ARTHUR ANDERSEN

Derwent Cogeneration Limited

Financial statements 31 March 1999
together with directors' and auditors' reports

Registered number: 2650621

Directors' report

For the year ended 31 March 1999

The directors present their report on the affairs of the company together with the financial statements and auditors' report for the year ended 31 March 1999.

Principal activities and business review

The company's principal activity is to generate electricity and steam for sale using a purpose built 214MW gas fired power station in Derby.

Results and dividend

The power station became fully operational on 1 May 1995. The company is involved in the commercial production of steam and electricity and has made a profit before tax for the year of £7,333,561 (1998 - £6,450,205).

The directors recommend a final dividend of £1,180 per ordinary share (1998 - £nil). An interim dividend of £206.55 per ordinary share was also proposed for the year.

Directors and their interests

The directors who have held office in the period are as follows:

C.J. Warden	(resigned 27 May 1999)
B.L. Smith	
N.F.T.H Petrie	
R.J. Hemmings	
J. Buist	(appointed 10 July 1998)
J.A. Bednall	(resigned 10 July 1998)

Alternate directors

J.A. Bednall	(alternate of J. Buist)
M. Lane	(alternate of J.A. Bednall) (resigned 10 July 1998)
C.N. Williams	(alternate of B.L. Smith)
A.B.S. Purchase	(alternate of R.J. Hemmings, N.F.T.H Petrie)

Directors and their interests

No director has any interest in the shares of the company.

No director has any interest in contracts with the company, other than those arising in the normal course of business by virtue of his also being a director of or in the employment of a shareholder of the company, or of a holding company or subsidiary undertaking of a shareholder of the company.

Year 2000

The company recognises the potential impact of the millennium on information technology and business systems, and has established a programme to review all major systems including hardware, software and databases on which its business and production processes depend. The purpose of this programme is to test major facilities to assess their

Directors' report (continued)

capacity without disruption resulting from the processing of dates between now and 2000 and beyond, to modify as appropriate, and to replace or upgrade products as necessary.

Company secretary

Denton Hall acts as company secretary.

Auditors

The directors will place a resolution before the annual general meeting to reappoint Arthur Andersen as auditors for the ensuing year.

Statement of directors' responsibilities

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.

Lansdowne House
Berkeley Square
London
W1X 5DH

By order of the Board,

J. Buist

Director

27 July 1999

Auditors' report

London

To the Members of Derwent Cogeneration Limited:

We have audited the financial statements on pages 4 to 16 which have been prepared under the historical cost convention and the accounting policies set out on pages 7 and 8.

Respective responsibilities of directors and auditors
As described on page 2, the company's directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion
We conducted our audit in accordance with 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 circumstances of the company, 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.

Opinion
In our opinion the financial statements give a true and fair view of the state of affairs of the company at 31 March 1999 and of its profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Arthur Andersen

Arthur Andersen
Chartered Accountants and Registered Auditors

1 Surrey Street
London
WC2R 2PS

27 July 1999

Profit and loss account

For the year ended 31 March 1999

	Notes	1999 £	1998 £
Turnover	2	55,057,083	58,025,342
Cost of sales		(29,083,129)	(31,993,517)
Gross profit		25,973,954	26,031,825
Administrative expenses		(10,495,221)	(11,433,923)
Operating profit		15,478,733	14,597,902
Interest receivable		1,082,008	1,045,157
Interest payable and similar charges	3	(9,227,180)	(9,192,854)
Profit on ordinary activities before taxation	4	7,333,561	6,450,205
Tax on profit on ordinary activities	6	(1,900,999)	(1,203,779)
Profit on ordinary activities after taxation	17	5,432,562	5,246,426
Dividends payable	7	(6,932,750)	-
Retained (loss)/profit for the year	17	(1,500,188)	5,246,426
Retained profit/(loss) at the beginning of the year		4,174,668	(1,071,758)
Retained profit at the end of the year		2,674,480	4,174,668

There are no recognised gains or losses in either year, other than the profit for each year as stated.

