unique for energy infrastructure. In addition to clean power, the Project is expected to create jobs, support onshore regeneration, promote tourism, and even foster art, sport and healthy living.

We see the core benefits of the Lagoon to be as follows:

#### *Landmark development*

A first-of-kind landmark development that can prove the cost and efficiencies of the tidal lagoon concept with low head, bi-directional power generation which may attract industry as well as recreational tourism.

#### *Supply Chain*

It is the Directors' belief that many lagoon components can be manufactured or assembled locally, including turbine components, turbine housings, sluice gates, flood doors, rails, electrical controls, hydraulics, precast concrete components, the visitor centre and ancillary buildings. A local Tidal Lagoon Industry Group has been set up to champion a Welsh led UK supply chain.

#### *Economic benefits*

The Welsh Economy Research Unit at Cardiff University published a report on the economic potential of the Project in November 2013<sup>1</sup>. They estimated that £300m of the capital investment would be spent in Wales which, during the three year construction period, would lead to potential additional

<sup>1</sup> *Turning Tide: the economic significance of the Tidal Lagoon Swansea Bay*, Prof Max Munday, Prof C Jones, Welsh Economy Research Unit, Cardiff University, November 2013

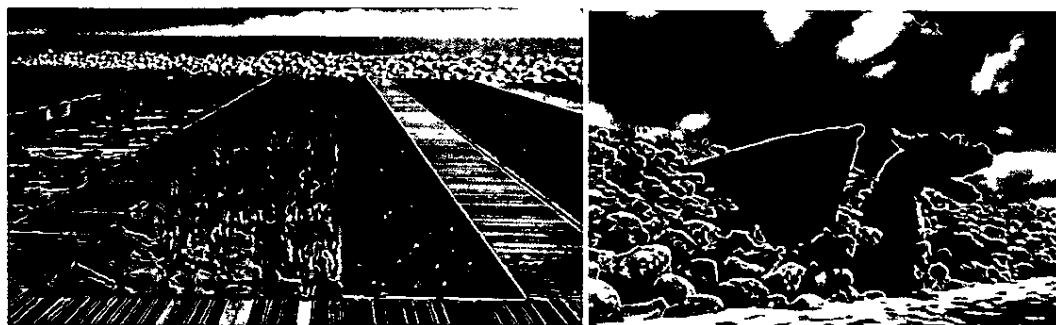
## Company Information

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economic output of £454m in Wales, £173m of GVA and create around 1,850 full time equivalent local jobs across a range of skill levels

Post construction the report estimates that 60 long term operational jobs would be created giving rise to £2.2m per annum of GVA

Similar tidal range projects in France and Canada attract 30,000-100,000 visitors per annum. A facility attracting 70,000-100,000 visitors in Swansea could drive between £1.5m to £2.1m GVA per annum to South Wales and could create 65-90 tourism related jobs linked to visitor spending

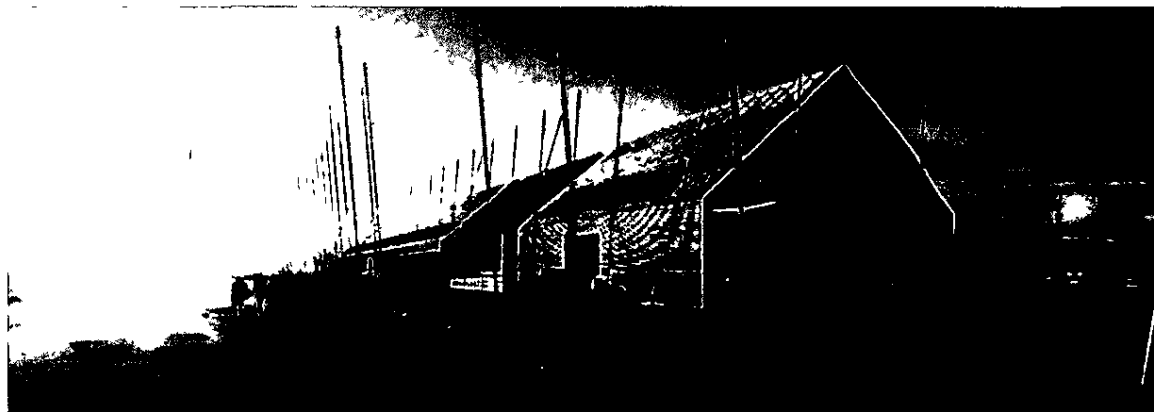


### *Regeneration and Coastal Access*

Swansea, Neath Port Talbot and Carmarthenshire local authorities together aim to achieve City Region status and drive economic growth for Swansea Bay. The tidal lagoon supports these ambitions, both as a focus for marine energy and as a unique destination. It may also help to stimulate a vibrant waterfront economy, linking SA1 to Swansea University's new Bay Campus.

