

RGS Energy Limited

FINANCIAL STATEMENTS

for the year ended
31 December 2010

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Company Registration No 05721316

RGS Energy Limited
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for the year ended 31 December 2010

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RGS Energy Limited
COMPANY INFORMATION
for the year ended 31 December 2010

DIRECTORS

R Valand
JAG Dewar

SECRETARY

MD Secretaries Limited

REGISTERED OFFICE

Knapton Generating Station
East Knapton
Malton
North Yorkshire
YO17 8JF

REGISTERED NUMBER

05721316

INDEPENDENT AUDITOR

Baker Tilly UK Audit LLP
Chartered Accountants
25 Farringdon Street
London EC4A 4AB

RGS Energy Limited

Directors' report

The directors submit their report and the financial statements of RGS Energy Limited for the year ended 31 December 2010

Principal activities

The principal activity of the Company is the generation of electricity at a gas turbine electricity generating station located at Knapton, North Yorkshire

Review of the business

Electricity generation assets

The Company entered the year with a regular supply of gas from Viking UK Gas Limited and for the first quarter of the year production was near to full capacity. During 2010, the Company's ultimate parent company carried out a review of its UK operations and reached the decision to put the Group up for sale. As a result of this review, the decision to drill the next well in 2010 was delayed and, as a consequence, production reduced over the latter part of the year.

In November 2010, a fault was identified with the Company's generator which necessitated its removal for repair. The generator returned to service in March 2011.

The results for the year are set out on page 6.

The directors do not recommend the payment of a dividend.

Future developments

The Company is reliant on the supply of gas to its facilities in North Yorkshire. The well that was drilled by Viking UK Gas Limited in early 2011 did not produce gas so since March 2011 the Company has been operating on a restricted number of hours per day in order to extend production capability of the existing wells as far as possible.

On 26th July 2011, UK Energy Systems Limited, the Company's immediate parent company was sold to Third Energy Holdings Limited ("TEHL").

TEHL is also looking at ways to improve the management of its power supply contracts and reduce the risk of failure in its electricity generation facilities.

Principal risks and uncertainties

The Company is a member of a group of companies with its immediate parent company being UK Energy Systems Limited. Risks are managed on a Group-wide basis, as set out below.

Operational risk

The Group is reliant on being able to provide a reliable, continuous supply of gas to its electricity turbine to enable it to generate electricity for onward sale to Scottish Power. This activity has certain risks by its very nature and there can be no guarantee that future drilling operations will be successful.

The Group mitigates these risks by preparing detailed field development plans before choosing new drilling targets.

Financial risk

The nature of the Group's capital projects as described above means that a return cannot be guaranteed. As a result, the Group carefully manages the balance between loan and equity funding to ensure financial liabilities can be properly met.

The Company is funded by an interest-free loan from its immediate parent company with no fixed terms for repayment.

RGS Energy Limited

Directors' report (continued)

Going concern

The financial statements have been prepared on the going concern basis, which assumes that the Company will continue in operational existence for the foreseeable future

The directors and managers are working with TEHL to deliver the improved management of the risks inherent in the power supply contracts and power generation, as set out in the preceding paragraphs, which will enable the Group to invest in improved production

The directors have reviewed the Company's forecasts for the period to December 2012 and believe that, with the continued support of its immediate parent company, UK Energy Systems Limited, the Company can continue as a going concern, and has the necessary funding available to ensure that it continues to trade on the going concern basis, for the foreseeable future

Directors

The directors who have held office since 1st January 2010 are set out below

JP Reynolds	(resigned 26 th July 2011)
R Valand	(appointed 26 th July 2011)
JAG Dewar	(appointed 26 th July 2011)

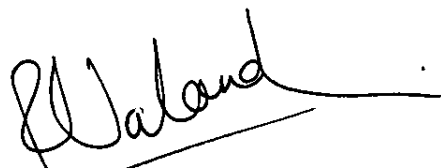
Statement as to disclosure of information to the auditor

The directors who were in office on the date of approval of these financial statements have confirmed that, as far as they are aware, there is no relevant audit information of which the auditor is unaware. The directors have confirmed that they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditor

Auditor

Baker Tilly UK Audit LLP has indicated its willingness to continue in office

On behalf of the board



R Valand
Director

11th January 2012

RGS Energy Limited

Directors' responsibilities in the preparation of financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have 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 those financial statements, the directors are required to

- a select suitable accounting policies and then apply them consistently,
- b make judgements and accounting estimates that are reasonable and prudent,
- c state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- d 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.

