

RGS Energy Limited

Financial Statements

for the year ended 31 December 2012

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Company Registration No 05721316

RGS Energy Limited

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for the year ended 31 December 2012

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RGS Energy Limited

Company information

for the year ended 31 December 2012

Directors

R Valand
JAG Dewar
DJ Robottom

Secretary

MD Secretaries Limited

Registered office

Knapton Generating Station
East Knapton
Malton
North Yorkshire
YO17 8JF

Registered number

05721316

Independent auditor

KPMG LLP
8 Salisbury Square
London
EC4Y 8BB

RGS Energy Limited

Directors' report

The directors submit their report and the financial statements of RGS Energy Limited for the year ended 31 December 2012

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

Throughout 2012 the Company suffered from reduced supplies of gas from a fellow subsidiary, Viking UK Gas Limited, as a consequence of which turnover is much reduced in the year

The Company, following negotiations and final payment, has terminated the gas and power contracts with Scottish Power and is now free to sell both electricity and gas through a new distributor

The Company's immediate parent company, UK Energy Systems Limited, has waived part of its loan leaving an outstanding balance of £2,750,000

The results for the year are set out on page 6

The directors do not recommend the payment of a dividend

Future developments

The Group will continue to explore and develop its gas assets in North Yorkshire with the aim of providing the Company with a more reliable supply of gas for generation

Principal risks and uncertainties

The Company is part of a Group of companies with its parent company being Third Energy Holdings 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. 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 parent company with no fixed terms for repayment

RGS Energy Limited

Directors' report

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 its gas supply, 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 Group's forecasts for the period to September 2014 and believe that, with the continued support of its parent company, Third Energy Holdings Limited, the Group 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 reasonably foreseeable future

Directors

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

Mr R Valand

Mr JAG Dewar

Mr DJ Robottom (appointed 12th March 2012)

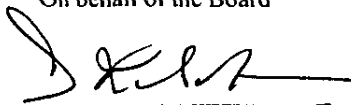
Statement as to disclosure of information to the auditor

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

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



David Robottom

Director

26th September 2013

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 of RGS Energy Limited (the Company) for the year ended 31 December 2012 set out on pages 6 to 12. 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 Director's 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/auditscopeukprivate.

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 2012 and of the profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting
- 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 Director's Report for the financial year for which the financial statements are

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
- 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

Adrian Wilcox (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
8 Salisbury Square
London
EC4Y 8BB
30th September 2013

RGS Energy Limited

Profit and loss account
for the year ended 31 December 2012

	<i>Notes</i>	2012 £	2011 £
Turnover	<i>1</i>	2,906,808	4,468,691
Cost of sales		(2,123,746)	(3,674,408)
Gross Profit/(loss)		<u>783,062</u>	<u>794,283</u>
Administration expenses		(855,921)	(3,403,557)
Operating loss	<i>2</i>	<u>(72,859)</u>	<u>(2,609,274)</u>
Waiver of intercompany loan		10,368,469	-
Interest payable and similar charges	<i>3</i>	(122,508)	(100,351)
Profit/(loss) on ordinary activities before taxation		<u>10,173,102</u>	<u>(2,709,625)</u>
Tax on profit/(loss) on ordinary activities	<i>4</i>	-	-
Profit/(loss) for the financial year	<i>11</i>	<u><u>10,173,102</u></u>	<u><u>(2,709,625)</u></u>

