ElectraLink

Annual Report & Financial Statements

Company Registration No. 03271981

Contents

Directors & Officers

Directors

K D Lee	Non Executive Director and Chairman
H Jones	Non Executive Director
T McEntee	Non Executive Director
D Mutton	Non Executive Director
D Shattock	Non Executive Director
S Lacey	Executive Director

Officers

S Lacey	Chief Executive
B O'Shea	Chief Financial Officer and Company Secretary
P Gath	Chief Technical Officer
G Jones	Business Development Director

Registered Office

Ground Floor, Grafton House
2-3 Golden Square
London
WIF 9HR

Professional Advisers

Bankers

HSBC plc
60 Queen Victoria Street
London
EC4N 4TR

Solicitors

Marshall Haines
351 Norton Way South
Letchworth
Hertfordshire
SG6 1SZ

Herbert Smith LLP
Exchange House
Primrose Street
London
EC2A 2HS

Auditor

Deloitte LLP
London
United Kingdom

Chairman's Report

"We have made significant progress in focusing and developing our commercial activities in support of electricity and gas companies' requirements for data management and governance."

I am pleased to report on a year when ElectraLink has performed well in both service delivery and financial performance. Our core business in data transfer services has performed excellently and our independently conducted survey has shown further improvement in our industry leading customer satisfaction ratings. We have grown our commercial business in data and governance services significantly in the face of aggressive competition. In addition to attending successfully to the 'here and now', we have continued to prepare our own business and support our customers for the challenges to the energy industry which will arise from the Smart meter roll out, Smart networks and the ongoing pressure on all players to achieve further operational efficiencies.

The company's financial performance reflects the composite of both its core activity of funding and operating the Data Transfer Service (DTS) on behalf of UK electricity industry companies and its commercial activities, which provide data and governance services across the energy sector. We have made significant progress in focusing and developing our commercial activities in support of electricity and gas companies' requirements for data management and governance. For me one of the year's highlights has to be an increase of 42% in the company's profits from its commercial business, having retained and won additional business across the sector in a highly competitive marketplace.

Profitability of our core DTS can vary significantly from year to year because the operating costs of this service are charged to our accounts in the year in which they are incurred. They are funded by the company in that year and recovered from DTS users in subsequent years. DTS revenues effectively equated to DTS operating and amortisation costs in 2012. The net financial effect of the DTS has moved from the substantial loss incurred in 2011, which reflected our investment in that year in order to analyse and respond to the requirements of Smart and their consequences for the DTS, into a broadly neutral impact on our profits in 2012. As a consequence of these favourable movements in both commercial and DTS activities, the company as a whole has moved to a £808k pre-tax profit in 2012 from a loss of £164k in 2011 and the company's balance sheet had strengthened to £5.4m by the year end, strong enough to fund further DTS investment and to support the further growth anticipated in our business plan.

Chairman's Report

"We have the proven capability to develop the accompanying business processes, governance arrangements and technical solutions."

The timing of investment in the underlying Data Transfer Network ('DTN') infrastructure is in part influenced by the evolution of the government's Smart Metering Implementation Programme (SMIP). Accordingly, in 2012 we have been able to defer or avoid some DTN investment, and the need to fund this, whilst still ensuring we retain our full capability to respond to industry requirements as Smart progresses in the future.

Although the company's board decided not to pay a dividend for 2012, it will be clear from the foregoing that this does not reflect any lack of underlying company profitability. Our Board simply wishes to ensure the company's balance sheet strength is maximised in anticipation of the potential funding requirements of future DTS developments or commercial business opportunities as the energy industry embarks on a substantial new phase of its development,

The company has continued to pursue its aim of being the service provider of choice for electricity and gas data transfer as we enter the world of Smart metering and Smart networks. We have assets which can provide reliable, resilient and secure Smart transfer services for both gas and electricity, with lower implementation risk than any alternative that would have to be built 'from the ground up'. We have the proven capability to develop the accompanying business processes, governance arrangements and technical solutions. We are thus well positioned as a company to deliver these services for the economic benefit of the energy industry and its customers as a whole.

On behalf of the Board, may I again thank our shareholders for their support in 2012 and our executives and staff for their efforts in another year of excellent operational results and significant business progress.