The accompanying notes form an integral part of this profit and loss account.

Balance sheet

31 March 1999

	Notes	1999	1998 (Restated - note 20)
		£	£
Fixed assets			
Tangible fixed assets	8	115,384,599	119,391,876
Current assets			
Stock	9	2,695,443	2,725,453
Debtors	10	6,379,502	7,806,409
Short term treasury deposits		17,521,907	17,153,210
Cash at bank and in hand		728,670	759,863
		27,325,522	28,444,935
Creditors: Amounts falling due within one year	11	(23,492,123)	(21,496,276)
Net current assets		3,833,399	6,948,659
Total assets less current liabilities		119,217,998	126,340,535
Creditors: Amounts falling due after more than one year	12	(98,901,299)	(105,768,006)
Provisions for liabilities and charges	13	(17,637,219)	(16,392,861)
Net assets		2,679,480	4,179,668
Capital and reserves			
Called-up equity share capital	16	5,000	5,000
Profit and loss account		2,674,480	4,174,668
Shareholders' funds	17	2,679,480	4,179,668

Signed on behalf of the Board

J. Buist Director

27 July 1999

The accompanying notes are an integral part of these accounts.

Cash flow statement

For the year ended 31 March 1999

	Notes	1999	1998 (Restated)
		£	£
Net cash inflow from operating activities	18a	22,283,634	21,795,086
Returns on investments and servicing of finance			
Interest received		1,044,170	1,060,544
Interest paid		(9,227,180)	(9,192,854)
Net cash outflow from returns on investments and servicing of finance		(8,183,010)	(8,132,310)
Taxation			
UK corporation tax paid		(323,999)	-
Proceeds from sale of tax losses		-	546,568
Capital expenditure			
Payments to acquire tangible fixed assets		(2,761,569)	(2,655,179)
Net cash inflow before management of liquid resources and financing		11,015,056	11,554,165
Management of liquid resources			
Decrease (increase) in short term treasury deposits		(368,697)	1,329,587
Financing			
Repurchase of loan stock		(6,200,000)	(9,700,100)
Repayment of loans		(4,477,552)	(2,861,800)
Net cash outflow from financing		(10,677,552)	(12,561,900)
(Decrease)/increase in cash in the year		(31,193)	321,852
Reconciliation of net cash flow to movement in net debt	18b		
Increase (decrease) in cash in the year		(31,193)	321,852
Cash used to decrease borrowings		10,677,552	12,561,900
Cash used to (decrease) increase liquid resources		368,697	(1,329,587)
Change in net debt		11,015,056	11,554,165
Net debt at 1 April		(97,795,037)	(109,349,202)
Net debt at 31 March	18b	(86,779,981)	(97,795,037)

The accompanying notes are an integral part of these accounts.

Notes to financial statements

31 March 1999

1 Accounting policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the year and the preceding year, other than in respect of the recognition of maintenance provisions (see note 20) is set out below.

a) Basis of accounting

The financial statements are prepared under the historical cost convention, and in accordance with applicable accounting standards.

b) Fixed assets

Costs incurred by the company in the construction of the power station, including interest on loans to finance the construction, are initially capitalised as assets under construction. These are transferred to other tangible fixed asset categories upon completion.

Depreciation is charged upon commencement of full commercial operations at rates which will write off the costs of the assets over their expected useful lives as follows:

Generating plant	- 30 years
Buildings	- 30 years
Auxiliary boiler	- 25 years
Fixtures and fittings	- 4 years
Motor vehicles	- 3 years

c) Taxation

Corporation tax payable is provided on taxable profits at the current rate. Payments for tax losses receivable from shareholders under consortia arrangements are credited to the profit and loss account when the amount receivable can be ascertained with reasonable certainty. Differences between the value of losses surrendered and the payments received are charged or credited to the profit and loss account accordingly.

