

**POWERGEN CHP LIMITED**

**ANNUAL REPORT**

**for the year ended 29 March 1998**



**Registered No: 2684288**

## **POWERGEN CHP LIMITED**

### **Report of the directors for the year ended 29 March 1998**

The directors submit their report and audited financial statements of the Company for the year ended 29 March 1998.

#### **Review of activities**

The principal activity of the Company continues to be the sale of energy and related services including the design, construction and operation of combined heat and power (CHP) plant.

The Company currently owns five operational CHP schemes. In addition the Company has one scheme under construction. The directors believe that there continue to be opportunities in the UK CHP market. The parent company, PowerGen plc, has declared its support for the Company.

The retained loss for the year ended 29 March 1998 was £5,395,000 (1997: profit £2,289,000)

#### **Dividends**

The directors are recommending payment of a dividend of £11,091,000 in respect of the year ended 29 March 1998.

#### **Directors**

The directors of the Company at 29 March 1998 were N P Baldwin, R J Kennett, T E Chappell, D J Jackson and R G Barber. N P Baldwin was appointed on 19 September 1997. D J Jackson was appointed on 10 December 1997. Dr A Roberts who was a director at 30 March 1997, resigned on 5 September 1997.

The directors holding office at the year end and their beneficial interests in relevant shares, as disclosed by the register kept under the provisions of Section 325 of the Companies Act 1985 are listed below.

## POWERGEN CHP LIMITED

### Report of the directors for the year ended 29 March 1998 (continued)

The directors had the following interests in the ordinary shares of PowerGen plc, the Company's parent undertaking, at 29 March 1998:

Ordinary shares of £1 each

|              | Beneficial       |                  | Options          |         |           |                     |
|--------------|------------------|------------------|------------------|---------|-----------|---------------------|
|              | 29 March<br>1998 | 30 March<br>1997 | 29 March<br>1998 | Granted | Exercised | 30<br>March<br>1997 |
| R J Kennett  | -                | -                | 29,836           | 7,006   |           | 22,830              |
| T E Chappell | 66,152           | 63,891           | 61,222           | 11,171  | 4,261     | 54,312              |
| R G Barber   | 9,915            | 21,654           | 56,722           | 11,171  | 4,261     | 49,812              |
| D J Jackson  | 14,360           | 29,172           | 63,075           | 12,000  | 8,000     | 59,075              |

The interests of N P Baldwin are disclosed in the directors' report published within the consolidated financial statements of PowerGen plc for the year ended 29 March 1998.

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

#### Insurance purchased for officers

During the year, the parent undertaking maintained insurance on behalf of the Company against directors' and officers' liability to the Company.

#### Policy on payment of creditors

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

- a) settle the terms of payment with the supplier when agreeing the terms of each transaction;
- b) ensure that those suppliers are made aware of the terms of payment by inclusion of relevant terms in the contract; and
- c) pay in accordance with its contractual and other legal obligations.

For all other cases the Company supports the Prompt Payers' Code of the Confederation of British Industry 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 is 19 days (1997: 32 days).

## **POWERGEN CHP LIMITED**

### **Report of the directors for the year ended 29 March 1998 (continued)**

#### **Millennium IT risk**

The Year 2000 issue, which stems from computer programs written using two digits rather than four to define the applicable year, could result in processing faults on the change of century, producing a wide range of consequences.

The Company has conducted a risk-based review of its computer systems and computer-controlled processes to identify those which could be affected and developed an implementation plan to test and remediate the faults. We are replacing or repairing the affected systems, in close collaboration with system suppliers. The approximate external cost of this work is estimated at £20,000 and all business-critical work is due to be completed by the end of 1998.

#### **Auditors**

On 29 January 1993 the Company passed an elective resolution dispensing with the requirement to appoint auditors annually. Our auditors, Coopers & Lybrand, merged with Price Waterhouse on 1 July and a resolution to appoint the new firm, PricewaterhouseCoopers, as auditors to the Company will be proposed at the annual general meeting.

## POWERGEN CHP LIMITED

### Report of the directors for the year ended 29 March 1998 (continued)

#### Statement of directors' responsibilities

The directors:

- acknowledge the legal requirement for the preparation of financial statements for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit and loss for that period;
- acknowledge their responsibility for keeping proper accounting records, for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities;
- confirm that suitable accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, have been used in the preparation of the financial statements;
- confirm that applicable accounting standards have been followed;
- confirm that the financial statements have been prepared on a going concern basis.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with Companies Act 1985. They are responsible for safeguarding the assets of the Company and for taking reasonable steps for the prevention of fraud and other irregularities.