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

The notes on pages 8 to 12 form part of these financial statements

RGS Energy Limited

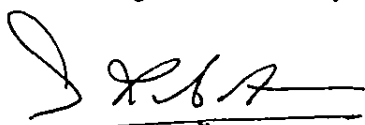
Balance Sheet

31 December 2012

Company Registration No 05721316

	Notes	2,012 00 £	2011 £
Fixed Assets			
Intangible assets	5	-	-
Tangible assets	6	2,327,453	2,897,068
		<u>2,327,453</u>	<u>2,897,068</u>
Current Assets			
Debtors	7	6,595,493	5,755,558
Cash at bank and in hand		948	9,657
		<u>6,596,441</u>	<u>5,765,215</u>
Creditors Amounts falling due within one year	8	(3,620,836)	(13,690,968)
Net Current Assets/(Liabilities)		<u>2,975,605</u>	<u>(7,925,753)</u>
Total Assets less Current Liabilities		5,303,058	(5,028,685)
Provisions for liabilities	9	(2,064,674)	(1,906,032)
Net Assets/(Liabilities)		<u>3,238,384</u>	<u>(6,934,717)</u>
Capital and reserves			
Called up share capital	10	1	1
Profit and loss account - (deficit)	11	3,238,383	(6,934,718)
Deficit on shareholders' funds	12	<u>3,238,384</u>	<u>(6,934,717)</u>

The financial statements were approved by the board of directors and authorised for issue on 26th September 2013 and are signed on its behalf by



David Robottom
Director

RGS Energy Limited

Accounting policies

Basis of preparation

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 Third Energy Holdings 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 have reviewed the Company's forecasts for the period to September 2014 and believe that, with the continued support of its parent company, Third Energy Holdings 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 and to enable it to meet its financial obligations as they fall due

As with any company placing reliance on another group company for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so

Taxation

Corporation tax payable is provided on taxable profits at the current rate

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

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

Included in the cost of the power plant are spare parts that have been purchased to repair the plant but not yet been utilised at the year end. A provision is made to ensure that the carrying value of these items does not exceed their value in use

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

RGS Energy Limited

Accounting policies

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	7-10 years	Straight line
Power plant	3 to 15 years	Straight line
Decommissioning asset	10 years	Straight line

Impairment

An impairment test is performed whenever a change in expectations indicates that the carrying value of an asset, or group of assets, may be greater than the returns expected to be generated from that asset or group of assets

The carrying value is compared against the expected recoverable amount of the asset, by reference to the present value of the future net cash flows expected to be generated from the operations associated with that asset. If the net cash flows of a number of assets are interdependent, then the net cash flows of all interdependent assets are included in the impairment calculation

Any impairment identified is charged to the profit and loss account as additional depreciation. If the conditions leading to the impairment change and the impairment test suggests that impairment previously charged should be reversed then a credit is taken to the profit and loss account, net of any depreciation that would have been charged since the impairment charge was made

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 subsequently 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 supplier, which is a fellow subsidiary company, at its well sites and pipelines. Turnover is stated net of trade discounts and VAT and is recognised in the month that the electricity is delivered

RGS Energy Limited

Notes to the financial statements
for the year ended 31 December 2012

1 Turnover

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

2 Operating loss

	2012	2011
	£	£
Operating loss is stated after charging/(crediting)		
Depreciation of tangible assets		
- owned assets	635,953	1,243,031
Impairment of fixed assets	-	565,832
Amortisation of goodwill	-	285,957
Impairment of goodwill	-	2,451,041
Auditor's remuneration	4,500	10,000
Operating leases - land and buildings	6,000	6,000

There were no employees during the year other than the directors (2011 none) The directors' remuneration is paid by Third Energy Holdings Limited The directors do not believe it is practical to apportion the remuneration between their services to this company and their services as directors of the parent company and fellow subsidiary companies

3 Interest payable and similar charges

	2012	2011
	£	£
Unwinding of discount on decommissioning provision	119,606	99,372
Other interest	2,902	979
	<u>122,508</u>	<u>100,351</u>

4 Taxation

	2012	2011
	£	£
<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 loss on ordinary activities	-	-
<i>Factors affecting tax charge in the period</i>		
Profit/(loss) on ordinary activities before taxation	<u>10,173,102</u>	<u>(2,709,625)</u>
Profit/(loss) on ordinary activities before taxation multiplied by the standard rate of corporation tax in the UK of 24.5% (2011 26.5%)	2,492,410	(718,051)
Income not recognised for tax purposes	(2,540,275)	-
Expenses not deductible for tax purposes	29,512	830,735
Depreciation in excess of capital allowances	18,363	124,252
Utilisation of tax losses	(10)	(236,936)
Current tax charge	<u>-</u>	<u>-</u>