### *Local Amenity*

The Lagoon has the potential to be so much more than a large renewable energy plant. It could become an outstanding and leading tourist attraction and recreational amenity and we hope to facilitate this by providing the opportunity to create leading sporting, leisure and mariculture facilities.



### Further Information

Information regarding Tidal Lagoon (Swansea Bay) Plc can be found on our website at [www.tidallagoonswanseabay.com](http://www.tidallagoonswanseabay.com). This includes a video providing an overview of the Project ([www.tidallagoonswanseabay.com/film.aspx](http://www.tidallagoonswanseabay.com/film.aspx)) and all documents submitted in support of our Development Consent Order application ([www.tidallagoonswanseabay.com/planning-application-docs.aspx](http://www.tidallagoonswanseabay.com/planning-application-docs.aspx)) including an Environmental Statement detailing the findings of our Environmental Impact Assessment.

## Strategic Report

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### Business Review

We have made significant progress towards our goal of constructing the first-of-a-kind tidal lagoon power plant over the last eighteen months.

A strong group of specialist consulting firms and advisers has been assembled to deliver the research, development, innovation and cost optimisation of the Project's key features – impoundment wall, gates, turbine housings and hydro turbines – to work within a tidal lagoon context. We have progressed construction methodology, designs and specifications for turbines and turbine housings to optimise energy output whilst balancing this against programme, construction costs and investor returns to ensure that in the Directors' opinion the Project is ultimately commercially viable.

As part of the planning process that has been progressed in parallel, a full Environmental Impact Assessment ("EIA") has been undertaken. We undertook formal consultation, held in accordance with s42 (statutory consultees) and s47 (general public) of the Planning Act 2008, during July and August 2013. Over 1,100 people visited the public consultation events and over 2,400 people completed the consultation questionnaire, with 85.8% indicating they are in support of the Lagoon.

On 7<sup>th</sup> February 2014, we submitted our eight volume, 5,000 page application for a DCO to PINS. This includes a very comprehensive 4,000 page Environmental Statement summarising the EIA. The application was accepted for examination by PINS on 6<sup>th</sup> March 2014.

The Company made an operating loss for the period of £6,675,000. This is in line with the Directors' expectation of the expenditure required in this development stage of the project. This has been funded by a series of public offers. The Company does not expect to generate revenues until 'power on' targeted for autumn 2018 following a 3 year construction programme which we anticipate commencing in spring 2015.

Listed below are the key achievements the Directors believe the Company has made to the end of March 2014 which cover technological research and development, engagement with the public and government as well as planning.

#### *Turbines*

- Low head bi-directional bulb turbines with modelled peak efficiencies of over 90% on the ebb tide and 80% on the flood
- Material increase in modelled power output over the period
- Competitive tender process initiated with three major European turbine suppliers
- Innovative turbine assembly methodology developed to significantly reduce programme length
- Detailed 0D, 2D and 3D (around turbine housings) hydrodynamic flow modelling to refine turbine area layout and inform energy output and energy losses
- Network connection with National Grid secured

#### *Breakwater*

- Design freeze achieved based on 21 borehole and vibrocore data set and water quality modelling
- Physical model tests of breakwater design successfully completed with the bund proved to be resilient to 1 in 100 year storm conditions

#### *Funding*

- HM Treasury Infrastructure Guarantee Scheme have begun pre-qualification process
- Letter of support to provide cornerstone equity for the construction of the Lagoon in place

## Strategic Report

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- Preliminary meetings held with major banks and infrastructure lenders Strong senior debt interest

### *Public Affairs*

- Over 950 individuals registered to be part of Active Supporter Groups
- Over 350 stakeholder meetings held
- Comprehensive engagement with Welsh government and local authorities
- Increasing support from a wide group of Westminster MPs

### *Government policy*

- Positive detailed exploratory talks with DECC and other government departments
- UK government granted the ability for the Company to negotiate its own bespoke CfD subsidy price and duration
- The Crown Estate now recognising the opportunity of tidal lagoons with official leasing process launched

