

# **Kilbraur Wind Energy Co-operative Ltd**

## **Annual Report, AGM Notification and Summary Financial Statements for the year ended 31<sup>st</sup> December 2013**

# Kilbraur Wind Energy Co-operative Ltd

## Annual Report, AGM Notification and Summary Financial Statements for the year ended 31<sup>st</sup> December 2013

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## Society Information

<b>Directors</b>	Colin Lawrence Nigel Jones John MacDonald Malcolm Moss Graham Phillips John Whitfield
<b>Chairman</b>	Colin Lawrence
<b>Company Secretary</b>	Annette Heslop
<b>Registered Number</b>	2701RS
<b>Registered office</b>	Registered Office: Floor 3, The Co-operative Group Newhouse Composite Distribution Centre 401 Edinburgh Road Newhouse Lanarkshire ML1 5GH
<b>Administration Address</b>	Unit 33, Trinity Enterprise Centre Furness Business Park Barrow-in-Furness LA14 2PN
<b>Auditors</b>	Melville & Co. 18 Trinity Enterprise Centre Furness Business Park Barrow-in-Furness Cumbria LA14 2PN
<b>Bankers</b>	Co-operative Bank plc 1 Balloon Street Manchester M60 4EP
<b>Solicitors</b>	Bates, Wells & Braithwaite 2-6 Cannon Street London EC4M 6YH
<b>Number of members on 31/12/2013</b>	521

## Chairman's Report – Year ending 31st December 2013

2013 was the Co-op's fifth full financial year and the second 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.

From the outset, the Co-op has banked exclusively with the Co-operative Bank. The bank has provided a very good service and, because our Co-op is a member of Co-operatives UK, it receives free banking services from the Co-operative Bank. In terms of service, the Board has no reason to change the Co-op's banking arrangements. However, the Board regards the safeguarding of Members' funds as a high priority and has reviewed our banking arrangements in the light of the recent issues surrounding the Co-operative Bank. As an organisation with a turnover of less than £1million per annum, the Co-op is protected by the Financial Services Compensation Scheme (FSCS) which guarantees deposits of up to £85,000 per banking licence. The Co-op's deposits significantly exceed £85,000 on occasions during the year (particularly immediately prior to the payment of share interest), and consequently the Board has decided to divide the Co-op's funds between two banking groups, thereby providing a guarantee of £170,000 under the FSCS. Although there may be occasions when the Co-op's deposits exceed this amount, the Board feels that the cost and complexity of dealing with a third bank outweigh the risk to the Co-op's funds. In order to provide local business banking arrangements, the Board has selected Royal Bank of Scotland (RBS) as its second bank. Although the Co-op is unable to obtain free banking services from RBS, the Board feels that the convenience of local banking and the additional security provided by the increased FSCS guarantee outweigh the limited additional costs.

In addition to the actions outlined above, as a precaution against major problems in the banking sector in the future the Board has included an Agenda Motion seeking Members' permission to make interim payments of share interest should the Board consider the Co-op's funds to be at risk. Co-op Rule 21.2 gives authority to the Board to make interim dividend payments without the approval of a General Meeting but, as this would be a significant departure from the normal arrangement of a single annual payment of share interest that Members have come to expect, the Board feels that it is appropriate to seek specific approval from Members for this power to be held in reserve. Paying an interim dividend would involve a cost to the Co-op, but the Board would weigh this against the perceived level of the risk. Any such payment would be likely to be made in or around December.

At the 2013 AGM I drew Members' attention to Falck's intention, stated in its business plan, to sell up to a 49 per cent interest in its UK windfarm operations. Those include Kilbraur Wind Energy Limited (KWEL), the operating company for the Kilbraur windfarm in which the Co-op has its stake. I am able to inform you that Falck has been successful in identifying a partner organisation for this purpose, and that it has reached an agreement with Copenhagen Infrastructure 1 to purchase a 49 per cent stake. Copenhagen Infrastructure 1 is a fund administered on behalf of PensionDanmark. The fund has equity of six billion Danish Kroner (approximately £660 million) which is intended to fund infrastructure investments in Europe and North America. This arrangement puts the funding of KWEL on a secure footing for the foreseeable future, and the Board has received a written assurance from Falck that the Co-op's financial position will not be adversely affected by the new arrangement. 2013 was the best year yet for wind speeds at Kilbraur windfarm, with January, April, November and particularly December being well above budget. More detailed information on this subject is

contained in the Directors' Report. We are able to offer Members share interest of 9.49 per cent for the 2013 financial year, and this is covered by an Agenda Motion. Although the rate of return falls slightly short of the average 10.25 per cent projected in the original share offer document, I hope that Members will agree with me that, taken with the previous annual interest payments of 6.7, 7.7, 11.5 and 8.6 per cent, this represents a reasonable rate of return compared with alternative investments over the same period.