Independent auditor's report to the members of
RGS Energy Limited

We have audited the financial statements (the "financial statements") on pages 6 to 14. 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 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 auditors

As more fully explained in the Directors' Responsibilities Statement set out on page 4, 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 (APB's) Ethical Standards for Auditors.

Scope of the audit

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on the financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2010 and of the profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept by the parent company, 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.

Baker Tilly UK Audit LLP

PAUL WATTS, Senior Statutory Auditor
For and on behalf of BAKER TILLY UK AUDIT LLP, Statutory Auditor
Chartered Accountants
25 Farringdon Street
London EC4A 4AB

12th January 2012

RGS Energy Limited

Profit and loss account

for the year ended 31 December 2010

	<i>Notes</i>	2010 £	2009 £
TURNOVER	<i>1</i>	9,038,235	5,442,294
Cost of sales		(7,234,368)	(5,502,415)
GROSS PROFIT/(LOSS)		<u>1,803,867</u>	<u>(60,121)</u>
Administration expenses		(961,274)	(880,230)
OPERATING PROFIT/(LOSS)	<i>2</i>	<u>842,593</u>	<u>(940,351)</u>
Exceptional items	<i>3</i>	-	18,440,426
Interest payable and similar charges	<i>4</i>	(94,188)	(89,282)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		<u>748,405</u>	<u>17,410,793</u>
Tax on profit on ordinary activities	<i>5</i>	-	-
PROFIT FOR THE FINANCIAL YEAR	<i>13</i>	<u><u>748,405</u></u>	<u><u>17,410,793</u></u>

The result for the year arises from the Company's continuing operations

The Company has no other recognised gains or losses other than those passing through the profit and loss account

The notes on pages 8 to 14 form part of these financial statements

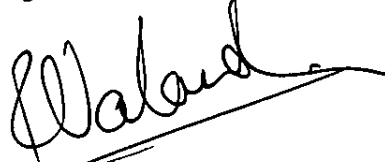
RGS Energy Limited

Balance sheet
31 December 2010

Company Registration No 05721316

	Notes	2010 £	2009 £
FIXED ASSETS			
Intangible assets	6	2,736,998	3,227,210
Tangible assets	7	7,763,725	9,254,000
		<u>10,500,723</u>	<u>12,481,210</u>
CURRENT ASSETS			
Stocks	8	521,558	466,781
Debtors	9	251,478	1,993,111
Cash at bank and in hand		1,485,050	35,924
		<u>2,258,086</u>	<u>2,495,816</u>
CREDITORS Amounts falling due within one year	10	(11,014,076)	(14,074,886)
NET CURRENT LIABILITIES		<u>(8,755,990)</u>	<u>(11,579,070)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		1,744,733	902,140
PROVISIONS FOR LIABILITIES	11	(1,806,660)	(1,712,472)
NET LIABILITIES		<u>(61,927)</u>	<u>(810,332)</u>
CAPITAL AND RESERVES			
Called up share capital	12	1	1
Deficit on profit and loss account	13	(61,928)	(810,333)
DEFICIT ON SHAREHOLDERS' FUNDS	14	<u>(61,927)</u>	<u>(810,332)</u>

The financial statements were approved by the board and authorised for issue on 11th January 2012 and are signed on its behalf by



R Valand
Director

RGS Energy Limited

Accounting policies

Accounting policies

The financial statements have been prepared under the historical cost convention in accordance with applicable accounting standards

The company has taken advantage of the exemptions under Financial Reporting Standards 1 - Cash Flow Statements not to prepare a Cash Flow Statement as the company is included within the consolidated financial statements of UK Energy System Limited

Going concern

The financial statements have been prepared on the going concern basis, which assumes that the Company will continue in operational existence for the foreseeable future

The directors and managers are working with TEHL to deliver the improved management of the risks inherent in the power supply contracts and power generation, as set out in the preceding paragraphs, which will enable the Group to invest in improved production

The directors have reviewed the Company's forecasts for the period to December 2012 and believe that, with the continued support from its immediate parent company, UK Energy Systems Limited, the Company can continue as a going concern, and has the necessary funding available to ensure that it continues to trade on the going concern basis, for the foreseeable future

Purchased goodwill

Goodwill representing the excess of the consideration for an acquired undertaking, compared with the fair value of net assets acquired, is capitalised and written off evenly over 10 years as in the opinion of the directors this represents the period over which the goodwill is expected to give rise to economic benefits. Goodwill is reviewed for impairment at the end of the first full financial year following the acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable

Deferred tax

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future, or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that the assets will be recovered

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis

Foreign currencies

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

RGS Energy Limited

Accounting policies

Tangible fixed assets

Power plant and gas collection equipment are stated at historical cost less accumulated depreciation and less any provision for impairment. Land is stated at historical cost and is not depreciated.