### *UK Supply Chain*

- Means identified to target a 65% UK supply chain content for construction spend
- Local industry steering group assembled to build local supply chain

### *Planning*

- Local community programmes have been successfully established working with education, sport and cultural stakeholders with keen interest in the development of the Project
- Preliminary Environmental Information Report issued ahead of formal public consultation
- 19 formal planning public consultations completed and 196,000 questionnaires sent to local homeowners
- Extremely strong local support achieved (85.8% in favour) with backing from NGOs
- Environmental Impact Assessment completed and Environmental Statement finalised
- Feedback from Statutory consultees and others, including RSPB and Natural Resources Wales, received and our response reflected in the Environmental Statement
- The eight volume, c. 5,000 page, application for development consent submitted on 7<sup>th</sup> February 2014 and accepted for examination by PINS on 6th March 2014
- Designs for the public realm masterplan and amenity buildings, produced by leading architects and design consultants, an integral part of the development consent application

### *Key Performance Indicators*

The Company is managed around a series of goals that need to be achieved in order for the Project to be successful and the business is financially managed against a budget drawn up against these objectives Broadly the key goals are

- Robust engineering design
- Development consent (i.e. planning)
- Agreement of land arrangements
- Agreed price contracts with core delivery consortium
- Political acceptance of tidal lagoons as a strategic part of the UK energy mix including agreement of Government backed Contract for Difference
- Construction finance



## Strategic Report

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### ***Principal Risks and Uncertainties***

The Directors consider that the principal risks and uncertainties facing the Company are as follows

#### ***Development Consent***

Achievement of development consent is anticipated to be a fourteen month process from submission of the DCO application, which took place on 7<sup>th</sup> February 2014. Any delays in achieving development consent, including judicial review challenges, may lead to the Company incurring additional costs and delays to the construction programme.

#### ***Land Agreements***

For the Project to proceed the Company will need to secure long term land options and lease agreements with the relevant land owners including The Crown Estate.

#### ***Acceptable Procurement strategy***

Should the Company be successful in gaining development consent it will remain dependent on agreement of a contracting procurement strategy acceptable to the core construction funding consortium, signing an EPC contract with Costain Plc, Van Oord or another marine contractor at an agreed pricing and that contractor taking over Atkins' Front End Engineering Design contract.

#### ***Construction Programme risk***

The Company has a detailed works programme underlying the targeted power-on date, which the Company believes is achievable assuming the Company obtains its DCO as anticipated and other key assumptions are also met. These include procurement, mobilisation, early engagement funding, marine consents, weather and temporary works. Changes in any of these assumptions may have an impact on the programme.

#### ***Contract for Difference***

To achieve its objectives, the Company has to negotiate a Contract for Difference with DECC at the assumed base price index linked for 35 years as part of a wider negotiation on the appropriate strike price for a programme of lagoons on terms acceptable to funders. It is anticipated that whilst the strike price for the Swansea lagoon will be relatively high given its pilot nature, subsequent lagoons may only need a strike price similar to or less than that being given to offshore wind.

#### ***Financial Risk – Short Term***

The Company meets its day-to-day working capital requirements through cash raised as part of its ongoing fund raising activities and a loan facility provided on commercial terms from Shire Oak Energy Limited, a Company controlled by Mark Shorrock, the principal shareholder.

The Directors have prepared projected cash flow information for the next twelve months taking account of projected expenditure to meet the proposed project timetable and the Company's fund raising activities. The Directors have taken into consideration actions they could take in response to reasonable cash flow sensitivities arising from adverse timing differences in the raising of funds. On this basis, the Directors believe that the Company will continue to operate within funds available to it.

Whilst the Directors believe the going concern basis is appropriate the inherent uncertainties of the project at this stage and the impact on this assessment are further explained in Note 1.

#### ***Financial Risk – Long Term***

For the Project to proceed beyond the development phase, the Company will need to raise an estimated £850m of construction finance under project finance arrangements. The Company is currently in discussions with a number of potential funders and the Directors are confident that this funding will be achieved.

## Strategic Report

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### *Future Development and Performance*

Whilst we have come a long way to achieving our goals, 2014 will be a critical year to the successful delivery of the Project. Over the period to Spring 2015 we have to ensure the DCO application is successful through the PINS process, secure Government support for the Project in the form of a Contract for Difference which underpins the Project revenues, secure land options with The Crown Estate and other landowners, finalise optimising the design components, negotiate fixed price contracts with the prime contractors and secure construction finance to build the Project.