Kevin Lee
Chairman

Chief Executive's Report

"These excellent results are a tribute to the dedicated ElectraLink team and our service suppliers."

I am pleased to report that ElectraLink has continued in 2012 to grow and develop its business. The UK energy market is preparing for a period of profound change with the Department of Energy and Climate Change ("DECC") implementing the Smart Meter Implementation Programme ("SMIP") in preparation for the mass deployment of Smart meters across Great Britain ("GB").

ElectraLink has supported DECC in this endeavour and the regulated Data Transfer Service ("DTS") provided by the Company will continue to play a vital role in the electricity market for the foreseeable future, facilitating competition through the provision of low cost and secure data transfer between market participants. This role was further reinforced by DECC's decision in 2012 to utilise the DTS as the data transfer mechanism for the Green Deal market arrangements.

ElectraLink ended 2012 in a strong financial position with a net asset position of £5.4m (2011: £4.8m) and aggregate cash at bank and cash investments of £4.2m (2011:£3.4m). The business returned an 11.0% (2011: 2.6% loss) net profit before tax return on sales for 2012. The DTS experienced improved financial performance based upon the agreed 2012 price increase, the effective management of business as usual operating expenses and lower extraordinary costs incurred in relation to the support of the transformation of the industry. ElectraLink's commercial business performed well with revenue growth (after elimination of cross charges) of 33% (2011:34%).

During 2012 ElectraLink continued to deliver service excellence for our customers both for the DTS and our other commercial services, measured against our contracted service levels. Furthermore the results achieved in ElectraLink's annual Customer Satisfaction Survey, carried out on our behalf by an independent market research consultancy, again showed very high levels of customer satisfaction, ranking ElectraLink at the top of the energy market central bodies on this measure. These excellent results are a tribute to the dedicated ElectraLink team and our service suppliers.

In February 2012 the users of the DTS gave ElectraLink the permission to examine and analyse their transferred data. The data crossing the DTS relates to the key processes of the competitive GB electricity market including change of supplier, meter installation and pre-payment. Analysis of this data provides the energy industry, for the first time, with full visibility of the end to end processes

Chief Executive's Report

underlying the operation of the market. By providing industry with this improved transparency ElectraLink is able to facilitate competition, the realisation of significant operational improvements by market participants and a reduction of risk associated with smart meter asset deployment.

ElectraLink provides these data services on a commercial basis and in 2012 the company invested in the infrastructure and people skills required to examine and analyse the energy market data crossing the DTS. With the continued evolution of the GB energy market, we are now well positioned to provide these unique data services in support of suppliers and distributors of energy in GB as they evolve their business models within the smart world.

The operation of the GB energy market is governed by a number of industry codes which define how the market's participants interact with each other to provide services to consumers. ElectraLink provides governance services for a number of these codes and is unique in that it provides support to codes in both the electricity and gas industries. The deployment of smart meters is encouraging a convergence of the arrangements governing electricity and gas and ElectraLink is well positioned to take advantage of this evolution to 'dual fuel' codes. In 2012 we renewed successfully our contract to provide governance services in support of the Distribution Connection and Use of System Agreement ("DCUSA") expanding the scope and scale of the services we provide. In gas, the scope of the Supply Point Administration Agreement ("SPAA") expanded and ElectraLink managed the successful migration of the Meter Asset Manager Code of Practice arrangements for Ofgem into SPAA.

Looking forward to 2013 we see a number of opportunities within the new energy market landscape to grow ElectraLink's business sustainably. ElectraLink is continuing to engage within the SMIP process using its existing infrastructure and procurement capabilities to propose cost effective industry connectivity and data aggregation solutions for the Data and Communications Company ("DCC"). 2013 will also see the appointment of the Smart Energy Code Administration Service provider with ElectraLink well positioned in terms of skill, experience and market credibility to provide a high quality and cost effective service to the industry.

ElectraLink will continue in 2013 to invest in the data infrastructure, skills and governance capabilities required to support these and other opportunities. We have a unique position in the GB energy market as a central body owned by the electricity distribution network operators ("DNOs") which operates across the whole of retail electricity and large parts of the retail gas markets. In 2013 ElectraLink will leverage this position to provide a set of services that help the GB energy industry to improve operational efficiency, reduce risk and provide services to their customers which are both affordable and have the minimal impact on the environment.

