

**Magnolia Power (TPL) Limited
(formerly Midlands Power (TPL) Limited)**

Report and Financial Statements

31 December 2004

Company Number 2579333



Magnolia Power (TPL) Limited (formerly Midlands Power (TPL) Limited)

Registered No: 2579333

Directors

D G Bacon (resigned 16 January 2004)
M R Miller (resigned 23 February 2004)
P A Wright (resigned 31 March 2004)
S B P Bhatt (appointed 23 February 2004 and resigned 26 April 2005)
C R Scoins (appointed 3 March 2004 and resigned 26 April 2005)
W E C Gubbins (appointed 1 December 2004 and resigned 26 April 2005)
K M Miller (appointed 26 April 2005)
G G Belonogoff (appointed 26 April 2005)

Secretary

I Elcock (resigned 31 March 2004)
E.ON UK Secretaries Limited (appointed 23 February 2004 and resigned 26 April 2005)
px Appointments Limited (appointed 26 April 2005)

Auditors

Ernst & Young LLP
Cloth Hall Court
14 King Street
Leeds
LS1 2JN

Bankers

HSBC
PO Box 68
130 New Street
Birmingham
West Midlands
B2 4JU

and

Bank of Scotland Corporate
3rd Floor
Earl Grey House
75 Grey Street
Newcastle upon Tyne
NE1 6EF

Registered Office

Christine House
Stockton-on-Tees
TS17 6DA

Directors' report

The directors present their report and the audited financial statements of the company for the year ended 31 December 2004.

Principal activities

The company's principal activity during the year and at the year end was that of an investment holding company.

Review of business and future developments

The company has a 19.2% interest in the ordinary share capital of Teesside Power Limited, which it has held throughout the year. Teesside Power Limited runs a 1725MW combined cycle gas turbine power station.

The cost of this investment has been fully provided for, following the administration of Enron Europe Limited in 2001, which had a serious impact on Teesside Power Limited's business. Enron Europe Limited was an indirect shareholder in Teesside Power Holdings Limited which has a 50% interest in the share capital of Teesside Power Limited. Enron was also a major power purchaser from Teesside Power Limited, taking some 668MW of the station's capacity. The loss of capacity revenue from these contracts cast a serious doubt over Teesside Power Limited's future revenue and cash flows.

Until 22 December 2004, the company also had a 15% investment in Teesside Power Holdings Limited. On 22 December 2004, this investment was sold to Enron Europe Power 3 Limited. On that date it also repaid a loan of £9.5 million to Teesside Power Holdings Limited.

Results and dividends

The company's profit for the financial year is £1,319,000 (2003: loss of £143,000). The directors do not recommend the payment of a dividend.

Events since the balance sheet date

On 26 April 2005, the company's owners, Midlands Power (UK) Limited, sold the entire issued share capital in the company to Teesside Power Holdings Limited.

The directors of the company, Mr C Scoins, Mr S Bhatt and Mr W Gubbins resigned. Mr K Miller and Mr G Belonogoff were appointed as directors on this date. The Company Secretary E.ON UK Secretaries Limited resigned and px Appointments Limited was appointed to fill this position.

On 11 July 2005, the company changed its name to Magnolia Power (TPL) Limited.

Directors and their interests

The directors who held office during the year and subsequent to the year end are shown on page 1.

At 31 December 2004, no director had any interests in the shares of the company or other UK group companies during the year that require disclosure under Section VII of the Companies Act 1985.

Directors' report

Auditors

As a consequence of the company's acquisition by Powergen on 16 January 2004, KPMG Audit plc did not seek reappointment at the AGM on 16 April 2004, on which date PricewaterhouseCoopers LLP were appointed auditors of the company. On 26 April 2005, the entire share capital of the company was purchased by Teesside Power Holdings Limited, on which date PricewaterhouseCoopers resigned and Ernst & Young LLP were appointed auditors of the company.

