

Kilbraur Wind Energy Co-operative Ltd

Annual Report, AGM Notification and Summary Financial Statements for the year ended 31st December 2014

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Society Information

Directors	Colin Lawrence John Macdonald Malcolm Moss Graham Phillips John Whitfield
Chairman	Colin Lawrence
Company Secretary	Annette Heslop
Registered Number	2701RS
Registered office	Registered Office: Floor 3, The Co-operative Group Newhouse Composite Distribution Centre 401 Edinburgh Road Newhouse Lanarkshire ML1 5GH
Administration Address	Unit 26, Trinity Enterprise Centre Furness Business Park Barrow-in-Furness LA14 2PN
Auditors	Melville & Co. 18 Trinity Enterprise Centre Furness Business Park Barrow-in-Furness Cumbria LA14 2PN
Bankers	Co-operative Bank plc 1 Balloon Street Manchester M60 4EP
Solicitors	Bates, Wells & Braithwaite 2-6 Cannon Street London EC4M 6YH
Number of members on 31/12/2014	522

Chairman's Report – Year ending 31st December 2014

2014 was the Co-op's sixth full financial year and the third full year during which the extended 27-turbine wind farm was operational.

The Board has continued to focus primarily on protecting Members' investments and ensuring that Members receive the maximum return on them. To this end, the Board undertakes financial monitoring of the Co-op's partner organisations in addition to its own accounts, undertakes financial risk assessments, monitors and analyses the performance of the windfarm and keeps close control on the costs associated with running the Board.

In my report last year I mentioned that the Board was reviewing the Co-op's banking arrangements in the light of issues surrounding the Co-operative Bank at the time. The Co-op had banked exclusively with the Co-operative Bank from the outset and the Board had been satisfied with the service provided by the bank. However, the Co-op's deposits are protected by the Financial Services Compensation Scheme (FSCS) only up to a maximum of £85,000 per banking licence. Our deposits significantly exceed the FSCS limit particularly for the six weeks immediately prior to the payment of share interest and, in line with the intentions outlined in my 2014 report, in October the Board opened an additional account with the Royal Bank of Scotland, thereby providing a guarantee of £170,000 under the FSCS. As an additional safeguard, at last year's AGM Members approved a Motion authorising the Board to make interim payments of share interest should it consider the Co-op's funds to be at risk.

I also reported last year that Falck had reached an agreement with an investment fund named Copenhagen Infrastructure 1 to purchase a 49 per cent stake in its UK windfarm operations. This transaction has taken place successfully and has put the funding of Kilbraur Wind Energy Limited (Falck's operating company for the Kilbraur windfarm) on a secure footing for the foreseeable future. The Board had received a written assurance from Falck that the Co-op's financial position will not be adversely affected by the new arrangement, and so far this has proved to be true. However, Falck has found it necessary to reduce the cost of its UK operation to reflect the reduction in income that has resulted from the sale. To achieve this, it has transferred some of its central administrative functions to its head office in Italy, and this has caused communication problems and delays in producing the performance and financial data that the Board needs to monitor the performance of the windfarm and the Co-op's income. At the time of writing, Energy4All is working with Falck to resolve these issues, and I will provide an update on the situation at the AGM.

With effect from 1 August 2014 there was a change in the legislation governing Industrial and Provident Societies such as the Kilbraur Co-op. The Co-op is now registered under the Co-operative and Community Benefit Societies Act 2014 (the 2014 Act), which consolidates all previous related legislation. This affects the status of the Co-op in that it is now registered with the Financial Conduct Authority (FCA) as a "registered society". It may still refer to itself as a "co-operative society", but it may no longer refer to itself as a "registered co-operative society". The 2014 Act applies certain restrictions to "registered co-operative societies" that do not apply to societies such as the Kilbraur Co-op which were first registered before 1 August 2014. The FCA has published guidance, on which it is consulting with interested parties, on the application of the new legislation to pre-existing co-ops. At present it would appear that the Kilbraur Co-op will be able to continue to operate without change, but any significant amendment to the Co-op's Rules may require it to re-register as a "registered co-operative society", in which case its method of operating may be affected. The Board

does not envisage a need to re-register in the foreseeable future, but we will keep Members informed should the situation change. The Board has submitted comments on the FCA's guidance, but the outcome of the consultation is not expected until the autumn.