Stuart Lacey
Chief Executive

Directors' Report

The directors present their annual report and the audited financial statements for the year ended 31 December 2012.

Principal activity

The principal activity of the company is the provision of the Data Transfer Service ("DTS"), which underpins the effective and efficient exchange of business critical data between electricity supply, distribution, meter agents and the balancing and settlement code company in the UK domestic electricity supply market.

The company also provides data management services to customers in the wider electricity and gas markets in support of their Distribution Use of System ("DuoS"), Gas Metering, Notification of Old Supplier Information ("NOSI"), Review of Gas Metering Arrangements ("RGMA") and File Cloner activities.

The company has diversified its technology service portfolio to encompass website design and delivery in addition to continuing to provide sector leading secretarial, administrative and financial management services in support of governance arrangements in both the electricity and gas markets. The company also provides professional services in support of its technology service portfolio.

Review of operations and future work

The company has ended the year in a strong financial position with sufficient net assets and liquid resources available to meet all our anticipated trading and operational commitments for the coming year. Net assets at the year end are £5.4m (2011: £4.8m) and working capital is £4.3m (2011: £3.4m). The company had aggregate cash at bank and cash investments, see note 15, of £4.2m (2011:£3.4m) at the year end date.

Overall the company generated an 11.0% (2011: 2.6% net loss) net profit before tax return on sales, reflecting:

- The improved financial performance of the DTS due to the price increase agreed for 2012, the effective management of normal business as usual operating expenses and the lower costs incurred in 2012 in relation to the support of the DECC SMIP program, and
- Strong performance of our commercial technology and governance services with growth in both revenues and operating profits.

The DTS continues to be provided in accordance with the DTS Charging Principles which set out the cost pass-through and investment recovery arrangements for that service. Any accelerated or delayed investment recovery in one year is a timing item reversed in the subsequent year through a "k factor" adjustment to the pricing, thus impacting profits in that subsequent year.

2012 saw the DECC SMIP mobilise into its procurement phase. ElectraLink, in its central industry, continued to support this programme through

Directors' Report

provision of both internal and external resources and through the evaluation of the technical, legal and regulatory requirements for ElectraLink to perform the data transfer services under the requirements of Smart Metering.

The 2012 costs (refer note 3) incurred in relation to the required support are 44% lower than the prior year and will be recovered under the DTS Charging Principles during 2013. 2012 has seen the introduction of the industry Green Deal initiative, with the DTS selected as the network and communications partner, again reflecting the industry confidence in the DTS.

In 2012 ElectraLink continued to deliver sector leading service excellence, as demonstrated by the growth of new technology contracts and expansion of existing governance services contracts, and coupled with our ongoing marketing activities in the year this has provided us with a sound foundation on which to build our commercial services portfolio. During 2012 the company continued to invest in strengthening its market position, through contribution to and participation in industry initiatives as well as increasing our internal delivery and development resource.

Through our market position and development of alliances and partnering arrangements, ElectraLink is recognised as a key contributor to the future success of the UK Smart metering rollout. 2012 has seen engagement, on a commercial basis, with the DECC selected Data Service Providers ("DSPs") as part of ElectraLink positioning in relation to providing the communications network infrastructure to the DSPs as part of the overall Smart Metering solution.

The challenge for the coming year will be to continue to build upon our excellent service delivery record and increase and expand our service portfolio in the UK utilities markets, capitalising on technology and governance opportunities arising out of the planned roll out of Smart metering and the continued development of centralised data services capability.

Financial risk management

The main financial risk faced by the company through its normal business activities is credit risk. Credit risk is the potential exposure of the company to loss in the event of non-payment by customers. The company controls customer credit risk through credit approval procedures and monitoring. The credit risk in respect of trade receivables is also mitigated by the majority of the company's customers being reputable utility companies with a high market standing.