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 six directors since the 2013 AGM. I would like to thank John Whitfield, Graham Phillips, Nigel Jones, John Macdonald and Malcolm Moss for their commitment to the Board during the past year. This year it is the turn of Graham Phillips and John Whitfield to retire by rotation, and both have indicated their willingness to stand for re-election. These re-appointments are covered by Agenda Motions.

Finally, I would like to thank you for your continued support of the Co-op, and I look forward to being able to report on its future success.

Colin Lawrence  
Chairman  
Kilbraur Wind Energy Co-operative Ltd.  
May 2014

## **DIRECTORS' REPORT**

### **FOR THE YEAR ENDED 31 DECEMBER 2013**

#### **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 2013:

Colin Lawrence	
Nigel Jones	(Appointed 26 June 2013)
Malcolm Moss	(Appointed 26 June 2013)
John MacDonald	(Appointed 26 June 2013)
Graham Phillips	
Graham Strachan	(Resigned 08 February 2013)
John Whitfield	
Ian Whyte	(Resigned 26 June 2013)

In accordance with the Co-operative's rules of Association, Graham Phillips and John Whitfield 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 Graham and John 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 2013. Details of the total value of fees paid are provided in the Notes to the Summary Profit & Loss Account.

#### **Directors' responsibilities**

The directors are responsible for preparing the financial statements in accordance with applicable law and regulations. The rules of the Co-operative require the directors to prepare financial statements for each financial year. Under those rules 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). The financial statements are required by law to 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 Industrial and Provident Societies Acts 1965-2002. 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.

### 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

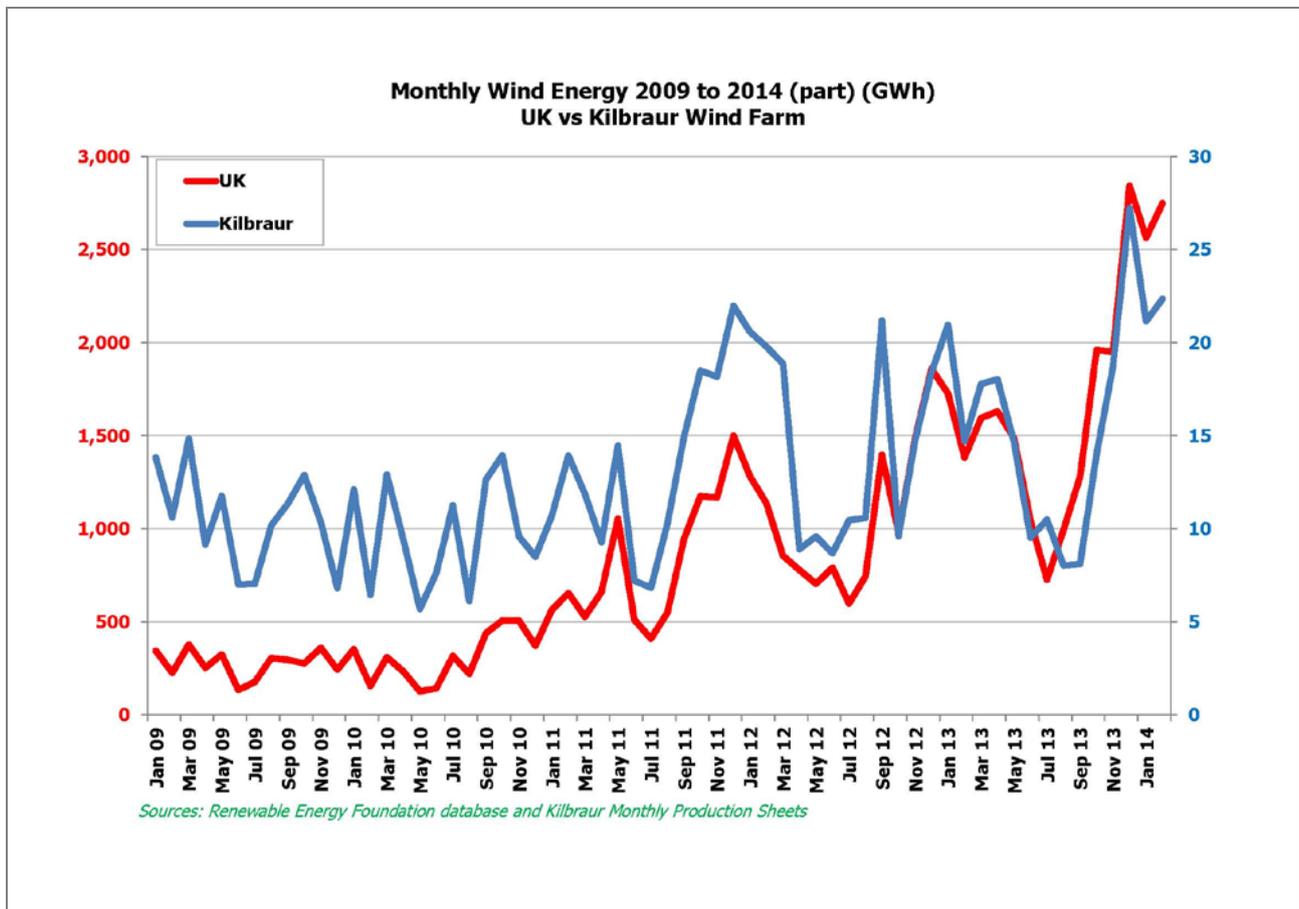
2013	P50 Budgeted Output MWh	Actual Output MWh	Cumulative % of P50 forecast
January	20,070	20,950	104%
February	21,380	14,710	86%
March	20,860	17,777	86%
April	17,680	18,026	89%
May	15,240	14,639	90%
June	15,190	9,527	87%
July	11,720	10,488	87%
August	12,440	8,025	85%
September	14,080	8,105	82%
October	17,590	13,991	82%
November	18,450	18,660	84%
December	17,240	27,230	90%
<b>Totals</b>	<b>201,940</b>	<b>182,128</b>	