You may recall that I mentioned when I wrote to you during December that we were expecting to be able to make a share interest payment of around 7.5 per cent, down on previous years because of relatively low wind speeds and a reduction in wholesale electricity prices. As it turned out, December was a particularly windy month which recovered the situation to a certain extent. As a result, we are able to offer Members share interest of 8.86 per cent for the 2014 financial year. This is covered by an Agenda Motion. As with the two previous years, the rate of return falls short of the average 10.25 per cent projected in the original share offer document, but I hope that Members will agree with me that, taken with the previous annual interest payments of 6.7, 7.7, 11.5, 8.6 and 9.5 per cent, this represents a reasonable rate of return compared with alternative investments over the same period.

Given the low interest rates that are available on other investments at present, it may be appropriate to remind you that the Co-op has a Share Transfer Policy that enables Members to apply to purchase additional shares in the Co-op up to a maximum total shareholding of 20,000 per Member. There is a waiting list at present, but this is an option that you may wish to consider when you are reviewing your investments.

As always, I would like to thank Annette Heslop at Energy4All for undertaking the role of Company Secretary for the Co-op and also to thank her and her team for the timely and accurate preparation of the Co-op's accounts, the organisation of the AGM and for undertaking the ongoing administration of the Co-op.

The Co-op's Board is permitted to have a maximum membership of seven directors, but has operated with five directors since the 2014 AGM. I would like to thank John Whitfield, Graham Phillips, John Macdonald and Malcolm Moss for their commitment to the Board during the past year. This year it is the turn of John Macdonald and Malcolm Moss to retire by rotation, and both have indicated their willingness to stand for re-election. These re-appointments are covered by Agenda Motions. As no new nominations for directorships have been received this year, the Board will continue to operate with five directors until the 2016 AGM.

You may have noted in the Board Expenditure Policy that we circulated a few weeks ago that the Board intended to put a Motion to the AGM on the subject of directors' fees. These fees have remained at £500 per annum since the formation of the Co-op in 2008 and no increase in the basic fee is proposed for 2015. Although it has a maximum number of seven directors, the Board is of the view that the optimum number is six. However, it has often operated with fewer than six directors, placing an increased workload on each of the reduced number of directors. Consequently, the Board has included an Agenda Motion asking Members to authorise the Board to distribute the fees that would have been paid to any missing directors, below the number of six, among the remaining directors to reflect their increased workload.

Finally, I would like to take this opportunity to thank you for your continued support of the Co-op.

Colin Lawrence
Chairman, Kilbraur Wind Energy Co-operative Ltd.

May 2015

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2014

Principal activities

The principal activity of the Co-operative continued to be that of the generation of electricity through renewable sources.

Board of Directors

The following directors have held office since 1 January 2014:

Colin Lawrence

Nigel Jones (Resigned 13 May 2014)

Malcolm Moss

John Macdonald

Graham Phillips

John Whitfield

In accordance with the Co-operative's rules of Association, John Macdonald and Malcolm Moss have indicated that they will resign at the AGM and will both seek re-election. The Co-op received no new nominations to join the Board therefore the Board would ask members to vote on the motion to re-elect John and Malcolm for a further term of office.

Auditors

A resolution to re-appoint Melville & Co as auditors of the Co-operative for the ensuing year will be proposed at the AGM.

Management

Energy4All Ltd, a company dedicated to developing community ownership of renewables, manages the day to day activities of the Co-operative along with maintaining the members' share register.

Remuneration of Directors

The Board considers it is not appropriate, given the size of the Society, to establish a separate Remuneration Committee, and these functions are carried out by the Board as a whole. The Directors are entitled to claim £500 per annum plus reasonable expenses incurred in the performance of their duties. The Administration Secretary and Chairman received £750 in 2014. Details of the total value of fees paid are provided in the Notes to the Summary Profit & Loss Account.

Directors' responsibilities

The rules of the Co-operative require the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Co-operative and of the profit or loss of the Co-operative for that period. In preparing those financial statements, the directors are required to:

-select suitable accounting policies and then apply them consistently;

-make judgements and estimates that are reasonable and prudent;

-prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Co-operative will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Co-operative and enable them to ensure that the financial statements comply with the Co-operative & Community Benefit Societies Act 2014. They are also responsible for safeguarding the assets of the Co-operative and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Statement of disclosure to auditors

So far as the directors are aware, there is no relevant audit information of which the company's auditors are unaware. Additionally, the directors have taken all the necessary steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Income through the Royalty Instrument Agreement

The Co-operative has a right to an income through a Royalty Instrument with Falck Renewables Wind Ltd. The Royalty Instrument represents an amount paid to secure an entitlement to a share of income from electricity and environmental attributes less operating costs for a period of 25 years. The royalty instrument has a loan note element which ensures the annual investment returns from Falck to the Co-op do not fall below 6.5%. The purchase price is repayable in full at the end of the term so no amortisation is provided.