Directors

The directors who served throughout the year were:

K D Lee *(Chairman)*
T McEntee
H Jones
D Mutton
R Hey
(resigned 17 May 2012)
D Shattock
(appointed 17 May 2012)
S Lacey

Results and dividends

The audited accounts for the year ended 31 December 2012 are set out on pages 16 to 37.

The company's profit after tax for the year ended 31 December 2012 was £606,811 (2011: £119,658 loss).

The directors do not recommend the payment of a final dividend (2011: £nil). No interim dividend was declared or paid during the year (2011: £350,035).

Directors' Report

Statement of disclosure of information to auditor

Each of the directors at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- the director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This information is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Auditor

Deloitte LLP have expressed their willingness to continue in office as auditor and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Corporate governance: Board statement

ElectraLink is committed to maintaining high standards of corporate governance throughout its activities. The company is a private limited company and is not subject to the corporate governance principles and practice set out in the June 2010 UK Corporate Governance Code ("the Code") as incorporated in the UK Listing Authority Listing Rules. However, the Board has adopted those provisions in the June 2010 edition of the Code on corporate governance and in respect of the conduct of audit committees which the directors consider appropriate for the Company.

The Board

There is an effective and appropriately constituted Board which receives such information as required to properly fulfil its duties. The Board currently comprises a Non-Executive Chairman; four Non-Executive Directors and one Executive Director who together bring a wide range of skills and experience to the Board. All directors are obliged to submit themselves for re-election at least every three years.

The Board normally meets every month and may meet on an ad hoc basis to consider matters which are time critical. The Board's principal focus is the overall strategic direction, development and operation of the company. In support of this focus, the Board approves the company's annual budget, capital expenditure proposals, business development plans, governance and compliance and has oversight of the company's operating and financial performance. The Board is also responsible for the company's overall system of internal controls.

The Board takes the opportunity afforded by the AGM to ensure the company's operating performance and future plans are communicated to shareholders. In addition, the company's forward looking business plan is presented to shareholders at the end of each financial year and shareholders are provided regular updates on key strategic matters throughout the year.

Principal Board committees

The Board has established Audit, Remuneration and Nomination committees comprising the Non-Executive Directors only supported by members of the executive management team and professional advisers as required to ensure appropriate governance procedures and controls are applied.

The Audit Committee is chaired by the Non-Executive Chairman and its terms of reference include the review of the company's annual financial statements,

Directors' Report

accounting policies and internal management and financial controls. It also considers the appointment and fees of the external auditors and reviews the audit scope as well as the findings and management letters arising from audits. The fees for non audit services provided by the auditors are reviewed and agreed by the Board. Company Officers and the external auditors attend meetings at the request of the committee.

The Remuneration Committee's key role is to determine the appropriate levels of remuneration for the company's executive management team. Directors' remuneration is set at the level appropriate to the size of the business and commensurate with the need to run the business successfully and is approved by the shareholders at the AGM.

The Nominations Committee considers arrangements for the appointment of directors and appointments of senior managers within the executive management team.

Internal control

The Board is responsible for the company's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and is not an absolute assurance against material misstatement or loss.

The Board has reviewed the key business, financial, operational and compliance risks facing the company, prioritised their significance and determined current procedures and processes in place to detect and address them. The Board has also developed a mechanism for the monitoring of risk and associated controls and a company risk register is reviewed by the Board quarterly.

Going concern

The company's business activities, together with factors likely to affect its future development, performance and position are set out in this report, the Chairman's report and the Chief Executive's report. These reports also outline the company's financial position, liquidity position and financial risk management risks.

The company has considerable financial resources, no borrowings and, due to the nature of its core business, a secure revenue stream. As a consequence, the directors believe that the company is well placed to manage its business risks successfully despite the current uncertain economic outlook.

After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

Approved by the Board of Directors and signed on behalf of the Board

K D Lee
Director
21 March 2013

Statement of Directors' Responsibilities

The directors are responsible for preparing the annual 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 these 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; and
- 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 with reasonable accuracy at any time the financial position of the company and to 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

We have audited the financial statements of ElectraLink Limited for the year ended 31 December 2012 which comprise the profit and loss account, the balance sheet, the cash flow statement and the related notes 1 to 18.