Production during 2013 is approximately 10% 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. For the first time, a summary of share transfers is included in this report. A summary of the presentation to be made at the AGM, 'A brief history of the Kilbraur area' is also included for those unable to attend the AGM.

### 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 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). The annual production from Kilbraur remains at around 1% of the UK overall wind energy production, although this is reducing as more capacity comes on line elsewhere in the UK. The recent winter has seen particularly good wind at Kilbraur and throughout the UK. 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.



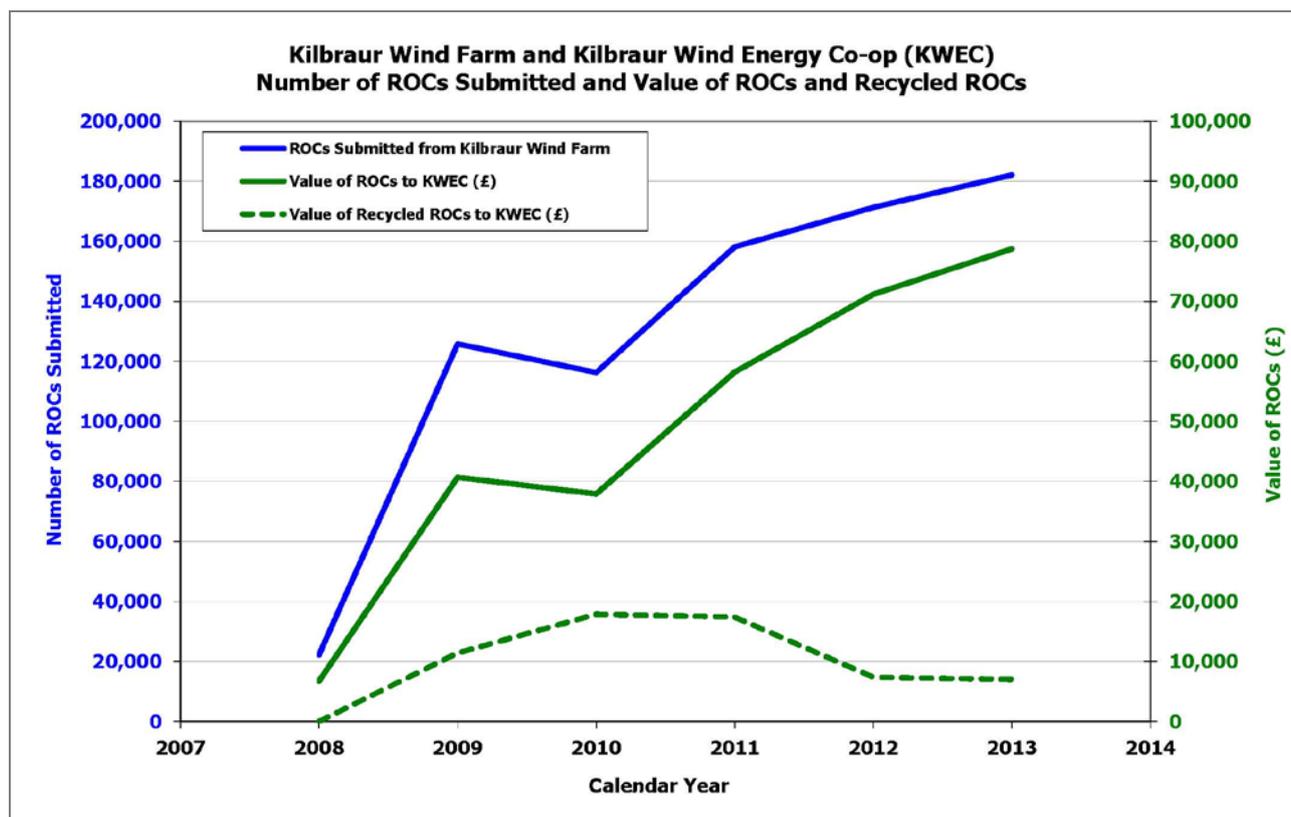
### Sources of income for the Co-op and their variation with time