Wind Farm Production

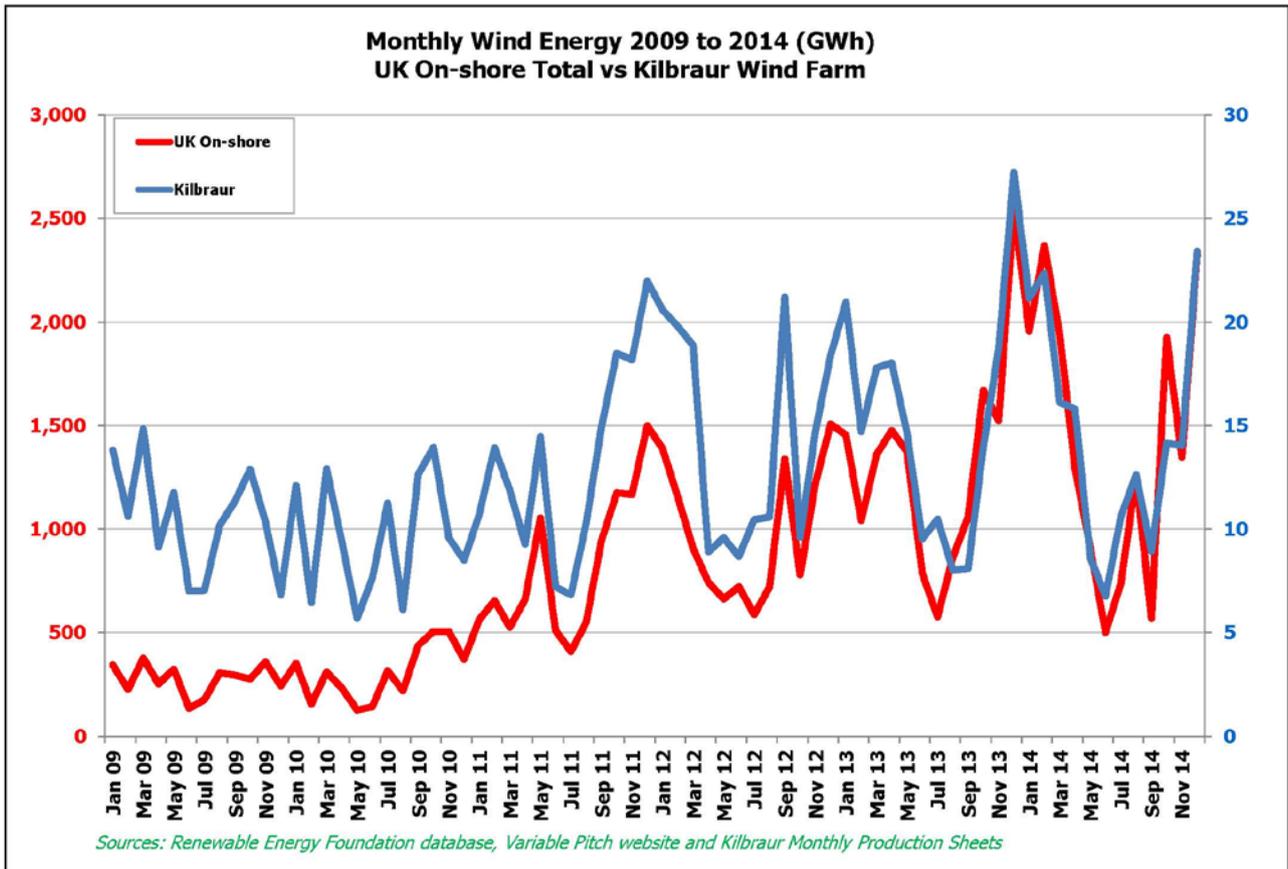
2014	P50 Budgeted Output MWh	Actual Output MWh	Cumulative % of P50 forecast
January	20,070.000	21,147.990	105.37%
February	21,380.000	22,352.590	104.95%
March	20,860.000	16,182.050	95.78%
April	17,680.000	15,792.810	94.36%
May	15,240.000	8,615.580	88.30%
June	15,190.000	6,766.530	82.28%
July	11,720.000	10,595.900	83.06%
August	12,440.000	12,628.900	84.77%
September	14,080.000	8,925.420	82.74%
October	17,590.000	14,152.280	82.50%
November	18,450.000	14,021.990	81.85%
December	17,240.000	23,409.130	86.46%
Totals	201,940.000	174,591.170	

Production during 2014 is approximately 14% down on the budgeted forecast during the year primarily due to lower than average wind speeds, grid curtailment and availability lower than warranted.

