

POWERGEN CHP LIMITED

ANNUAL REPORT AND ACCOUNTS

for the year ended 2 January 2000



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Registered No: 2684288

POWERGEN CHP LIMITED

Report of the directors for the year ended 2 January 2000

The directors present their report and the audited financial statements of the Company for the year ended 2 January 2000.

Principal activities, review of business and future developments

The Company's principal activity during the year continues to be the sale of energy and related services including the design, construction and operation of combined heat and power (CHP) plant. Both the level of business and financial position of the Company at the year end were satisfactory and the directors believe that there continues to be opportunities in the CHP market. In January 2000 the company signed a 15 year contract with Michelin for a 56 MW plant which will be in operation by the end of 2001. In June 2000 the company signed a 15 year contract with Grovehurst Energy Ltd to construct and operate a waste paper sludge combustion plant adjacent to the existing CHP facility.

Results and dividends

The Company's profit for the financial year is £5,978,083 (nine months ended 3 January 1999: £6,702,000). The directors do not recommend a final dividend (nine months ended 3 January 1999: Nil per ordinary share).

Directors and their interests

The directors who held office during the year are given below:

N P Baldwin, R J Kennett, T E Chappell, D J Jackson, R G Barber

During the year, no director had an interest in the shares of the Company.

The following directors had the following interests in the ordinary shares of PowerGen plc, the Company's ultimate parent undertaking, at 2 January 2000:

	Beneficial holdings in ordinary shares		Options over ordinary shares			
	3 January 1999	2 January 2000	3 January 1999	Exercised	Granted	2 January 2000
R J Kennett		57	34,836	7,000	6,500	34,336
T E Chappell		1,608	70,722	1,551	0	68,500
R G Barber	9,995	11,603	66,222	1,551	13,000	77,671
D J Jackson	14,550	14,730	75,075		17,000	92,075

T E Chappell had 671 options over ordinary shares of PowerGen plc which lapsed on early retirement during the year.

The interests of N P Baldwin, who is also a director of the ultimate parent undertaking PowerGen plc, in the shares of PowerGen plc is shown in the annual report of PowerGen plc.

No director had any interest (other than as a nominee on behalf of PowerGen plc) in the shares of any other member of the group.

POWERGEN CHP LIMITED

Report of the directors for the year ended 2 January 2000 (continued)

Year 2000

The PowerGen Group conducted a risk-based review of its computer systems and computer controlled processes to identify those which could be affected by the Year 2000 date change, and established a dedicated project team accordingly. A plan and work programme was then developed to test those systems and processes identified and to take appropriate action, such as replacing or repairing the affected systems or processes in collaboration with the respective suppliers. The programme covered business systems, process control and issues relating to the energy supply/demand chain as a whole, including key suppliers and customers. Given the key position of PowerGen in the national infrastructure, the Group also developed and tested Year 2000 business continuity plans.

Over the Millennium period there was no impact on customers or critical systems from Year 2000 issues. No high priority issues arose, and the small number of low level issues were quickly resolved.

The total cost of this project to the PowerGen Group was £59.6 million, £24.7 million of which was incurred during the year ended 2 January 2000. Expenditure in 2000 is expected to be less than £0.3m as individual projects and the central programme formally end. The total cost of this project to the Company was £0.1m, which was all incurred during 1999.

Introduction of the Euro

The Company is a wholly owned subsidiary undertaking of PowerGen plc. The PowerGen Group made appropriate preparations in advance of the introduction of the Euro, recognising the potential impact on commercial arrangements and financial systems. The position is being monitored as it develops.

Policy and practice on payment of creditors

Where appropriate in relation to specific contracts, the Company's practice is to:

- Settle the terms of payment with the supplier when agreeing the terms of each transaction;
- Ensure that those suppliers are made aware of the terms of payment by inclusion of other relevant terms in the contracts; and
- Pay in accordance with its contractual and other legal obligations.

For all other cases the Company supports the Better Payments Practice Code and has in place well developed arrangements with a view to ensuring that this is observed. The average number of days taken to pay the Company's trade suppliers calculated in accordance with the requirement in the Companies Act is 6 days (3 January 1999: 34 days).

POWERGEN CHP LIMITED

Report of the directors for the year ended 2 January 2000 (continued)

Post balance sheet events

Post balance sheet events have been disclosed in note 23 to the financial statements.