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 2013, Kilbraur wind farm received payment for 182,118 ROCs (compared with 171,272 ROCs in 2012). 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 fell sharply (from around 30% of the total number of ROCs to less than 10%) in the last obligation period (2011-12) on which the board reported last year. This portion of the income to Kilbraur wind farm and all similar accredited renewable generating stations has remained at a similar level to last year. The Co-op's income from recycled ROCs in 2012-13 was £7,009, down slightly from £7,372 in 2011-12 (increased from the reported

figure in last year's report of £6,960 during the UK-wide consolidation process) and £17,379 in 2010-2011. 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 developed a comprehensive 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. In the past year, a number of the risks identified by the board materialised. The problems at the Co-operative Bank has resulted in the board moving to open an additional bank account to ensure the safety of members' funds. The sale of a stake in the wind farm has led to the board keeping in close contact with Falck and Energy4All to ensure that the interests of the members are protected.

### Share Transfers

The number of Co-op members changes slightly through the year due to a number of factors. 3 members have died and 10 members have transferred or sold their shares to another 31 members.

On 31 December 2013, the Co-op had a total of 521 members. The following table summarises the changes since the first approved transfer on 15 May 2012 up to 31 December 2013:

Number of £1 shares		% of total 1,581,925 shares:
Transferred	30,500	1.93%
Sold (and re-purchased by other members)	19,750	1.25%
Number of members		% of total original membership:
Net effect on total Co-op membership	-7	-1.32%

# Kilbraur Wind Energy Co-operative Limited

## Notice of Annual General Meeting to be held on Wednesday 25<sup>th</sup> June 2014

**NOTICE** is given that the Annual General Meeting of members will be held at 6:30pm on Wednesday 25<sup>th</sup> June 2014 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 David Lawson, 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 26<sup>th</sup> June 2013 (circulated July 2013).
5. **Motion 2:** To receive and adopt the Report of the Directors and the annual Accounts for the period ended 31<sup>st</sup> December 2013, 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:** To authorise the Co-operative's Board to make interim payments of share interest should it consider the Co-operative's funds to be at risk (please see the explanatory paragraph in the Chairman's Report).
9. **Motion 6:** To re-elect Graham Phillips as a Director of the Co-op.
10. **Motion 7:** To re-elect John Whitfield as a Director of the Co-op.

### Close of Formal Business

By order of the Board

Annette Heslop,  
Company Secretary  
15<sup>th</sup> May 2014

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

Administration Address:  
Unit 33, Trinity Enterprise Centre  
Furness Business Park  
Barrow in Furness  
Cumbria LA14 2PN  
Tel: 01229 821028 [info@kilbraur.coop](mailto: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 four members and this year Graham Phillips and John Whitfield 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 Graham and John to the Board through a motion.