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 auditor

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

Scope of the audit of financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Directors', Chairman's and Chief Executive Officer's reports to identify any material inconsistencies with the audited financial statements.

If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Independent Auditor's Report

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2012 and of its 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 matters prescribed in the Companies Act 2006

In our opinion the information 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, 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;
- the directors were not entitled to take advantage of the small companies exemptions in preparing the Directors' Report; or
- we have not received all the information and explanations we require for our audit.

Dean Cook MA FCA
(Senior Statutory Auditor)

for and on behalf of

Deloitte LLP
Chartered Accountants
and Statutory Auditor
London, United Kingdom
21 March 2013

Profit and Loss

Year ended 31 December 2012

	Notes	2012 £	2011 £
Turnover	2	7,363,680	6,344,502
Cost of sales		(3,204,892)	(3,073,023)
Gross profit		4,158,788	3,271,479
Operating expenses	3	(3,381,100)	(3,463,565)
Operating profit/ (loss)		777,688	(192,086)
Interest receivable and similar income	4	29,889	27,754
Profit/ (loss) on ordinary activities before taxation	5	807,577	(164,332)
Tax (charge)/ credit on profit/(loss) on ordinary activities	7	(200,766)	44,674
Profit/ (loss) on ordinary activities after taxation	14	606,811	(119,658)

The company's results are all derived from continuing activities. There are no recognised gains or losses in either year other than the profit for this year and the loss in previous year and as such no separate statement of recognised gains and losses is presented.

Balance Sheet

Year ended 31 December 2012

	Notes	2012 £	2011 £
Fixed assets			
Tangible assets	9	1,093,192	1,434,654
Current assets			
Debtor: amounts falling due within one year	10	1,526,121	1,312,268
Debtors: amounts falling due after one year	10	3,383	7,702
Investments	11	2,819,025	2,796,840
Cash at bank and in hand		1,409,760	600,435
		5,758,289	4,717,245
Creditors: amounts falling due within one year	12	(1,416,121)	(1,323,350)
Net current assets		4,342,168	3,393,895
Total assets less current liabilities		5,435,360	4,828,549
Net assets		5,435,360	4,828,549
Capital and reserves			
Called up share capital	13	1,000	1,000
Profit and loss account	14	5,434,360	4,827,549
Shareholders' funds	18	5,435,360	4,828,549

The financial statements of ElectraLink Limited, registered number 03271981 were approved by the Board of Directors on 21 March 2013.

Signed on behalf of the Board of Directors,

K D Lee,
Director

Cash Flow Statement

Year ended 31 December 2012

	Notes	2012 £	2011 £
Net cash inflow from operating activities	15(a)	1,028,035	622,208
Returns on investments and servicing of finance			
Interest received		30,413	28,693
Taxation			
Taxation refund/ (paid)		42,328	(107,381)
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		(269,266)	(248,753)
Equity dividends paid			
Dividends paid		-	(350,035)
Management of liquid resources			
(Increase)/ decrease in short-term investments	15(b)	(22,185)	230,534
Increase in cash	15(c)	809,325	175,266

Notes to the Financial Statements

Year ended 31 December 2012

1. Accounting policies

A summary of the principal accounting policies is set out below, all of which have been applied consistently throughout the year and the preceding year.

Basis of accounting

The accounts have been prepared under the historical cost convention and in accordance with the Companies Act 2006 and applicable United Kingdom law and accounting standards.

Going concern

The financial statements have been prepared on the going concern basis for the reasons set out in the Directors' Report

Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment. Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over its expected useful life, as follows:

DTS asset	over life of service contract
Leasehold improvements	over life of lease
Fixtures and fittings	three years
Computer equipment	three years

Turnover

Turnover represents amounts receivable for services provided in the normal course of business, net of trade discounts, VAT and other sales related taxes.

Cost of sales

Cost of sales represents amounts payable for services received from external network service providers on an accruals basis.

Pension costs

For defined contribution schemes the amount charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the contributions payable in the year.

Notes to the Financial Statements

Year ended 31 December 2012

1. Accounting policies

Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

Finance costs

Finance costs which are directly attributable to the construction of tangible fixed assets are capitalised as part of the cost of those assets. The commencement of capitalisation begins when both finance costs and expenditures for the asset are being incurred and activities that are necessary to get the asset ready for use are in progress. Capitalisation ceases when substantially all the activities that are necessary to get the asset ready for use are complete.