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year that 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 year. In preparing those financial statements, the directors are required to:

- a) select suitable accounting policies and then apply them consistently;
- b) make judgements and estimates that are reasonable and prudent;
- c) state whether applicable accounting standards have been followed, subject to any material departure disclosed and explained in the financial statements; and
- d) 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 that disclose with reasonable accuracy at any time the financial position of the company and 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.

Auditors

On 29 January 1993 the Company passed an elective resolution dispensing with the requirement to appoint auditors annually. Therefore, PricewaterhouseCoopers will continue in office.

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



Mr R J Kennett
Managing Director

53 New Broad Street
London
EC2M 1SL

17 July 2000

POWERGEN CHP LIMITED

Report of the Auditors to the members of PowerGen CHP Limited

We have audited the financial statements on pages 5 to 17 which have been prepared in accordance with the accounting policies set out on pages 7 to 8.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report. As described on page 3, this includes responsibility for preparing the financial statements, in accordance with applicable United Kingdom accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and our profession's ethical guidance.

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 United Kingdom Companies Act. 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 is not disclosed.

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

Basis of audit opinion

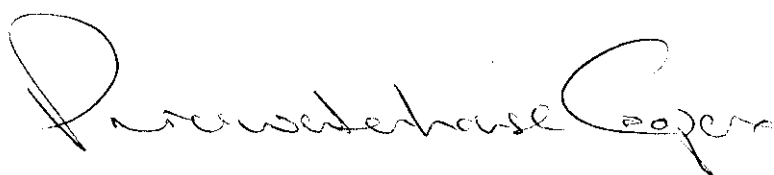
We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements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

Opinion

In our opinion the financial statements give a true and fair view of the state of the Company's affairs at 2 January 2000 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers



Chartered Accountants and Registered Auditors
Birmingham
17 July 2000

POWERGEN CHP LIMITED

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 2 JANUARY 2000

	Note	Year ended 2 January 2000 £,000	9 months ended 3 January 1999 £,000
Turnover – continuing operations	2	65,265	50,550
Cost of sales		(57,210)	(42,773)
Gross profit		<u>8,055</u>	<u>7,777</u>
Net administration expenses	3	(4,469)	(2,891)
Operating profit – continuing operations		<u>3,586</u>	<u>4,886</u>
Net interest (payable)/receivable	7	(6,863)	305
Loss/(profit) on ordinary activities before taxation		<u>(3,277)</u>	<u>5,191</u>
Tax on profit/(loss) on ordinary activities	8	9,255	1,511
Profit on ordinary activities after taxation		<u>5,978</u>	<u>6,702</u>
Dividends	9	-	-
Retained profit for the financial year	18	<u>5,978</u>	<u>6,702</u>

The Company has no recognised gains and losses other than the profit above and therefore no separate statement of total recognised gains and losses has been presented.

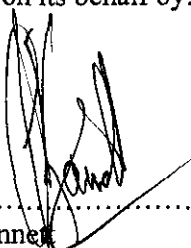
There is no difference between the profit on ordinary activities before taxation and the retained profit for the year stated above and their historical cost equivalents.

POWERGEN CHP LIMITED

BALANCE SHEET AS AT 2 JANUARY 2000

	Note	At 2 January 2000 £,000	At 3 January 1999 £,000
Fixed assets			
Tangible assets	10	208,102	139,611
Investments	11	98,187	96,782
		<u>306,289</u>	<u>236,393</u>
Current assets			
Stock	12	907	918
Debtors: amounts falling due within one year	13	7,669	11,099
Cash at bank and in hand		38,343	31,735
		<u>46,919</u>	<u>43,752</u>
Creditors: amounts falling due within one year	14	(232,036)	(164,951)
		<u>(185,117)</u>	<u>(121,199)</u>
Total assets less current liabilities		<u>121,172</u>	<u>115,194</u>
Creditors: amounts falling due after more than one year	15	(106,834)	(106,834)
Deferred tax	16	-	-
		<u>14,338</u>	<u>8,360</u>
Capital and reserves			
Called up share capital	17	100	100
Profit and loss account	18	14,238	8,260
Equity shareholders' funds	19	<u>14,338</u>	<u>8,360</u>

The financial statements on pages 5 to 17 were approved by the Board on 17 July 2000 and were signed on its behalf by:


 Director
 R J Kenner
 17 July 2000

POWERGEN CHP LIMITED

Notes to the financial statements for the year ended 2 January 2000

1 Accounting policies

These financial statements are prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards. The Company is exempt from the requirement to produce consolidated financial statements as it is consolidated into the consolidated financial statements of PowerGen plc, a company registered in England and Wales.