## Biographical Notes

### Retiring Director Seeking Re-election

#### **Graham Phillips – Golspie, Sutherland**

Graham is married to Scilla, lives in Sutherland at Littleferry and has been a KWEC Director since 2010. He is Highland Councillor for East Sutherland & Edderton where he chairs the TEC Services Committee and the Fishery Harbours Board, and is a Director of HITRANS

He is also a Director of local consultancy Phillips Aitchison, with experience ranging from international big business to locally based community projects.

On the corporate side Graham has spent over 30 years consulting at Main Board level on a wide variety of topics. This means he can offer a broad professional background to the Kilbraur Co-op. Work has included corporate strategy, mergers and acquisitions, turning round a multinational manufacturing group, auditing an international bank, commercial tendering, and setting up systems for governance, risk management and compliance.

Community projects include feasibility studies for a new Community Centre, for a Community Sports Hub, and for a Visitor Centre in the NW Sutherland Geopark; training for voluntary organisations, chairing a Chamber of Commerce initiative to set up a CCTV scheme in an area suffering from street crime, and setting up the first community run housing for local needs scheme in the UK.

Graham previously worked at Ernst & Whinney, PWC and PA Consulting Group.

#### **John Whitfield – Helmsdale, Sutherland**

John was born in Malaysia in 1964, with family roots in Ross-shire. He graduated from Edinburgh University in 1987 with a degree in civil engineering and has designed and built many and varied facilities, including dams, roads, bridges and towers and been responsible for multimillion-pound projects both in the UK and overseas (Botswana and Abu Dhabi).

John has been a member of the Kilbraur Wind Energy Co-operative board since his election in June 2009. Based in Sutherland, John has been an active member of the board, serving as secretary for almost 4 years, taking a keen interest in the wind farm production figures.

John has a keen interest in promoting local small-scale renewable energy projects. He is actively working on domestic energy conservation and micro-generation and on the development of sustainable community projects in Brora and Helmsdale.

The members of the board retire in rotation and John seeks re-election to the board in order to complete the tasks that the current board has initiated.

**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 2013 set out on pages 12 and 13.

## **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 2013 and have been prepared in accordance with relevant guidance and regulations.



29/04/14

**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 2013

	Notes	2013 £	2012 £
<b>Share of net operational income of wind farm</b>		209,454	197,059
Cost of sales	1	(55,682)	(56,860)
<b>Gross profit</b>		153,772	140,199
Administrative expenses	2	(18,486)	(29,389)
Other operating income	3	14,261	24,992
<b>Operating profit</b>		149,547	135,802
Other interest receivable	4	593	735
<b>Profit on ordinary activities before taxation</b>		150,140	136,537
Tax on profit on ordinary activities		-	-
<b>Profit for the period</b>	5	150,140	136,537
<b>Members Return on Investment</b>			
Gross Return		9.5%	8.6%

### 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 (£3,019), directors expenses, management & admin charges (£14,261).

#### 3 Other operating income

Re-imbursable admin & management charge (£14,261).

#### 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 2013

	Notes	2013 £	£	2012 £	£
<b>Fixed Assets</b>					
Intangible assets	1	1,581,925		1,581,925	
Investments	2		1		1
			<u>1,581,926</u>		<u>1,581,926</u>
<b>Current assets</b>					
Debtors	3	89,413		72,851	
Cash at bank		89,467		90,650	
		<u>178,880</u>		<u>163,501</u>	
<b>Creditors: amounts falling due within one year</b>	4	<u>(178,881)</u>		<u>(163,502)</u>	
<b>Net current assets</b>			(1)		(1)
<b>Total assets less current liabilities</b>		<u>1,581,925</u>		<u>1,581,925</u>	
<b>Capital and reserves</b>					
Called up share capital	5	1,581,925		1,581,925	
<b>Shareholders' funds</b>		<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.

	2013	2012
<b>3 Debtors</b>		
Trade debtors	8,553	9,585
Prepayments and accrued income	80,860	63,266
	<u>89,413</u>	<u>72,851</u>
<b>4 Creditors</b>		
Trade creditors	8,553	9,585
Accruals	15,200	14,855
Members share interest (includes uncashed amounts from previous years)	151,417	137,569
VAT	3,711	1,493
	<u>178,881</u>	<u>163,502</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.