Deferred taxation is calculated under the liability method and is provided in respect of timing differences which, in the opinion of the directors, may result in tax becoming payable in the foreseeable future. Deferred tax is not provided on timing differences which, in the opinion of the directors, will probably not reverse.

d) Turnover

Turnover comprises the value of sales, excluding trade discounts and other sales related taxes, of steam and electricity provided in the normal course of business.

e) Interest

Interest costs incurred by the company during the construction period were included as a cost of construction of the company's fixed assets. Upon the commencement of full commercial operations, interest was expensed as incurred.

Notes to financial statements

31 March 1999

1 Accounting policies (continued)

f) Stocks

Stocks are stated at the lower of cost and net realisable value.

g) Maintenance

Costs of on-going major overhaul and maintenance programmes are capitalised and the related assets depreciated over the period until the next major overhaul is expected to be required.

h) Leases

Rentals under operating leases are charged on a straight line basis over the lease term.

2 Analysis of turnover

Contributions to turnover and gross profit arise wholly within the United Kingdom. Turnover can be analysed as follows:

	1999	1998
	£	£
Electricity	46,453,283	47,360,991
Steam	8,552,844	10,350,874
Other income	50,956	313,477
	55,057,083	58,025,342

3 Interest payable

	1999	1998
	£	£
Bank loans and overdrafts		
- repayable after five years	9,227,180	9,192,854

4 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging:

	1999	1998 (Restated)
	£	£
Depreciation (see note 8)	6,768,849	4,606,484
Amortisation of refinancing costs (note 12)	74,041	-
Operating lease rentals		
- plant and machinery	250,934	218,088
Auditors' remuneration		
- audit fees	19,100	18,875
- other	49,910	14,600

5 Staff costs

The average monthly number of persons employed by the company during the year was nil (1998 - nil).

The directors of the company received no remuneration for their services to the company (1998 - £nil).

6 Tax on profit on ordinary activities

The tax charge comprises:

	1999	1998
	£	£
Corporation tax	335,000	-
Deferred tax (see note 13)	1,242,000	1,750,347
Adjustment in respect of prior year current tax	323,999	-
Proceeds from sale of tax losses	-	(546,568)
	1,900,999	1,203,779

7 Dividends

	1999 £	1998 £
Equity shares:		
- interim dividend of £206.55 per ordinary share	1,032,750	-
- final dividend proposed at £1,180 per ordinary share	5,900,000	-
	6,932,750	-

8 Fixed assets

	Land and buildings £	Auxiliary boiler £	Generating plant (Restated) £	Motor vehicles £	Fixtures and fittings £	Total (Restated) £
Cost						
Balance at 1 April 1998	506,080	1,735,889	137,168,850	36,609	361,536	139,808,964
Additions	225,293	-	2,412,687	-	123,586	2,761,566
Disposals	-	-	-	-	(95,065)	(95,065)
Balance at 31 March 1999	731,373	1,735,889	139,581,537	36,609	390,057	142,475,465
Depreciation						
Balance at 1 April 1998 (Restated)	47,238	341,904	19,656,977	30,266	340,697	20,417,082
Charge for the year	17,485	69,436	6,653,646	6,343	21,939	6,768,849
On disposals	-	-	-	-	(95,065)	(95,065)
Balance at 31 March 1999	64,723	411,340	26,310,623	36,609	267,571	27,090,866
Net Book Value						
At 31 March 1999	666,650	1,324,549	113,270,914	-	122,486	115,384,599
At 1 April 1998 (Restated)	458,842	1,393,985	117,511,867	6,343	20,839	119,391,876

The cost above includes interest capitalised of £14,678,567 (1998 - £14,678,567).

9 Stocks

	1999 £	1998 £
Oil stocks	1,710,462	1,742,114
Spare parts	984,981	983,339
	2,695,443	2,725,453

There is no material difference between the balance sheet value of stocks and their replacement cost.