During this year the Co-op board has continued to monitor the performance of the wind farm in relation to the performance of the UK wind energy industry in general, the variation in the key sources of the income for the Co-op in particular and identifying potential risks that may have an impact on the Co-op. This report also provides a summary of the share transfers that took place in 2014 and a comparison of board expenditure over the past six years.

The Co-op performance relative to UK wind industry

The board continues to compare the production data from Kilbraur wind farm with that of the UK on-shore wind energy industry overall in order to ensure that Kilbraur wind farm is performing in line with industry trends. The chart on the following page shows the monthly production for the UK (left hand axis, in red) with that from Kilbraur Wind Farm (right hand axis, in blue). Although there is an obvious variation in the short-term figures due to geographical variation in the wind, the production from Kilbraur seems in line with the wider trend.

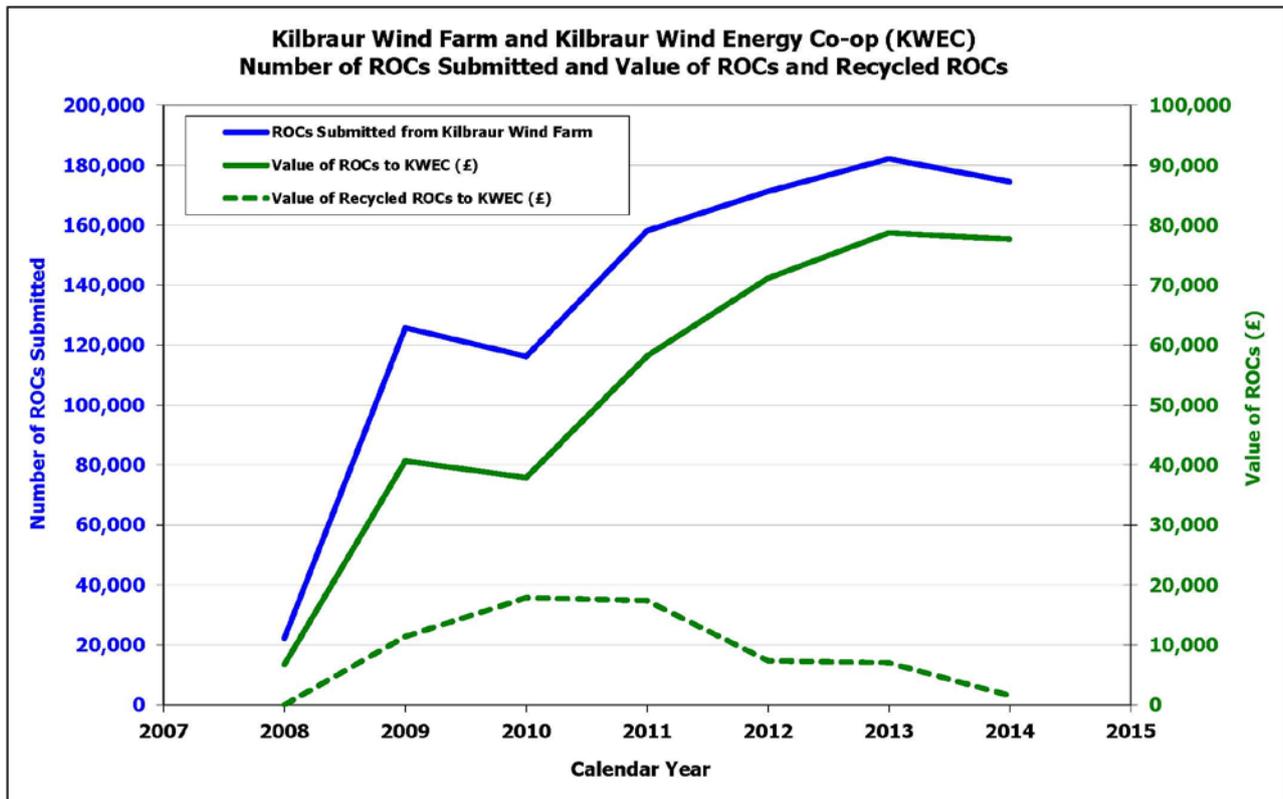


Sources of income for the Co-op and their variation with time

The income that Kilbraur wind farm receives comes from a number of main sources, all of which vary due to external factors. The price for electricity generated by the wind turbines fluctuates in accordance with wider electricity market supply and demand. Income is also derived from a number of subsidies for renewable energy, predominantly:

- **Renewable Obligation Certificates (ROCs).** These are issued by the Office of the Gas and Electricity Markets (Ofgem) to operators of accredited renewable generating stations for the eligible renewable electricity they generate. Each ROC currently is equivalent to 1 MWh (megawatt-hour) of electricity generated. Operators trade the ROCs with other parties, with the ROCs ultimately being used by suppliers to demonstrate that they have met their obligation;
- **Recycled ROCs.** Where suppliers do not have a sufficient number of ROCs to meet their obligation, they must pay an equivalent amount into a 'buy-out' fund. After Ofgem's costs for administering the scheme are recovered from the fund, the rest is distributed ('recycled') to suppliers in proportion to the number of ROCs they produced in respect of their individual obligation.
- **Levy Exemption Certificates (LECs).** Funds from the Climate Change Levy, which is charged to all electricity users, are redistributed to accredited renewable generating stations for the eligible renewable electricity they generate.