Assuming that development consent is received and construction finance is raised, construction of the Project is expected to commence on site in April 2015 and Power-On is targeted for autumn 2018. The Directors believe that, whilst challenging, we are well placed to achieve these goals.

Approved by the Board on 28<sup>th</sup> March 2014 and signed on its behalf by



P J Carter  
Director

## Board

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### **Mark Shorrock – CEO**

Mark Shorrock is a successful UK renewable energy innovator who, to date, has been responsible for the consenting of 28 UK based solar and wind sites with a total installed capacity of 280MW. He also sold the largest pre-consent pipeline of UK wind assets in 2006 and pioneered two first-of-kind renewable energy investment vehicles, one specialising in early stage low carbon companies and the other focused on solar power investments.



### **Patrick Carter – CFO**

Patrick is a qualified Chartered Accountant and Barrister. Having trained at Deloitte, he was appointed Group Finance Director of Aukett Fitzroy Robinson Group Plc in 2002, one of the UK's leading international commercial architectural practices. Between 2007 and 2012, he was Finance Director of Charteris Plc, an AIM quoted business consultancy and IT systems integrator.



### **David Slater – Non-Executive**

David was previously Chief Inspector of HMIP, a Director of the Environment Agency, founded the Risk Consultancy Technica (now part of DnV) and now runs the environmental consultancy, Cambrensis, based in Wales. He is involved in bringing to market new ideas, technologies and products with an environmental focus with Inqlab the innovation think tank. As an Honorary Professor in the School of Engineering, Cardiff, he is involved in projects such as Marine renewables, Systems Risk and Cyber security.



### **Horst Brockmueller – Non-Executive**

Horst is Chairman and Managing Partner of Catalyst Equity Partners LLP and provides valuable funding and financing experience to help guide the staged financing of the Lagoon through to completion. He brings a network of European funders.

## Key advisers and strategic partners

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### Core Advisory Group



#### **Simon Wright OBE**

Simon has a wealth of both client and engineering experience of procurement and delivery of large scale infrastructure projects, most recently as Director of Infrastructure and venues at 2012 London Olympic Games



#### **Bernard Ainsworth OBE**

Bernard has over 40 years large programme delivery experience including The Shard, The Millennium Dome, Manchester Commonwealth Games, Project Director for Poland's largest chemical plant and recently Project Director of Metronet



#### **Mike McNicholas**

Mike is Head of Design and Engineering at Atkins Global. He has led the engineering and design of large scale port and oil refinery infrastructure and most recently delivery of technical services to 2012 London Olympic Games



#### **Robert John**

Robert is a senior executive with a proven track record in finance, property and regeneration with strong links both with Westminster and Cardiff. He spent 14 years in the City in senior roles with Citigroup, Natwest and KPMG. Subsequently, as Deputy Chief Executive and later strategic advisor to Canary Wharf Group plc he was instrumental in the redevelopment of Canary Wharf and the London Docklands regeneration. He currently advises Actis, a major Private Equity firm, on property investment in Africa.

### Key Consultants

**ATKINS**

One of the world's leading design, engineering and project management consultancies, providing multidisciplinary technical expertise including marine, structural and geotechnical engineering



Leading international contractor specialising in dredging, marine engineering and offshore projects



Costain is one of the UK's leading engineering solutions providers, delivering integrated consulting, project delivery and operations and maintenance services to major blue-chip customers in targeted market sectors.

**LD&DESIGN**

Leading masterplanning and landscape design consultancy



Leading international lawyers with expertise in delivering development consent for major infrastructure

## **Directors Report**

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The Directors present their annual report for Tidal Lagoon (Swansea Bay) Plc (company number 08141301) together with the financial statements for the period 12<sup>th</sup> July 2012 to 31<sup>st</sup> December 2013

### ***Incorporation***

The Company was incorporated on 12<sup>th</sup> July 2012 and commenced to trade on 1<sup>st</sup> August 2012. The Company converted into a Public Limited Company on 29<sup>th</sup> January 2013.

### ***Dividends***

No dividends will be distributed for the period ended 31<sup>st</sup> December 2013.