Recognition of profits and losses

The accounts have been prepared on the basis of revenues and costs incurred in the year, which are considered to reflect the services provided in the year.

Taxation

UK corporation tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

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.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the 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 assets and liabilities are not discounted.

Leases

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis.

Notes to the Financial Statements

Year ended 31 December 2012

2. Segment reporting

The company's turnover is derived from the delivery of data transfer services, other technology services and the provision of administration and secretarial support services to the electricity and gas companies and is 100% earned in the UK.

3. Operating expenses

Operating expenses for the year included the following:

	2012 £	2011 £
Smart Metering Implementation Program	174,756	182,483
Regulated DTN environment	103,360	281,341
Data services proof of concept	-	145,448
	278,116	609,272
Less: internal recharge of commercial staff	(22,163)	(154,166)
	255,953	455,106

Notes to the Financial Statements

Year ended 31 December 2012

3. Operating expenses

As discussed in the Directors' Report, additional operating expenses have been incurred in the current year, outside the normal course of business. The costs are set out above and comprise: expenses associated with provision of resources to the Department of Energy and Climate Change in support of the Smart Metering Implementation Program project and costs incurred in the evaluation of the technical, legal and regulatory requirements for ElectraLink to perform the data transfer functions for the Green Deal arrangements. The internal commercial staff costs reflect the charging of non DTS staff to the DTS for services, based upon the opportunity costs of these resources. As these are an internal allocation of cost, they have been eliminated from both revenue and costs for purposes of the statutory accounts.

4. Interest receivable and similar income

	2012 £	2011 £
Interest receivable	29,889	27,754

The interest receivable is generated from short term cash deposits and late payment interest charges.

Notes to the Financial Statements

Year ended 31 December 2012

5. Profit/ (loss) on ordinary activities before taxation

Profit/ (loss) on ordinary activities before taxation is stated after charging:

	2012 £	2011 £
Depreciation of tangible fixed assets	610,728	548,417
Operating lease rentals		
- plant and machinery	4,375	2,539
- property rental	131,129	131,129
Auditor's remuneration		
- audit fees - payable to the company's auditor for the company's annual accounts	42,500	40,150
- non-audit fees - payable to the company's auditors and their associates for other services to the Group	8,700	9,700

Notes to the Financial Statements

Year ended 31 December 2012

6. Staff costs

Employee costs (excluding executive and non executive directors' costs) during the year amounted to:

	2012 £	2011 £
Wages and salaries	1,433,183	1,211,034
Social security costs	169,795	153,749
Pension costs	126,423	101,856
	1,729,401	1,466,639

The company operates a group personal pension scheme. Contributions from the employee are on the basis of salary sacrifices elected by employees supplemented by a company matched contribution. This is accounted for as a defined contribution scheme under FRS 17. The outstanding balance at year end was £9,003 (2011: £7,868), included within creditors: amounts falling due within one year (note 12).

The average number of persons directly employed by the company during the year was as follows:

	2012 £	2011 £
Managerial, technical and administration staff	22	18

Notes to the Financial Statements

Year ended 31 December 2012

6. Staff costs

Directors' remuneration

The remuneration in respect of directors was as follows:

	2012 £	2011 £
Emoluments (excluding pension contributions)	388,376	383,391
Contribution to defined contribution scheme	7,593	7,389
	395,969	390,780

	2012 £	2011 £
Number of directors whom are members of defined contribution scheme	1	1

	2012 £	2011 £
Remuneration of the highest paid director		
Emoluments	280,792	264,081
Contribution to defined contribution scheme	7,593	7,389
	288,385	271,470

During the year the company paid a total of £37,000 (2011: £37,000) to shareholder companies for the provision of services of directors (see note 17).

Notes to the Financial Statements

Year ended 31 December 2012

7. Tax on profit on ordinary activities

The tax charge is based on the profit for the period.