The decommissioning asset is stated at an amount equal to the initial provision for decommissioning less accumulated depreciation.

Depreciation is provided so as to write off the costs of the assets to residual values over the assets' useful estimated lives, on the following bases -

Gas collecting equipment	7 to 10 years	Straight line
Power plant	3 to 15 years	Straight line
Decommissioning asset	10 years	Straight line

Impairment

An estimate of the discounted future net revenues is made where there are indications of impairment and compared to the net capitalised expenditure. Where, in the opinion of the directors, there is impairment, tangible asset values are written down accordingly through the profit and loss account.

Stocks

Stocks are valued at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving items.

Provision for decommissioning

A provision for decommissioning costs is recognised in full at the commencement of operations. The amount recognised is the present value of the estimated future expenditure that will be required to decommission the Company's assets and bring the land back to the state that existed prior to the assets being built. The discount applied to the anticipated site restoration liability is subsequently released over the life of the field and is charged to interest expense.

A corresponding tangible fixed asset is created at an amount equal to the provision. This is depreciated as part of the capital costs of the production facilities.

Leasing and hire purchase commitments

Where assets are financed by leasing agreements that give rights approximating to ownership ("finance leases"), the assets are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments payable during the lease term. The corresponding leasing commitments are shown as obligations to the lessor.

Lease payments are treated as consisting of capital and interest elements, and the interest is charged to the profit and loss account in proportion to the remaining balance outstanding.

All other leases are "operating leases" and the annual rentals are charged to profit and loss on a straight line basis over the lease term.

Turnover

Turnover represents amounts receivable for the Company's electricity generation and income from the provision of facilities to the Company's gas suppliers at their well sites and pipelines. Turnover is stated net of trade discounts and VAT.

RGS Energy Limited

Notes to the financial statements

for the year ended 31 December 2010

1 TURNOVER

Turnover is wholly attributable to the principal activity of the Company and is generated within the United Kingdom

2	OPERATING PROFIT/(LOSS)	2010 £	2009 £
	Operating profit/(loss) is stated after charging		
	Depreciation of tangible assets	1,522,557	2,064,260
	Amortisation of goodwill	490,212	490,212
	Auditors' remuneration - audit	10,000	10,000

There were no employees during the year other than the director (2009 none) The director received no remuneration from the Company for his services The cost of the director's and other employees' services is covered within a management charge from the parent and fellow subsidiary companies

3	EXCEPTIONAL ITEMS	2010 £	2009 £
	Waiver of amounts owed to group companies	-	4,289,000
	Waiver of accrued interest on intercompany balances	-	5,317,973
	Reversal of provision against intercompany balances	-	9,555,837
	Professional fees regarding financial restructuring	-	(722,384)
		-	18,440,426

4	INTEREST PAYABLE AND SIMILAR CHARGES	2010 £	2009 £
	Unwinding of discount on decommissioning provision	94,188	89,280
	Other interest	-	2
		94,188	89,282

RGS Energy Limited

Notes to the financial statements

for the year ended 31 December 2010

5	TAXATION	2010 £	2009 £
	<i>Analysis of charge in the period</i>		
	Current tax - UK corporation tax on profits for the period	-	-
		-	-
	Deferred tax – origination and reversal of timing differences	-	-
		-	-
	Tax on profit on ordinary activities	-	-
		-	-
	Factors affecting tax charge in the period		
	Profit on ordinary activities before taxation	748,405	17,410,793
		-	-
	Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 28% (2009 – 28%)	209,553	4,875,022
	Expenses not deductible for tax purposes (primarily amortisation)	26,373	24,998
	Depreciation in excess of capital allowances	260,683	286,885
	Waiver of amounts owed by group undertakings and other restructuring adjustments	-	(5,163,317)
	Utilisation of tax losses	(496,609)	(23,588)
		-	-
	Current tax charge	-	-

The company has accumulated tax losses of £6,002,653 (2009 5,657,035) available to carry forward and be used against profits of the same trade. No deferred tax asset has been recognised due to uncertainty over timing of future profits.