The value of ROCs and LECs is fixed by Ofgem each year and the income derived from these two subsidies, based on the total amount of renewable electricity generated, has risen year on year. In 2014, Kilbraur wind farm received payment for 174,501 ROCs (compared with 182,118 ROCs in 2013). However, due to the success of the renewable electricity generation industry in meeting rising government targets for the share of electricity produced from renewable sources, the number of Recycled ROCs continued to fall and the income to KWEC from Recycled ROCs in 2014 was £1,554, compared with the peak year for Recycled ROCs for KWEC in 2010 when the income was £17,862. The trend values of these figures in relation to ROCs submitted by Kilbraur Wind Farm and the impact on the income for the Co-op from these sources is shown on the following chart.



Risk control

The board has continued to maintain the comprehensive risk control document which lists the various potential risks that may have an impact on our future returns and outlines the control measures that we have in place to mitigate these risks. The problems at the Co-operative Bank in 2013 resulted in the board opening an additional bank account to ensure the safety of members' funds and to prepare the ground for the making of an interim payment to members should the need arise.

Share Transfers

The number of Co-op members changes slightly through the year due to a number of factors. 4 members have died and 7 members have transferred or sold their shares to another 9 members.

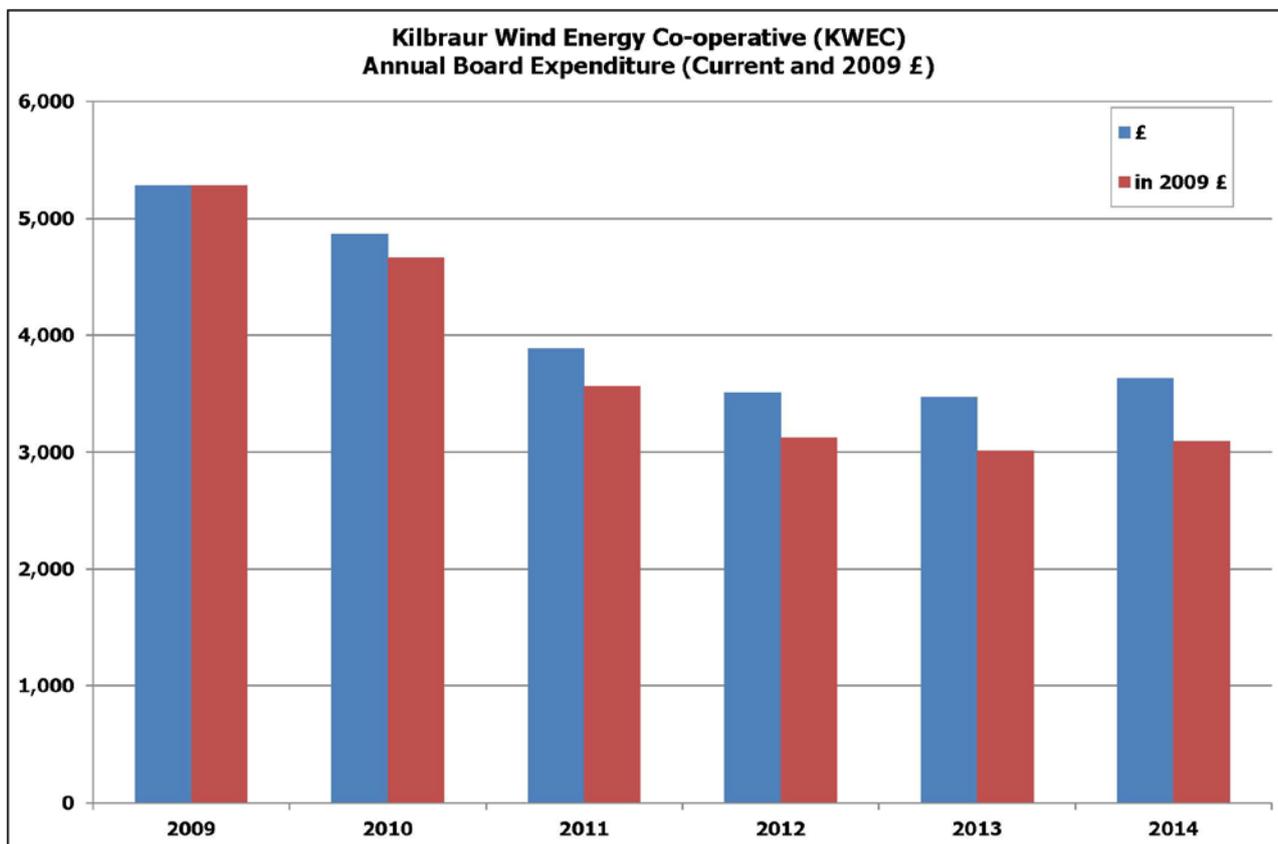
On 31 December 2014, the Co-op had a total of 522 members. The following table summarises the changes since the first approved transfer on 15 May 2012 up to 31 December 2014:

Number of £1 shares		% of total 1,581,925 shares:
Transferred	41,350	2.61%
Sold (and re-purchased by other members)	22,250	1.41%
Number of members		% of total original membership:
Net effect on total Co-op membership	-6	-1.14%

Board Expenditure

There are five members of the current board of directors, compared with seven members when the Co-op was created. The board meets quarterly and the members are in regular contact between these meetings to maintain an overview of wind farm production, manage the website and Co-op finances, review share transfer requests, liaise with Energy4All, monitor the risks identified and develop board policies. In

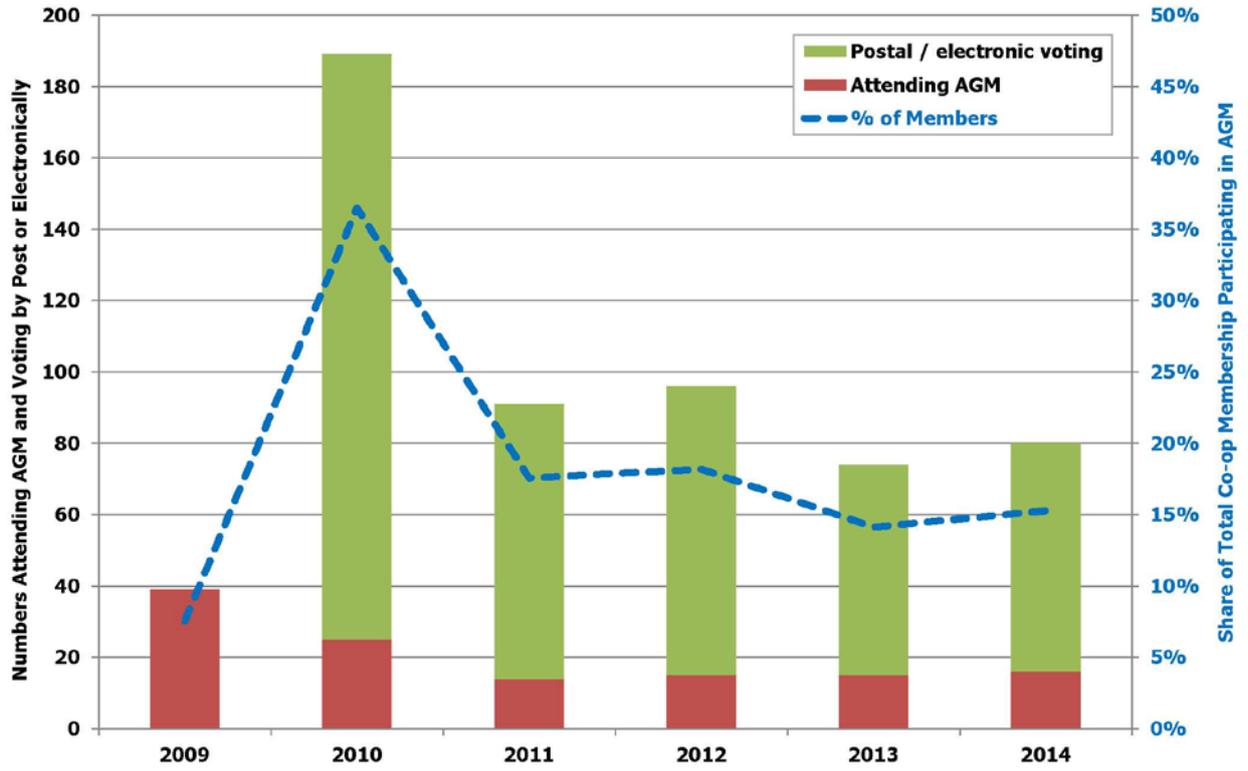
addition, board members spend significant time in the preparation of documentation and attendance at the AGM. Board members also meet on occasion with Falck, the wind farm operator, Energy4All and representatives from other Co-ops. Despite this workload, the board feels that it provides good value for money in terms of what the board spends compared with the income of the Co-op. Furthermore, the board has been able to keep these costs under control with an overall reduction in board expenditure in real terms (ie after inflation) as shown by the following chart.