By order of the Board



K M Miller
Director

20 October 2005

Statement of directors' responsibilities in respect of the financial statements

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; 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 proper accounting records which disclose 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 1985. 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 auditors' report

to the members of Magnolia Power (TPL) Limited (formerly Midlands Power (TPL) Limited)

We have audited the company's financial statements for the year ended 31 December 2004 which comprise the Profit and Loss Account, Balance Sheet and the related notes 1 to 14. These financial statements have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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 auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Independent auditors' report

to the members of Magnolia Power (TPL) Limited (formerly Midlands Power (TPL) Limited) (continued)

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company as at 31 December 2004 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
Leeds

28 October 2005

Profit and loss account

for the year ended 31 December 2004

	Notes	2004 £'000	2003 £'000
Administrative expenses	2	(5)	(75)
Operating loss		(5)	(75)
Income from fixed asset investments	3	949	250
Profit on disposal of fixed asset investments	4	935	-
Interest payable	5	(407)	(379)
Interest receivable		11	-
Profit/(loss) on ordinary activities before taxation		1,483	(204)
Tax on profit/(loss) on ordinary activities	6	(164)	61
Retained profit/(loss) for the financial year	11	1,319	(143)

The company has no recognised gains and losses other than the profit/(loss) above and therefore no separate statement of total recognised gains and losses has been presented.

Balance sheet

at 31 December 2004

	Notes	2004 £'000	2003 £'000
Current assets			
Debtors: amounts falling due within one year	8	1,231	9,295
Creditors: amounts falling due within one year	9	(169)	(9,552)
Net current assets/(liabilities)		<u>1,062</u>	<u>(257)</u>
Capital and reserves			
Called up share capital	10	41,000	41,000
Profit and loss reserve	11	(39,938)	(41,257)
Equity shareholders' funds/(deficit)	12	<u>1,062</u>	<u>(257)</u>

K. M. Miller

K M Miller
Director

26th October 2005

Notes to the financial statements

for the year ended 31 December 2004

1. Accounting policies

Basis of preparation

The financial statements are prepared on the going concern basis, under the historical cost convention, in accordance with the Companies Act 1985 and applicable United Kingdom accounting standards, all of which have been consistently applied. The principal accounting policies are set out below.

Fixed asset investments

Fixed asset investments are stated at original cost plus subsequent loans advanced or amounts invested. Provision is made for any impairment in the value of investments.

Taxation

The tax charge for the year is based on the profits or losses on ordinary activities for the year and takes into account full provision for deferred tax in respect of timing differences on a discontinued basis, using the approach set out in Financial Reporting Standard 19 'Deferred tax' (FRS 19).

Cash flow statement

The company qualifies as a small company and, under the provisions of FRS 1 (Revised), is exempt from the requirement to prepare a cash flow statement.

Related party transactions

As permitted by paragraph 3(c) of FRS 8, the company has taken advantage of the exemption for 90% subsidiaries not to disclose related party transactions with other group entities.

2. Administrative expenses

The administrative expenses for 2004 of £5,000 relate to the auditors remuneration and the 2003 expenses relate to the costs of managing the investment. No auditors remuneration was charged in 2003 as it was paid by Midlands Power International and not recharged.

The directors received no emoluments from the company during the year (2003: £nil). The company has no other employees (2003: nil).

3. Income from fixed asset investments

	2004 £'000	2003 £'000
Shareholder management fees	949	250

The shareholder management fees are receivable from Teesside Power Limited in respect of corporate and management services provided by the company as a shareholder.

Notes to the financial statements

for the year ended 31 December 2004

4. Profit on disposal of fixed asset investments

	2004 £'000	2003 £'000
Disposal of interest in Teesside Power Holdings Limited (note 7)	935	-

5. Interest payable and similar charges

	2004 £'000	2003 £'000
Interest payable on other loans	407	379

6. Tax on profit/(loss) on ordinary activities

	2004 £'000	2003 £'000
Current tax:		
UK corporation tax charge/(credit) on profit/(loss) for the year	164	(61)
Tax on profit/(loss) on ordinary activities	164	(61)

The difference between the tax on the profit/(loss) on ordinary activities for the year and the tax assessed on the profit/(loss) on ordinary activities for the year assessed at the standard rate of corporation tax in the UK (30%) can be explained as follows:

	2004 £'000	2003 £'000
Profit/(loss) on ordinary activities	1,483	(204)
Tax on profit/(loss) on ordinary activities before tax at 30% (2003: 30%)	445	(61)
Effects of:		
Non-taxable disposal of fixed asset investment	(281)	-
Current tax charge/(credit) for the year	164	(61)

No deferred tax asset has been recognised for tax losses which are not expected to be utilised in the foreseeable future. The total amount unprovided in respect of these losses is £15,300,000 (2003: £8,100,000).