6	INTANGIBLE FIXED ASSETS	Goodwill £
	Cost	
	At 31 December 2009 and 31 December 2010	4,902,098
	Amortisation	
	At 31 December 2009	1,674,888
	Charge for the year	490,212
	At 31 December 2010	2,165,100
	Net book value	
	At 31 December 2010	2,736,998
	At 31 December 2009	3,227,210
	Goodwill relates to the acquisition of the Power Plant and Gas Collection equipment and associated trade in August 2006	

RGS Energy Limited

Notes to the financial statements

for the year ended 31 December 2010

7 TANGIBLE FIXED ASSETS

	Decommissioning asset £	Power Plant £	Gas Collection Equipment £	Land £	Total £
Cost					
At 1 January 2010	1,458,360	10,285,803	4,901,725	178,206	16,824,094
Additions	-	32,282	-	-	32,282
At 31 December 2010	1,458,360	10,318,085	4,901,725	178,206	16,856,376
Depreciation					
At 1 January 2010	437,508	5,234,766	1,897,820	-	7,570,094
Charge for the year	145,836	841,290	535,431	-	1,522,557
At 31 December 2010	583,344	6,076,056	2,433,251	-	9,092,651
Net book value					
At 31 December 2010	875,016	4,242,029	2,468,474	178,206	7,763,725
At 31 December 2009	1,020,852	5,051,037	3,003,905	178,206	9,254,000

8 STOCKS

	2010 £	2009 £
Spare parts	521,558	466,781

9 DEBTORS amounts falling within one year

	2010 £	2009 £
Trade debtors	6,775	1,126,060
Amounts owed by group companies	20,612	684,782
Prepayments and accrued income	224,091	182,269
	251,478	1,993,111

RGS Energy Limited

Notes to the financial statements
for the year ended 31 December 2010

10	CREDITORS amounts falling due within one year	2010 £	2009 £
	Trade creditors	53,585	13,891
	Amounts owed to group undertakings	10,228,521	13,612,591
	Taxation and social security costs	111,535	416,504
	Accruals and deferred income	620,435	31,900
		<u>11,014,076</u>	<u>14,074,886</u>

Amounts owed to group undertakings include a £4 5 million loan note (2009 £4 5 million) payable to the Company's immediate parent undertaking, UK Energy Systems Limited. The loan note is unsecured and bears no interest, with no fixed terms for repayment.

11	PROVISIONS FOR LIABILITIES	2010 £	2009 £
	Decommissioning costs		
	1 January	1,712,472	1,623,192
	Unwinding of discount charged to profit and loss account	94,188	89,280
	31 December	<u>1,806,660</u>	<u>1,712,472</u>

The provision for liabilities and charges relates to the decommissioning costs of the power plant, pipelines and other facilities.

12	CALLED UP SHARE CAPITAL	2010 £	2009 £
	Authorised		
	1,000 ordinary shares of £1 each	1,000	1,000
	Allotted, issued and fully paid		
	1 ordinary share of £1 each	<u>1</u>	<u>1</u>

13	STATEMENT OF MOVEMENTS ON RESERVES	Profit and loss account £
	Deficit at 1 January 2010	(810,333)
	Profit for the year	748,405
	Deficit at 31 December 2010	<u>(61,928)</u>

RGS Energy Limited

Notes to the financial statements

for the year ended 31 December 2010

14	RECONCILIATION IN MOVEMENT IN SHAREHOLDERS' FUNDS	2010 £	2009 £
	Profit after tax for the year	748,405	17,410,793
	Deficit on shareholders' funds as at 31 December 2009	(810,332)	(18,221,125)
	Deficit on shareholders' funds as at 31 December 2010	<u>(61,927)</u>	<u>(810,332)</u>

15 GUARANTEES AND OTHER FINANCIAL COMMITMENTS

The Company is a member of a VAT group and the net potential liability under the group registration at 31 December 2010 was £ nil (2009 £243,057)

16 RELATED PARTY TRANSACTIONS

The Company has taken advantage of the exemption under Financial Reporting Standard No 8 not to disclose transactions between itself and other wholly owned Group companies

17 ULTIMATE PARENT COMPANY

The Company's immediate parent company is UK Energy Systems Limited

As at 31 December 2010 the company's ultimate controlling party was GBGH, LLC, a company incorporated in the United States of America

Since July 2011, the Company's ultimate parent company is Barclays PLC, a company incorporated in England and Wales