10 Debtors
Amounts falling due within one year:

	1999 £	1998 £
Trade debtors	52,955	133,025
Amounts due from shareholders	6,247,328	7,079,621
Prepayments and accrued income	79,219	593,763
	6,379,502	7,806,409

11 Creditors: Amounts falling due within one year

	1999 £	1998 £
Current portion of long term loans (see note 12)	4,511,009	3,663,104
Current portion of subordinated loan notes	1,618,250	6,277,000
Trade creditors	368,551	500,335
Amounts due to shareholders	3,070,024	2,302,736
Taxation	1,876,870	946,148
Accruals and deferred income	5,114,689	7,806,953
Proposed dividends	6,932,750	-
	23,492,143	21,496,276

12 Creditors: Amounts falling due after more than one year

	1999 £	1998 £
Bank loans (see below)	98,901,299	104,226,756
Subordinated loan notes	-	1,541,250
	98,901,299	105,768,006

	1999 £	1998 £
The bank loans are repayable as follows:		
- within 1 year (see note 11)	4,511,009	3,663,104
- between 1 and 2 years	4,625,481	4,578,880
- between 2 and 5 years	21,889,484	18,315,520
- after 5 years	72,386,333	81,332,356
	103,412,308	107,889,860

12 Creditors: Amounts falling due after more than one year (continued)

In 1992, the company signed a £150 million facility agreement with a banking consortium. On 1 May 1995, 82% of the amounts drawn down against the facility was refinanced by conversion into a 15 year term loan. The loan is repayable in six monthly instalments, commencing 31 March 1996 and interest is due at 0.65 points over base rates. The loan is secured over the assets of the company.

In 1992, the company also approved a Trust Deed entered into between the company and the Law Debenture Trust Corporation plc constituting up to £40,000,000 zero % subordinated loan stock 2013 divided into two classes, designated class A and class B. During May 1995 the company issued £16,281,000 of class A loan stock debenture and £8,182,250 of class B loan stock debentures. A further £554,760 of class A loan stock debentures and £273,240 of class B loan stock debentures were issued during January 1996. The proceeds were primarily used to repay the outstanding bank facility and to finance development expenditure.

As at 31 March 1999 all of the class A loan stock debentures had been repaid. The remaining £1,618,250 of class B loan stock debentures were repaid in April 1999.

13 Provisions for liabilities and charges

	1999	1998 (Restated)
	£	£
Deferred taxation	17,637,219	16,392,861

The deferred tax liability comprises:

	1999	1998
	£	£
Excess of tax allowances over book depreciation of fixed assets	26,832,617	28,491,147
Other short term timing differences	579,602	611,000
Tax losses carried forward	(9,775,000)	(12,709,286)
	17,637,219	16,392,861

There is no unprovided deferred tax in either year.

13 Provisions for liabilities and charges (continued)

The movement in the deferred tax provision during the year is as follows:

	1999 £	1998 £
As at 1 April	16,392,861	14,644,872
(Decrease)/increase in the excess of tax allowances over book depreciation of fixed assets	(701,365)	1,039,571
Movement in other short term timing differences	(31,398)	650,420
Release of provision utilised under consortia relief (see note 6)	-	799,043
Adjustment in respect of prior years	(44,728)	-
Change in rate of corporation tax	(587,907)	(1,212,502)
Release in respect of current year taxable profits	2,609,756	471,457
As at 31 March	17,637,219	16,392,861

14 Capital commitments

Capital commitments are as follows:

	1999 £	1998 £
Contracted for but not provided for	420,000	227,790

Annual commitments under non-cancellable operating leases are as follows:

	1999 Plant and machinery £	1998 Plant and machinery £
Expiry date after five years	249,000	249,000

15 Other financial commitments

On 14 October 1991 the company entered into a long term interruptable gas supply agreement with British Gas for a period of 15 years beginning 1 October 1995, a commitment of approximately £15.6 million per annum based on the initial price. These amounts have not been provided for in the financial statements.