(a) Tangible fixed assets

Tangible fixed assets are stated at their purchase or production cost less provision for depreciation. Provision for depreciation is calculated so as to write off the cost of tangible fixed assets less estimated residual value on a straight line basis over their useful economic lives. The estimated useful economic lives used for the principal categories of fixed assets are as follows:

<u>Asset</u>	<u>Life in Years</u>
Operating plant and buildings	10- 20
Overhaul costs	2-3
Office equipment and other short term assets	3-5

Freehold land and assets in the course of construction are not depreciated.

(b) Overhaul of generation plant

Overhaul costs are capitalised as part of generating assets and depreciated on a straight line basis over their useful economic life, typically the period until the next major overhaul. That period is usually between two and three years.

(c) Leases

Rentals payable under operating leases are charged to the profit and loss account on a straight line basis over the lease term.

(d) Stocks

Fuel stocks and stores are stated at the lower of cost and net realisable value. Where necessary, provision is made for obsolete, slow moving or defective stocks. In general, stocks are recognised in the profit and loss account on a weighted average cost basis.

(e) Pension costs

The Company contributes to a funded group pension scheme operated by PowerGen UK plc. Contributions and pension costs are based on pension costs of that pension scheme as a whole. Pension costs are charged to the profit and loss account so as to spread the cost of pensions over employees' remaining work lives.

POWERGEN CHP LIMITED

Notes to the financial statements for the year ended 2 January 2000 (continued)

(f) Deferred taxation

Deferred taxation arises in respect of items where there is a timing difference between their treatment for accounting purposes and their treatment for taxation purposes. Provision for deferred taxation using the liability method, is made to the extent that it is probable that a liability will crystallise in the foreseeable future.

(g) Foreign currencies

Assets and liabilities denominated in foreign currencies are translated into sterling at exchange rates ruling at the end of the financial period. Transactions denominated in foreign currencies are translated into sterling at the exchange rate ruling on the date payment takes place unless related or matching forward foreign exchange contracts have been entered into when the rate specified in that contract is used. Any resultant foreign exchange differences are taken to the profit and loss in the period in which they arise.

(h) Cash flow statement

The Company is a wholly-owned subsidiary undertaking of PowerGen plc and is included in the consolidated financial statements of PowerGen plc, which are publicly available. Consequently, the Company has taken advantage of the exemption from preparing a cash flow statement under the terms of Financial Reporting Standard 1 (revised 1996).

(i) Related party transactions

The company is exempt under the terms of Financial Reporting Standard 8 from disclosing related party transactions with entities that are part of the PowerGen plc group or investees of the PowerGen plc group.

2 Turnover

Turnover, which excludes value added tax, represents the value of sale of energy. The majority of the Company's turnover, all of which arises in the course of the company's principal activity, arises in the United Kingdom.

3 Net operating expenses

	Year ended 2 January 2000 £,000	9 months ended 3 January 1999 £,000
Administrative expenses	4,469	2,891
	<u>4,469</u>	<u>2,891</u>

POWERGEN CHP LIMITED

Notes to the financial statements for the year ended 2 January 2000 (continued)

4 Operating profit

Operating profit is stated after charging:

	Year ended 2 January 2000 £,000	9 months ended 3 January 1999 £,000
Wages & salaries	4,321	2,901
Social security costs	301	248
Other pension costs	424	350
Staff costs	<u>5,046</u>	<u>3,499</u>
Depreciation of tangible fixed assets	9,250	6,675
Operating lease charges:		
Plant and machinery	21	98
Buildings	46	-
Vehicles	67	-
Auditors' remuneration:		
Audit services	11	6
Non-audit services	-	53

5 Directors' emoluments

	Year ended 2 January 2000 £,000	9 months ended 3 January 1999 £,000
Aggregate emoluments	<u>129</u>	<u>93</u>

Retirement benefits are accruing to 1 (nine months ended 3 January 1999: 1) director under a defined benefit scheme. During the year 3 (nine months ended 3 January 1999: 1) directors exercised options over the ordinary share capital of PowerGen plc.