### ***Directors of the Company***

The Directors who held office during the period from 12<sup>th</sup> July 2012 to the date of this report are as follows:

M C Shorrock (appointed 12<sup>th</sup> July 2012)

P J Carter (appointed 25<sup>th</sup> January 2013)

D H Slater (appointed 22<sup>nd</sup> November 2012)

H Brockmueller (appointed 22<sup>nd</sup> November 2012)

All the Directors who are eligible offer themselves for election at the forthcoming Annual General Meeting.

### ***Research and Development Activities***

As is apparent from this report, much, if not all, of what the Company is currently undertaking is directed towards research and development.

Research and development, in its widest sense, encompasses the use of scientific or technological knowledge in order to produce new or substantially improved materials, devices, products or services to install new processes and systems prior to the commencement of commercial production or commercial applications, or to improve substantially those already produced or installed.

Whether it be engineering, project design, environmental impact assessment or other related projects, the Directors consider that these activities fall squarely within this definition. What the Company is seeking to achieve is in every way pushing forward the boundaries of science and engineering, and seeking to achieve a major technological advance.

The results of our activities will create intellectual property, rights, permits, contracts and know-how that are required in order to design, build and operate a first in kind power plant. We are confident that our activities will make an appreciable advance in the overall knowledge and capability within this field and we are and will continue to be a leader in the advance of knowledge and capability in the field of renewable energy using tidal technology.

### ***Disclosure in the Strategic Report***

Other matters required to be disclosed in the Report of the Directors in accordance with section 416(4) of the Companies Act 2006 in relation to financial risks and future developments are set out in the Strategic Report on pages 5 to 8 in accordance with section 414C(11) of the Companies Act 2006.

### ***Statement of Directors' Responsibilities***

The Directors are responsible for preparing the Strategic Report, Report of the Directors and the financial statements in accordance with applicable law and regulations.

## Directors Report

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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).

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 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.

### *Statement as to disclosure of information to auditors*

So far as the Directors are aware, there is no relevant audit information (as defined by Section 418 of the Companies Act 2006) of which the Company's auditors are unaware, and each Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Approved by the Board on 28<sup>th</sup> March 2014 and signed on its behalf by



P J Carter  
Director

## **Report of the Independent Auditors**

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We have audited the financial statements of Tidal Lagoon (Swansea Bay) Plc for the period ended 31<sup>st</sup> December 2013 on pages 15 to 23. 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).

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 a Report of the Auditors 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 Auditors**

As explained more fully in the Statement of Directors' Responsibilities set out on pages eleven and twelve, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the Directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report and Financial Statements to identify material inconsistencies with the audited financial statements. 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<sup>st</sup> December 2013 and of its loss for the period 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.

### **Emphasis of matter**

The financial statements have been prepared on a going concern basis, the validity of which is dependent upon the timing of cash flows from the Company's fund raising activities and the availability of alternative funding as referred to in Note 1 of the financial statements. In forming our opinion, which is not qualified in respect of this matter, we have considered the adequacy of the disclosures made in the financial statements. The financial statements do not include any adjustments that would result if the Company was unable to continue as a going concern.

## Report of the Independent Auditors

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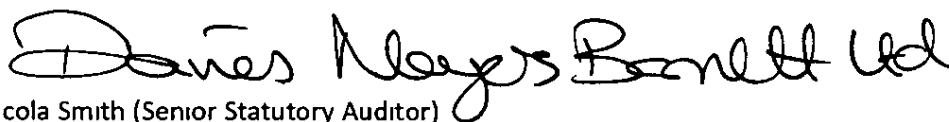
### Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Report of the Directors 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



Nicola Smith (Senior Statutory Auditor)

for and on behalf of Davies Mayers Barnett LLP

Statutory Auditors

Pillar House

113/115 Bath Road

Cheltenham

Gloucestershire

GL53 7LS

Date

28/3/14



**Profit and Loss Account**  
**Period Ended 31 December 2013**

	Notes	£'000
<b>TURNOVER</b>		200
Administrative expenses		(6,877)
		<u>(6,677)</u>
Other operating income		2
<b>OPERATING LOSS</b>	3	<u>(6,675)</u>
Interest receivable and similar income		8
<b>LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		<u>(6,667)</u>
Tax on loss on ordinary activities	4	-
<b>LOSS FOR THE FINANCIAL PERIOD</b>		<u><u>(6,667)</u></u>

**CONTINUING OPERATIONS**

All amounts relate to continuing activities

**TOTAL RECOGNISED GAINS AND LOSSES**

The Company has no recognised gains or losses other than the loss for the current period