	2012 £	2011 £
United Kingdom corporation tax	192,529	(47,617)
Under/ (over) provision in respect of prior years	8,237	(1,161)
Total current tax	200,766	(48,778)
Deferred tax		
Origination and reversal of timing differences	-	4,104
Total tax on profit/ (loss) on ordinary activities	200,766	(44,674)

The differences between the total current tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows:

Notes to the Financial Statements

Year ended 31 December 2012

7. Tax on profit on ordinary activities

	2012 £	2011 £
Profit/ (loss) on ordinary activities before tax	807,577	(164,332)
Tax charge/ (refund) on profit/ loss on ordinary activities at standard UK corporation tax rate of 24.5% (2011: 26.5%)	201,894	(43,548)
Effects of:		
Expenses not deductible for tax purposes	3,349	3,322
Depreciation in excess of capital allowances	(777)	(3,390)
Non qualifying depreciation	-	1,561
Marginal relief	(11,937)	(5,572)
Under/ (over) provision in respect of prior years	8,237	(1,161)
Current tax charge/ (credit) for period	200,766	(48,788)

8. Dividends paid and declared

	2012 £	2011 £
Equity shares 2012 interim dividend declared and paid £nil (2011: £35) per ordinary share	-	350,035

Notes to the Financial Statements

Year ended 31 December 2012

9. Tangible fixed assets

	DTS asset £	Leasehold improvements £	Fixtures and fittings £	Computer equipment £	Total £
Cost					
At 1 January 2012	4,926,623	180,405	60,551	200,989	5,368,568
Additions	157,723	7,276	-	104,267	269,266
At 31 December 2012	5,084,346	187,681	60,551	305,256	5,637,834
Accumulated depreciation					
At 1 January 2012	3,670,808	65,115	59,658	138,333	3,933,914
Charge for the year	546,454	21,542	354	42,378	610,728
At 31 December 2012	4,217,262	86,657	60,012	180,711	4,544,642
Net book value					
At 31 December 2012	867,084	101,024	539	124,545	1,093,192
At 31 December 2011	1,255,815	115,290	893	62,656	1,434,654

The DTS asset was capitalised in 2003 as an asset in the course of construction. Included within the DTS asset cost is cumulative capitalised finance costs of £189,847 charged at a fixed rate of 5.89%. No finance costs were capitalised in 2012 (2011: £nil). During 2007, the service contract relating to the DTS asset was extended until 2014. Accordingly, the net book value of the DTS asset is being depreciated over the extended useful life, from the date of the contract extension.

Notes to the Financial Statements

Year ended 31 December 2012

10. Debtors

	2012 £	2011 £
Amounts falling due within one year:		
Trade debtors	840,143	651,463
Amounts due from shareholders (note 17)	23,662	22,995
Other debtors	20,408	16,668
Prepayments and accrued income	641,908	570,577
UK corporation tax	-	50,565
	1,526,121	1,312,268
Amounts falling due after one year:		
Other debtors	3,383	7,702

11. Investments

Investments comprise cash deposits maturing in periods of more than 24 hours, but less than three months of the balance sheet date. All cash deposits are placed with UK banks. Our investments are held in various banks, with high credit ratings.

Notes to the Financial Statements

Year ended 31 December 2012

12. Creditors: amounts falling due within one year

	2012 £	2011 £
Trade creditors	340,618	409,784
Amounts due to shareholders (note 17)	-	22,200
UK corporation tax	192,529	-
Deferred tax liability	6,161	6,161
Other creditors	260,185	240,008
Accruals and deferred income	616,628	645,197
	1,416,121	1,323,350

Notes to the Financial Statements

Year ended 31 December 2012

12. Creditors: amounts falling due within one year

(a) Deferred tax

The movement on the deferred taxation balance is as follows:

	2012 £	2011 £
At 1 January	(6,161)	(2,057)
Debited to the profit and loss account	-	(4,104)
At 31 December	(6,161)	(6,161)

(b) Deferred tax

The amounts provided in the accounts are as follows:

	2012 £	2011 £
Capital allowances in excess of depreciation	8,128	8,128
Pension Scheme	(1,967)	(1,967)
At 31 December	(6,161)	(6,161)

Notes to the Financial Statements

Year ended 31 December 2012

13. Share capital

	2012 £	2011 £
Called up, allotted and fully paid:		
10,001 ordinary shares of 10p each	1,000	1,000