6 Employee information

The average monthly number of persons (including executive directors) employed by the company during the year was 140 (1998 120). All employees are involved in activities relating the sale of energy within the UK.

POWERGEN CHP LIMITED

Notes to the financial statements
for the year ended 2 January 2000 (continued)

7 Net interest payable/receivable and similar items

	Year ended 2 January 2000 £,000	9 months ended 3 January 1999 £,000
Interest payable on bank loans and overdrafts	-	(110)
Interest payable to fellow subsidiary undertakings	(6,921)	-
Total interest payable and similar charges	(6,921)	(110)
Interest receivable	58	415
Net interest (payable)/receivable and similar items	(6,863)	305

8 Tax on profit/loss on ordinary activities

	Year ended 2 January 2000 £,000	9 months ended 3 January 1999 £,000
UK Corporation Tax at 30.25% (nine months ended 3 January 1999: 31%)	9,255	(428)
Prior period adjustment for under/(over)provision	-	1,939
	9,255	1,511

The tax credit on the loss on ordinary activities of £3,277,000 (nine months ended 3 January 1999: profit £5,191,000) represents an amount receivable from group undertakings in respect of the transfer of tax losses at a rate of 30.25% under group relief provisions.

POWERGEN CHP LIMITED

Notes to the financial statements
for the year ended 2 January 2000 (continued)

9 Dividends

	Year ended 2 January 2000 £,000	9 months ended 3 January 1999 £,000
Equity – Ordinary	-	-

10 Tangible fixed assets

	Operating Plant & Buildings £,000	Other Short term assets £,000	Total £,000
Cost:			
At 3 January 1999	162,271	429	162,700
Transfer	(16)	16	-
Additions	77,591	150	77,741
At 2 January 2000	239,846	595	240,441
Depreciation:			
At 3 January 1999	22,872	217	23,089
Charge for the year	9,177	73	9,250
At 2 January 2000	32,049	290	32,339
Net book value:			
At 2 January 2000	207,797	305	208,102
At 3 January 1999	139,399	212	139,611

Of the additions during the period on operating plant and buildings, £76,931,436 (1998 £40,918,115) are in respect of assets under construction.

The net book value of land and buildings comprises:

	2 January 2000 £,000	3 January 1999 £,000
Freehold	6,212	6,641

POWERGEN CHP LIMITED

Notes to the financial statements for the year ended 2 January 2000 (continued)

11 Fixed asset investments

	Shares in group undertakings £000	Loans to group undertakings £000	Associate £000	Loans to associates £000	Total £000
At 3 January 1999	28,784	67,998	-	-	96,782
Additions	40	-	1	1,364	1,405
At 2 January 2000	28,824	67,998	1	1,364	98,187

Fixed asset investments comprise the following:

Name	Country of incorporation	Shares held	Voting rights held	Nature of business
PowerGen Cogeneration Ltd	England & Wales	Ordinary Shares 100 %	100%	Sale of energy services involving the construction of CHP plants
Biogeneration Ltd	England & Wales	Ordinary Shares 50 %	50%	Electricity generation from landfill gas

Details from most recent financial statements of the undertakings are as follows:

	PowerGen Cogeneration Ltd	Biogeneration Ltd
Accounting reference date	31 December	31 March
Aggregate amount of capital and reserves (£000)	37,256	395
Profit/(loss) of undertaking (£000)	8,431	276

12 Stocks

	2 January 2000 £,000	3 January 1999 £,000
Fuel stocks	220	181
Stores	687	737
	<u>907</u>	<u>918</u>

POWERGEN CHP LIMITED

Notes to the financial statements
for the year ended 2 January 2000 (continued)

13 Debtors: amounts falling due within one year

	2 January 2000 £,000	3 January 1999 £,000
Trade debtors	7,554	3,668
Amounts owed by group undertakings	-	1,292
Amounts owed by associates	93	-
Other debtors	16	89
Prepayments and accrued income	6	6,050
	<u>7,669</u>	<u>11,099</u>

14 Creditors: amounts falling due within one year

	2 January 2000 £,000	3 January 1999 £,000
Trade creditors	52	556
Amounts owed to group undertakings	189,730	47,464
Other tax and social security	1,520	1,725
Other creditors	-	96,432
Accruals and deferred income	40,734	18,774
	<u>232,036</u>	<u>164,951</u>

Amounts owed to group undertakings are unsecured, and interest is chargeable at base rate plus 1%.