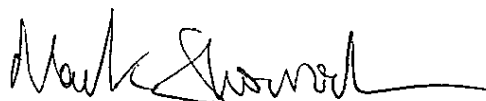
**Balance Sheet**  
**As at 31 December 2013**

	Notes	£'000
<b>CURRENT ASSETS</b>		
Debtors	5	545
Cash at bank		10
		<u>555</u>
<b>CREDITORS</b>		
Amounts falling due within one year	6	(3,380)
<b>NET CURRENT LIABILITIES</b>		<u>(2,825)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>(2,825)</u>
 <b>CAPITAL AND RESERVES</b>		
Called up share capital	7	73
Share premium	8	3,769
Profit and loss account	8	(6,667)
<b>SHAREHOLDERS' FUNDS</b>	13	<u>(2,825)</u>

The financial statements were approved by the Board of Directors on 28<sup>th</sup> March 2014 and were signed on its behalf by



P J Carter  
Director



Mark Shorrocks  
Director

**Cash Flow Statement**  
**Period Ended 31 December 2013**

	Notes	£'000
Net cash outflow from operating activities	15	(3,840)
Returns on investments and servicing of finance		
Interest received		8
		(3,832)
Financing		
Share issue		3,842
Increase in cash in the period		10
Cash and cash equivalents at start of period		-
Cash and cash equivalents at end of period		10

**Reconciliation of net cash flow to movement in net funds**

Increase in cash in the period		10
Change in net debt resulting from cash flows		10
Movement in net debt in the period		10
Net funds at 12 <sup>th</sup> July		-
Net funds at 31 <sup>st</sup> December	14	10

**1. Accounting Policies**

The principal accounting policies applied in the preparation of these financial statements are set out below

*Basis of preparation*

The financial statements are presented in Pounds Sterling, rounded to the nearest hundred thousand pounds. They are prepared on a going concern basis under the historical cost convention and are in accordance with applicable accounting standards.

The Company's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Strategic Report on pages 5 and 6. The principal risks and uncertainties section on page 7 provides further details of the principal risks affecting the Company.

The Directors have prepared projected cash flow information for the next 12 months from the date of approval of the financial statements. These take account of projected expenditure to meet the proposed project timetable, the Company's fundraising activities and actions the Board may take in response to reasonable cash flow sensitivities that arise from adverse timing differences in the raising of funds.

Whilst the Directors fully believe the going concern basis is appropriate, the nature of the Company's activities during the development phase is that there is inherent uncertainty over the timing of cash flows arising from the Company's fund raising activities and the availability of alternative finance should this be required. However, after making enquiries and considering these uncertainties, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

If the Company were unable to continue to trade, adjustments would have to be made to reduce the value of the assets to their recoverable amount and to provide for any further liabilities that might arise.

*Turnover*

Turnover represents amounts receivable for the provision of goods and services, excluding value added tax. All turnover arose in the United Kingdom and in this period represents ancillary income resulting from the Company's activities in developing the tidal lagoon and associated projects.

*Deferred tax*

Deferred taxation is recognised in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date. Full provision is made without discounting for all deferred tax liabilities. Deferred tax assets are recognised to the extent that it is more likely than not that they will be recovered against taxable profits.

**Notes to the Financial Statements**  
**Period Ended 31 December 2013**

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*Research and development*

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the profit and loss account when it is incurred

Expenditure on development activities, which can be separately distinguished from the research phase of a project, is capitalised if the product or process can be demonstrated as technically and commercially feasible, will generate probable future economic benefits and that the Company has adequate technical, financial and other resources available to complete the development. Other development expenditure is recognised in the profit and loss account as incurred

*Foreign currencies*

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of transaction. Exchange differences are taken into account in arriving at the operating result

*Financial instruments*

Financial liabilities and equity instruments issued by the Company are classified in accordance with the substance of the contractual arrangement. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities

Equity instruments issued by the Company are recorded at the proceeds received, net of any transaction costs associated with the issue

**2. Staff Costs**

	£'000
Directors' fees	22
	<hr/>

The average monthly number of employees during the period was nil

**3. Operating Loss**

	£'000
The operating loss is stated after charging/(crediting)	
Auditors remuneration	5
Foreign exchange differences	(2)
Directors' remuneration	22
	<hr/>