Notes to the financial statements

for the year ended 31 December 2004

7. Fixed asset investments

£'000

Cost:	
At 31 December 2003	53,641
Disposal	(25,000)
At 31 December 2004	28,641
Provisions:	
At 31 December 2003	(53,641)
Disposal	25,000
At 31 December 2004	(28,641)
Net book value:	
At 31 December 2003 and 31 December 2004	-

Fixed asset investments at 31 December 2004 comprise the following:

<i>Name</i>	<i>Country of incorporation</i>	<i>Shares held</i>	<i>Voting rights held</i>	<i>Nature of business</i>
Teesside Power Limited	England and Wales	19.2% ordinary £1 shares	19.2%	Power generation

Prior to 22 December 2004 the company also held a 7.5% indirect investment in Teesside Power Limited, through a 15% holding in Teesside Power Holdings Limited. This investment in Teesside Power Holdings Limited, which was carried at £nil (2003:£nil) was sold on 22 December 2004 for proceeds of £935,000 (note 4).

8. Debtors: amounts falling due within one year

	2004 £'000	2003 £'000
Amounts owed by group undertakings	488	9,222
Amounts owed by associated undertakings	638	73
Accrued income	105	-
	1,231	9,295

Amounts owed by group undertakings are unsecured, interest free and repayable on demand.

for the year ended 31 December 2004

	2004 £'000	2003 £'000
Loan to associated undertaking	-	9,552
Accruals and deferred income	5	-
Corporation tax	164	-
	<hr/> 169	<hr/> 9,552

10. Share capital

	<i>Authorised</i>	
	<i>2004</i>	<i>2003</i>
	<i>£'000</i>	<i>£'000</i>
50,000,000 ordinary shares of £1 each	50,000	50,000
	<hr/> <hr/>	<hr/> <hr/>
	<i>Allotted, called up and fully paid</i>	
	<i>2004</i>	<i>2003</i>
	<i>£'000</i>	<i>£'000</i>
41,000,000 ordinary shares of £1 each	41,000	41,000

	<i>Profit and loss reserve £'000</i>
At 1 January 2004	(41,257)
Retained profit for the financial year	1,319
At 31 December 2004	(39,938)

	£'000
At 1 January 2003	(114)
Loss for the financial year	(143)
	<hr/>
At 31 December 2003	(257)
Profit for the financial year	1,319
	<hr/>
At 31 December 2004	1,062

Notes to the financial statements

for the year ended 31 December 2004

13. Post balance sheet event

On 26 April 2005, the company's owners sold the entire issued share capital of the company to Teesside Power Holdings Limited.

The directors of the company, Mr C Scoins, Mr S Bhatt and Mr W Gubbins resigned. Mr K Miller and Mr G Belonogoff were appointed as directors on this date. The Company Secretary E.ON UK Secretaries Limited resigned and px Appointments Limited was appointed to fill this position.

On 11 July 2005, the company changed its name from Midlands Power (TPL) Limited to Magnolia Power (TPL) Limited.

14. Ultimate parent undertaking and controlling party

At 31 December 2004, the immediate parent undertaking was Midlands Power (UK) Limited. The ultimate parent undertaking and controlling party was E.ON AG, a company incorporated in Germany, which is the parent company of the largest group to consolidate these financial statements. The smallest group to consolidate these financial statements was that of which E.ON AG UK plc, the principal UK trading subsidiary of E.ON AG, is the parent undertaking. Copies of E.ON AG's accounts are available from the offices of E.ON AG at the following address:

E.ON AG
E.ON-Platz 21
D-40479
Düsseldorf
Germany

On 26 April 2005 Midlands Power (UK) Limited sold their interests in the company to Teesside Power Holdings Limited, which the Directors regard as their new immediate parent company from this date. They also regard the ultimate parent undertaking and controlling party, to be Enron Europe Power 3 Limited.