The company has accumulated tax losses of £5,082,687 (2011 £5,082,730) 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

RGS Energy Limited

Notes to the financial statements
for the year ended 31 December 2012

5 Intangible fixed assets

	Goodwill £
Cost	
At 31 December 2011 and 31 December 2012	<u>4,902,098</u>
Amortisation	
At 31 December 2011 and 31 December 2012	<u>4,902,098</u>
Net book value	
At 31 December 2011 and 31 December 2012	<u>-</u>

6 Tangible fixed assets

	Decommissioning asset £	Power Plant £	Gas Collection Equipment £	Land £	Total £
Cost					
At 1 January 2012	1,458,360	11,167,363	4,901,725	178,207	17,705,655
Additions	39,036	27,302	-	-	66,338
At 31 December 2012	<u>1,497,396</u>	<u>11,194,665</u>	<u>4,901,725</u>	<u>178,207</u>	<u>17,771,993</u>
Depreciation					
At 1 January 2012	729,180	10,170,077	3,909,330	-	14,808,587
Charge for the year	145,836	273,595	216,522	-	635,953
At 31 December 2012	<u>875,016</u>	<u>10,443,672</u>	<u>4,125,852</u>	<u>-</u>	<u>15,444,540</u>
Net book value					
At 31 December 2012	<u>622,380</u>	<u>750,993</u>	<u>775,873</u>	<u>178,207</u>	<u>2,327,453</u>
At 31 December 2011	<u>729,180</u>	<u>997,286</u>	<u>992,395</u>	<u>178,207</u>	<u>2,897,068</u>

7 Debtors

	2012 £	2011 £
Trade debtors	298,591	244,081
Amounts owed by group companies	5,655,670	5,138,140
Prepayments and other income	635,084	346,929
Other debtors	6,148	26,408
	<u>6,595,493</u>	<u>5,755,558</u>

8 Creditors: amounts falling due within one year

	2012 £	2011 £
Trade creditors	3,468	-
Amounts owed to group undertakings	3,484,667	13,508,286
Taxation and social security costs	90,420	124,902
Accruals and deferred income	42,281	57,780
	<u>3,620,836</u>	<u>13,690,968</u>

RGS Energy Limited

Notes to the financial statements
for the year ended 31 December 2012

9 Provisions for liabilities	2012	2011
	£	£
Decommissioning costs		
At 1 January	1,906,032	1,806,660
Addition to provision	39,036	-
Unwinding of discount to profit and loss account	119,606	99,372
At 31 December	<u>2,064,674</u>	<u>1,906,032</u>
10 Called up share capital	2012	2011
Ordinary shares of £1 each	No	No
Authorised	<u>1,000</u>	<u>1,000</u>
	£	£
Allotted, issued and fully paid	<u>1</u>	<u>1</u>
11 Statement of movement on reserves		Profit and loss account
		£
Deficit as at 1 January 2012 as originally stated		(6,934,718)
Profit/(loss) for the financial year		<u>10,173,102</u>
Deficit at 31 December 2012		<u>3,238,384</u>
12 Reconciliation of movement in shareholders' funds	2012	2011
	£	£
Opening shareholders funds	(6,934,718)	(4,225,093)
Profit/(loss) for the year	10,173,102	(2,709,625)
Closing deficit on shareholders' funds	<u>3,238,384</u>	<u>(6,934,718)</u>

13 Guarantees and other financial commitments

The company is a member of a VAT group and the net potential liability under the group registration as of 31 December 2012 was £nil (2011 £nil)

14 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

15 Ultimate parent company

The immediate parent company is UK Energy Systems Limited. The smallest and largest group into which the Company is consolidated is Third Energy Holdings Limited. Copies of the accounts of Third Energy Holdings Limited can be obtained from 66 Chiltern Street, London W1U 4JT.

In the opinion of the directors, the ultimate parent company of Third Energy Holdings Limited is Barclays PLC. There is no ultimate controlling party.