14. Reconciliation of movement in profit and loss account

	2012 £	2011 £
Profit/ (loss) after tax for the financial year	606,811	(119,658)
Dividends	-	(350,035)
Retained profit/ (loss) for the year	606,811	(469,693)
Opening profit and loss account	4,827,549	5,297,242
Closing profit and loss account	5,434,360	4,827,549

Notes to the Financial Statements

Year ended 31 December 2012

15. Cash flow information

(a) Reconciliation of operating profit to net cash inflow from operating activities

	2012 £	2011 £
Operating profit/ (loss)	777,688	(192,086)
Depreciation charges	610,728	548,417
Increase in debtors	(260,623)	(135,274)
(Decrease)/ increase in creditors	(99,758)	401,151
Net cash inflow from operating activities	1,028,035	622,208

(b) Reconciliation of net cash flow to movement in net funds

	2012 £	2011 £
Increase in cash in the year	809,325	175,266
Increase/ (decrease) in current asset investments	22,185	(230,534)
Increase/ (decrease) in net funds	831,510	(55,268)
Net funds at 1 January	3,397,275	3,452,543
Net funds at 31 December	4,228,785	3,397,275

Notes to the Financial Statements

Year ended 31 December 2012

15. Cash flow information

(c) Reconciliation of net cash flow to movement in net funds

	1 January 2012 £	Cash flows £	31 December 2012 £
Cash at bank and in hand	600,435	809,325	1,409,760
Current asset investments	2,796,840	22,185	2,819,025
Total	3,397,275	831,510	4,228,785

16. Financial commitments

At 31 December 2012, the company had annual commitments under non-cancellable operating leases as follows:

	2012		2011	
	Plant and equipment £	Other £	Plant and equipment £	Other £
Expiry date				
- between two and five years	1,853	-	2,637	-
- thereafter	-	131,129	-	131,129

Notes to the Financial Statements

Year ended 31 December 2012

17. Related party transactions and controlling parties

The company is owned by the 14 electricity distribution licence holder companies in England, Scotland and Wales with a distribution services area specified in their licence, each of whom own less than 10% of the share capital. The company provides data transfer and governance services to its shareholders and to other parties.

Year end balances due from each of its shareholders are as follows (note 10):

	2012 £	2011 £
Eastern Power Networks plc	4,500	4,500
Western Power Distribution (East Midlands) plc	2,125	1,883
Scottish Hydro Electric Power Distribution Ltd	128	108
London Power Networks plc	-	115
SP Manweb plc	161	171
Western Power Distribution (West Midlands) plc	1,628	1,652
Northern Powergrid (Northeast) Limited	1,820	2,381
Electricity North West Limited	1,752	1,783
South Eastern Power Networks plc	73	174
Southern Electric Power Distribution plc	3,465	3,395
SP Distribution Ltd	3,382	3,378
Western Power Distribution (South West) plc	1,178	649
Northern Powergrid (Yorkshire) plc	3,450	2,806
	23,662	22,995

Notes to the Financial Statements

Year ended 31 December 2012

17. Related party transactions and controlling parties

Trading with shareholders throughout the year was undertaken in the normal course of business, with all charges made on the same basis as other users of the same services. The aggregate value of turnover to shareholders was £337,161 (2011: £337,624).

Fees, including reimbursement of expenses paid to third parties in respect of directors' services:

	2012 £	2011 £
Western Power Distribution (East Midlands) plc	18,500	18,500
Northern Powergrid (Northeast) Limited	18,500	18,500
	37,000	37,000

Year end balances due to each of its shareholders are as follows (note 12):

	Balance at	
	31 December 2012 £	31 December 2011 £
Northern Powergrid (Yorkshire) plc	-	22,200
	-	22,200

Notes to the Financial Statements

Year ended 31 December 2012

18. Reconciliation of movement in shareholders' funds

	Equity share capital £	Profit and loss account £	Total equity shareholders' funds £
As at 1 January 2012	1,000	4,827,549	4,828,549
Net profit for the year	-	606,811	606,811
Total	1,000	5,434,360	5,435,360

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