AGM Attendance

The board is very keen that as many members engage with the Co-op as possible. It is understood that many members live some way from where the wind farm is located and where the AGM is held and that not everyone can find the time to attend AGMs. However, the board notes that following an initial peak, the proportion of members attending the AGM has fallen and the share of members registering postal or electronic votes is around 15% of the membership, as shown in the following chart.

Kilbraur Wind Energy Co-operative (KWEC) AGM Participation



Kilbraur Wind Energy Co-operative Limited

Notice of Annual General Meeting to be held on Wednesday 24th June 2015

NOTICE is given that the Annual General Meeting of members will be held at 6:30pm on Wednesday 24th June 2015 at the Royal Marine Hotel, Golf Road, Brora, Sutherland KW9 6QS for the following purposes:

AGENDA

1. Chairman's Introduction and welcome.
2. Presentation by Euan Fraser, Falck Renewables Wind Ltd.
3. Presentation by John Macdonald on the history of the Kilbraur wind farm site.
4. **Motion 1:** To approve the minutes of the annual general meeting held on 25th June 2014 (circulated July 2014).
5. **Motion 2:** To receive and adopt the Report of the Directors and the annual Accounts for the period ended 31st December 2014, together with the Report of the auditors thereon.
6. **Motion 3:** To re-appoint the firm of Melville & Co, Chartered Accountants, as auditor until the conclusion of the next Annual General Meeting.
7. **Motion 4:** To approve the distribution of the surplus funds for the year (the operating profit together with any other income) by way of Share Interest. A share interest statement will be provided with each payment.
8. **Motion 5:** On occasions when there are fewer than six directors in post, to authorise the Board to distribute the fees that would have been paid in respect of any unfilled director posts, below the number of six, among the remaining directors to reflect their increased workload (please see the explanatory paragraphs in the Chairman's Report).
9. **Motion 6:** To re-elect John Macdonald as a Director of the Co-op.
10. **Motion 7:** To re-elect Malcolm Moss as a Director of the Co-op.

Close of Formal Business

By order of the Board

Annette Heslop,
Company Secretary
20th May 2015

Registered Office:
Floor 3, The Co-operative Group
Newhouse Composite Distribution Centre
401 Edinburgh Road
Newhouse
Lanarkshire
ML1 5GH

Administration Address:
Unit 26, Trinity Enterprise Centre
Furness Business Park
Barrow in Furness
Cumbria LA14 2PN
Tel: 01229 821028 info@kilbraur.coop

Please refer to the enclosed Form of Proxy for instruction on voting.

Nominations to the Board

The Rules allow for a maximum number of seven Board members. Currently there are five members and this year John Macdonald and Malcom Moss will retire by rotation and will seek re-election. The Co-op received no new nominations to join the Board. As the Co-op has not reached its maximum Board number, members are asked to appoint John and Malcolm to the Board through a motion.

Biographical Notes

Retiring Director Seeking Re-election

John Macdonald - Rogart, Sutherland

I live within sight of the Kilbraur windfarm and with awareness of the local attitude to the Kilbraur windfarm and also windfarm proposals for the area. I retired from 35 years as local postman, but still marginally involved in agriculture and live on a working croft. I serve and have served on local committees, Community Council. British Legion. Sutherland Accordion and Fiddle Group. Rogart Heritage Society. Crofters federation. Did a few years on the board of S.N.H. I presently have an interest in researching local history and writing about it. I have written three books on such subject matter, through the Heritage Society.

Malcolm Moss - Leatherhead, Surrey

I have held Board appointments in the Chemical and Oil Industries and now having retired from UK business lecture on Climate Change and the End of Oil in the UK and India where I sponsor Renewable Energy projects at the local University. We have an Indian Company that owns a 600KW Wind Turbine from which I get daily performance figures. Wind is less than Kilbraur with a PLF of 18% but without any government subsidies is just profitable and mitigates the families' carbon usage. Our past and current companies contribute 5% of profits to Renewable Energy projects which have involved development of solar powered boats and cars as described on our website <<http://www.mosssolar.com/>> I believe the education of schoolchildren and the "Doubters of Wind Power" is very important and this depends on enthusiasm and creativity as much as financial contributions. There is little to be changed with Kilbraur as it is a very well run cooperative but I would be delighted if I could add an international perspective and support the educational programme. Educated in Perthshire, I have a great love of the Highlands making frequent visits, a member of Bonar Bridge and Ardgay Golf Club and am a member of The Great Glen Cooperative.