Notes to financial statements

31 March 1999

16 Share capital

	1999	1998
	£	£
Authorised		
5,000 ordinary shares of £1 each	5,000	5,000
Allotted, called-up and fully paid		
5,000 ordinary shares of £1 each	5,000	5,000

17 Reconciliation of movement in equity shareholders' funds

	1999	1998
	£	£
Profit for the financial year	5,432,562	5,246,426
Dividends paid and proposed	(6,932,750)	-
Opening shareholders' funds	4,179,668	(1,066,758)
Closing shareholders' funds	2,679,480	4,179,668

18 Cash flow information

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

	1999	1998 (Restated)
	£	£
Operating profit	15,478,733	14,597,902
Decrease (increase) in debtors	1,464,745	(66,376)
Decrease in stocks	30,010	113,060
(Decrease) increase in creditors	(1,458,703)	123,016
Depreciation charge	6,768,849	7,027,484
Net cash inflow from operating activities	22,283,634	21,795,086

18 Cash flow information (continued)

b) Analysis of changes in net debt

	Cash £	Short term treasury deposits £	Debt due within one year £	Debt due after one year £	Net debt £
Balance at 31 March 1997	438,011	18,482,797	(9,319,800)	(118,950,210)	(109,349,202)
Cash flows	321,852	(1,329,587)	9,319,800	3,242,100	11,554,165
Other	-	-	(9,940,104)	9,940,104	-
Balance at 31 March 1998	759,863	17,153,210	(9,940,104)	(105,768,006)	(97,795,037)
Cash flows	(31,193)	368,697	9,940,104	737,448	11,015,056
Other	-	-	(6,129,259)	6,129,259	-
Balance at 31 March 1999	728,670	17,521,907	(6,129,259)	(98,901,299)	(86,779,981)

19 Related party transactions

In addition to those transactions detailed in note 11, the company conducts business transactions on a normal basis with, and receives a number of services from, shareholder companies or members of their groups. The costs of such services are charged to the company.

a) Electricity

The company generates electricity which is purchased by the Pool. All income received from the Pool is passed to Southern Electric plc "Southern Electric", the parent company of one of the shareholders. The company has a contract with Southern Electric which sets out the terms under which the company receives payments from Southern Electric in respect of electricity supply.

During the year the total sales to Southern Electric amounted to £46,092,695 (1998 - £47,214,639).

b) Steam

Acordis Acetate Chemicals Ltd (formerly Courtaulds Chemicals (Holdings) Ltd), a shareholder, is the sole purchaser of steam. During the year the total sales to Acordis Acetate Chemicals Ltd amounted to £8,603,800 (1998 - £10,576,306).

c) Operation and maintenance

The Mission Energy Company (UK) Ltd group recharge the company for contractually agreed operational and maintenance costs. In addition the Mission Energy Company (UK) Ltd group employs and pays the staff costs of the personnel responsible for the company. The total amount payable to the Mission Energy Company (UK) Ltd group in the year was £2,043,628 (1998 - £2,106,673).

d) Tax losses

An element of tax losses are utilised under consortia relief provisions by the shareholders of the company. The amount confirmed and received during the year ended 31 March 1999 relating to the 1997/98 tax losses was £nil (1998: relating to 1996/97 - £546,568).

Notes to financial statements

31 March 1999

20 Prior year adjustment

Following the adoption of FRS12, Provisions, liabilities and assets, the company no longer recognises provisions for future major overhauls and maintenance requirements. Instead, such costs are capitalised as incurred and depreciated over the period until the next major overhaul.

The only impact of this change in accounting policy on the profit and loss account is to reclassify maintenance costs of £2,185,706 (1998 - £2,421,000) into the depreciation expense. The impact on the balance sheet is as follows:

	1999 £	1999 £
Increase in fixed assets at cost	5,038,802	3,637,210
Increase in depreciation	(8,977,274)	(6,791,568)
Reduction in provision	3,938,472	3,154,358
Change in net assets	-	-