POWERGEN CHP LIMITED

Notes to the financial statements for the year ended 2 January 2000 (continued)

15 Creditors: amounts falling due after more than one year

	2 January 2000 £,000	3 January 1999 £,000
Amounts owed to group undertakings	106,834	106,834
	<u>106,834</u>	<u>106,834</u>

16 Deferred taxation

The deferred tax provision comprises:

	2 January 2000			3 January 1999		
	Full potential liability £,000	Amounts unprovided £,000	Liability/ (Asset) recognised £,000	Full potential liability £,000	Amounts unprovided £,000	Liability/ (Asset) recognised £,000
Accelerated capital allowances	22,161	22,161	-	12,524	12,524	-
	<u>22,161</u>	<u>22,161</u>	<u>-</u>	<u>12,524</u>	<u>12,524</u>	<u>-</u>

POWERGEN CHP LIMITED

Notes to the financial statements
for the year ended 2 January 2000 (continued)

17 Share capital

	2 January 2000 £,000	3 January 1999 £,000
Authorised		
100,000 ordinary shares of £1 each	100	100
Allotted, called up and fully paid		
100,000 ordinary shares of £1 each	100	100

18 Reserves

	Profit and loss account £,000
At 3 January 1999	8,260
Retained profit for the financial year	5,978
At 2 January 2000	14,238

19 Reconciliation of movements in shareholders' funds

	2 January 2000 £,000	3 January 1999 £,000
Profit for the financial year	5,978	6,702
Net addition to shareholders' funds	5,978	6,702
Opening shareholders' funds	8,360	1,658
Closing shareholders' funds	14,338	8,360

Profit for the financial year is the profit on ordinary activities after taxation.

POWERGEN CHP LIMITED

Notes to the financial statements for the year ended 2 January 2000 (continued)

20 Pension commitments

The Company participates in a funded group pension scheme operated by PowerGen UK plc, which is part of an industry wide scheme, the Electricity Supply Pension Scheme. The pension scheme is of the defined benefit type and its assets are held in a separate trustee administered fund. The fund is valued every three years by a professionally qualified, independent actuary, the rates of contribution payable being determined by the actuary. In the intervening years the actuary reviews the appropriateness of the rates. The latest actuarial assessment of the scheme was at 31 March 1998. Particulars of the valuation are contained in the accounts of PowerGen plc.

Accounting for amortisation of surpluses, other than the impact on regular costs and contributions payable, is dealt with in the accounts of PowerGen plc.

The total pension cost to the company was £424,451 (nine months ended 3 January 1999: £350,268).

21 Capital and other commitments

At 2 January 2000 the Company had commitments of £9,135,085 (3 January 1999: (£82,112,417) for capital expenditure not provided in these financial statements.

POWERGEN CHP LIMITED

Notes to the financial statements for the year ended 2 January 2000 (continued)

22 Financial commitments

The Company had annual commitments under non-cancellable operating leases in respect of plant and equipment expiring as follows:

	As at 2 January 2000 £,000	As at 3 January 1999 £,000
Within one year	-	2,207
Within two to five years	-	2,207
After five years	1,131	1,688

23 Post balance sheet events

On 14 June 2000 the authorised share capital of the Company was increased to £107million comprising 57 million redeemable preference shares of £1 each and 50 million ordinary shares of £1 each. On the same day the Company issued 57 million redeemable preference shares at par and 49,900,000 ordinary shares at par, in consideration for a reduction of equivalent value in the intercompany funding of the Company.

24 Ultimate parent undertaking and controlling party

The immediate parent undertaking is PowerGen UK plc. The ultimate parent undertaking and controlling party is PowerGen plc, which is the parent company of the largest group to consolidate these financial statements. The smallest group to consolidate these financial statements is that of which PowerGen UK plc, the principal trading subsidiary of PowerGen plc, is the parent undertaking. Copies of PowerGen plc's accounts are available from the Company Secretary at the following address:

D J Jackson
Company Secretary
PowerGen plc
53 New Broad Street
London
EC2M 1SL