Please refer to the enclosed Form of Proxy for instructions on voting

INDEPENDENT AUDITORS' STATEMENT TO THE SHAREHOLDERS OF KILBRAUR WIND ENERGY CO-OPERATIVE LIMITED

We have examined the summary financial statement for the period ended 31 December 2014 set out on pages 14 and 15.

Respective responsibilities of directors and the auditors

The directors are responsible for preparing the summarised financial statements in accordance with applicable United Kingdom law and guidance.

Our responsibility is to report to you our opinion on the consistency of the summary financial statement within the summarised annual report with the full financial statements and the Directors' Report.

We also read the other information contained in the summarised financial statements and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the summary financial statement.

We conducted our work in accordance with Bulletin 2008/3 issued by the Auditing Practices Board. Our report on the company's full financial statements describes the basis of our Audit opinion on those financial statements and the Directors' Report.

Opinion

In our opinion the summary financial statements are consistent with the full financial statements and the Directors Report of Kilbraur Wind Energy Co-operative Limited for the period ended 31 December 2014 and have been prepared in accordance with relevant guidance and regulations.



11/05/15

Melville & Co.
Chartered Accountants
Statutory Auditor

.....
18 Trinity Enterprise Centre
Barrow-in-Furness
Cumbria
LA14 2PN

KILBRAUR WIND ENERGY CO-OPERATIVE LIMITED

SUMMARY PROFIT AND LOSS ACCOUNT FOR THE PERIOD ENDED 31 DECEMBER 2014

	Notes	2014 £	2013 £
Share of net operational income of wind farm		207,432	209,454
Cost of sales	1	(63,238)	(55,682)
Gross profit		144,194	153,772
Administrative expenses	2	(19,330)	(18,486)
Other operating income	3	14,911	14,261
Operating profit		139,775	149,547
Other interest receivable	4	466	593
Profit on ordinary activities before taxation		140,241	150,140
Tax on profit on ordinary activities		-	-
Profit for the period	5	140,241	150,140
Members Return on Investment			
Gross Return		8.9%	9.5%

Notes

1 Cost of Sales

Typical operating costs include operational & maintenance fees, rates, land rental fees, insurance and community benefit.

2 Administrative expenses

Includes directors remuneration (£3,000), directors expenses, management & admin charges (£14,911).

3 Other operating income

Re-imbursable admin & management charge (£14,911).

4 Other interest receivable

Interest receivable from funds in Co-operative Bank accounts.

5 Profit for the period

Profit available for distribution to members.

KILBRAUR WIND ENERGY CO-OPERATIVE LIMITED

SUMMARY BALANCE SHEET AS AT 31 DECEMBER 2014

	Notes	2014 £	£	2013 £	£
Fixed Assets					
Intangible assets	1	1,581,925		1,581,925	
Investments	2		1		1
			<u>1,581,926</u>		<u>1,581,926</u>
Current assets					
Debtors	3	118,671		89,413	
Cash at bank		78,748		89,467	
		<u>197,419</u>		<u>178,880</u>	
Creditors: amounts falling due within one year	4	<u>(197,420)</u>		<u>(178,881)</u>	
Net current assets			(1)		(1)
Total assets less current liabilities		<u>1,581,925</u>		<u>1,581,925</u>	
Capital and reserves					
Called up share capital	5	1,581,925		1,581,925	
Shareholders' funds		<u>1,581,925</u>		<u>1,581,925</u>	

Notes

1 Intangible assets

The royalty instrument secures an entitlement to a share of the revenues less operating costs of the Kilbraur Wind Farm and there is a loan note element which ensures that net revenues will not fall below a certain level. The purchase price is repayable in full at the end of the 25 year term (2 November 2033) or the commencement of decommissioning if earlier.

2 Fixed asset investment

Fixed asset investments comprise an investment of £1 for an ordinary share in Energy4All Limited.

	2014	2013
3 Debtors		
Trade debtors	8,947	8,553
Prepayments and accrued income	109,724	80,860
	<u>118,671</u>	<u>89,413</u>
4 Creditors		
Trade creditors	9,023	8,553
Accruals	47,430	15,200
Members share interest (includes uncashed amounts from previous years)	140,967	151,417
VAT	-	3,711
	<u>197,420</u>	<u>178,881</u>

5 Called up share capital

1,581,925 Ordinary Shares of £1 each issued in order to fund the acquisition of a Royalty Instrument with Loan Note element.