Certain Directors holding office received their emoluments from the related Company, Shire Oak Energy Limited, and notes to the financial statements of Shire Oak Energy Limited include the disclosure of Directors' remuneration. An element of the remuneration is then recharged to this Company via the related Company, Tidal Lagoon Power Limited (see note 12)

**Notes to the Financial Statements**  
**Period Ended 31 December 2013**

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**4. Taxation**

**Analysis of the tax charge**

No liability to UK corporation tax arose on ordinary activities for the period

**Factors affecting the tax charge**

The tax assessed for the period is higher than the standard rate of corporation tax in the UK. The difference is explained below

	£'000
Loss on ordinary activities before tax	(6,667)
Loss on ordinary activities	-
Multiplied by the standard rate of corporation tax in the UK of 20%	(1,333)
Effects of Tax losses carried forward	1,333
Current tax charge	-

**Factors that may affect future tax charges**

Taxable losses have been incurred and are available for use against future taxable profits. A deferred tax asset has not been recognised as the Company does not anticipate taxable profits to arise within the immediate future

**5. Debtors: Amounts Falling Due Within One Year**

	£'000
Other debtors	342
Prepayments	203
	545

**6. Creditors: Amounts Falling Due Within One Year**

	£'000
Trade creditors	2,099
Amounts owed to related parties	22
Accruals	1,259
	3,380

**Notes to the Financial Statements**  
**Period Ended 31 December 2013**

**7. Called Up Share Capital**

	£'000
Allotted issued and fully paid	
Number and class	
13,691 Ordinary Shares of £5 each	68
1,000 E Ordinary Shares of £5 each	5
	<u>73</u>

During the period the Company issued 13,691 Ordinary shares of £5 each and 1,000 Ordinary E shares of £5 each for a total consideration of £4,013,000 resulting in a share premium of £3,940,000. Costs of £171,000 were incurred as a result of the issue and these costs have been debited against the share premium account.

**8. Reserves**

	Profit & Loss £'000	Share Premium £'000	Total £'000
Deficit for the period	(6,667)	-	(6,667)
Cash share issue	-	3,819	3,819
Bonus share issue	-	(50)	(50)
At 31 <sup>st</sup> December 2013	<u>(6,667)</u>	<u>3,769</u>	<u>(2,898)</u>

**9. Contingent Liabilities**

The Company has agreed a contingent fee basis with certain suppliers that is dependent on the outcome of future events. At the balance sheet date, the maximum liability of the Company to these suppliers amounted to £328,300.

**10. Capital Commitments**

The Company had no capital commitments at the balance sheet date.

**11. Contingencies**

At the Balance Sheet date, the Company has incurred significant expenditure in respect of Research and Development and anticipate making a claim for enhanced Research and Development tax relief. A full detailed review of the expenditure has yet to be undertaken and any future claim will be subject to the normal approval procedures employed by HM Revenue and Customs. Whilst no final consideration had been given as to whether a claim would be converted to the form of payable tax credits, the future inflow of economic benefits to the Company is considered probable.

**Notes to the Financial Statements**  
**Period Ended 31 December 2013**

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**12. Related Parties**

Ultimate control of the company resides with M C Shorrock

**Tidal Lagoon Power Limited ("TLP")**

The Company Directors, M C Shorrock and P J Carter are members of the Board of TLP and ultimate control also resides with M C Shorrock

During the period transactions were undertaken with TLP as follows

	£'000
Turnover	200
Professional services	(1,149)
Consultancy	(200)

At the period end, amounts were held on the balance sheet as owing by the Company to TLP as follows

	£'000
Amounts owed to related parties	22
Accruals	362
	<u>384</u>

**13. Reconciliation of Movement in Shareholders' Funds**

	£'000
Loss for the financial period	(6,667)
New share capital subscribed	3,842
Net reduction of shareholders' funds	<u>(2,825)</u>
Opening shareholders' funds	-
Equity interest	<u>(2,825)</u>



**Notes to the Financial Statements**  
**Period Ended 31 December 2013**

**14. Analysis of net funds**

	At 12 7 12 £'000	Cash flow £'000	At 31 12 13 £'000
Net funds			
Cash at bank	-	10	10
Total	-	10	10

**15. Reconciliation of Operating Loss to Net Cash Outflow from Operating Activities**

	£'000
Operating loss	(6,675)
Increase in debtors	(545)
Increase in creditors	3,380
Net cash outflow from operating activities	(3,840)