BY ORDER OF THE BOARD

M L Bygraves

53 New Broad Street

London

EC2M 1JJ

3 September 1998

## **POWERGEN CHP LIMITED**

### **Report of the auditors to the members of PowerGen CHP Limited**

We have audited the financial statements on pages 7 to 17.

#### Respective responsibilities of directors and auditors

As described on page 5, the Company's directors are responsible for the preparation of 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.

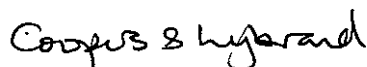
#### Basis of opinion

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 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 affairs of the Company's affairs at 29 March 1998 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Coopers and Lybrand  
Chartered Accountants and Registered Auditors  
London  
25 September 1998

**POWERGEN CHP LIMITED**  
**PROFIT AND LOSS ACCOUNT**  
**FOR THE YEAR ENDED 29 March 1998**

|                                                      | Note | 1998<br>£'000 | 1997<br>£'000 |
|------------------------------------------------------|------|---------------|---------------|
| Turnover : continuing activities                     | 2    | 63,408        | 45,759        |
| Cost of sales                                        |      | (55,384)      | (43,806)      |
| Gross profit                                         |      | 8,024         | 1,953         |
| Administrative expenditure                           | 3    | (3,458)       | (1,788)       |
| Operating profit : continuing activities             |      | 4,566         | 165           |
| Interest payable                                     | 6    | (74)          | (682)         |
| Profit/(loss) on ordinary activities before taxation |      | 4,492         | (517)         |
| Tax on profit/(loss) on ordinary activities          | 7    | 1,204         | 2,806         |
| Profit on ordinary activities after taxation         |      | 5,696         | 2,289         |
| Dividends                                            | 8    | (11,091)      | -             |
| Retained (loss)/profit for the financial year        | 16   | (5,395)       | 2,289         |

The Company has no recognised gains or losses in either year, other than the profits above and therefore no separate statement of total recognised gains and losses is presented.

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

**POWERGEN CHP LIMITED**

**BALANCE SHEET**  
**AS AT 29 March 1998**

|                                                                | Note | 29 March<br>1998<br>£'000 | 30 March<br>1997<br>£'000 |
|----------------------------------------------------------------|------|---------------------------|---------------------------|
| <b>Tangible fixed assets</b>                                   | 9    | 103,586                   | 98,398                    |
| <b>Current assets</b>                                          |      |                           |                           |
| Stocks                                                         | 1(f) | 1,214                     | 983                       |
| Debtors                                                        | 10   | 19,542                    | 10,276                    |
| Cash at bank and in hand                                       |      | 9,396                     | 8,003                     |
|                                                                |      | <hr/>                     | <hr/>                     |
| <b>Creditors: amounts falling due within one year</b>          | 11   | 30,152<br>(25,834)        | 19,262<br>(23,004)        |
|                                                                |      | <hr/>                     | <hr/>                     |
| <b>Net current assets</b>                                      |      | 4,318                     | (3,742)                   |
|                                                                |      | <hr/>                     | <hr/>                     |
| <b>Total assets less current liabilities</b>                   |      | 107,904                   | 94,656                    |
| <b>Creditors: amounts falling due after more than one year</b> | 12   | (107,804)                 | (89,161)                  |
|                                                                |      | <hr/>                     | <hr/>                     |
| <b>Net assets</b>                                              |      | 100                       | 5,495                     |
| <b>Capital and reserves</b>                                    |      | <hr/>                     | <hr/>                     |
| Called up share capital                                        | 15   | 100                       | 100                       |
| Profit and loss account                                        |      | Nil                       | 5,395                     |
|                                                                |      | <hr/>                     | <hr/>                     |
| <b>Equity shareholders' funds</b>                              | 17   | 100                       | 5,495                     |
|                                                                |      | <hr/>                     | <hr/>                     |

The accounts were approved by the Board on 3 September 1998 and were signed on its behalf by:

.....  
R J Kennett

..... Director



# POWERGEN CHP LIMITED

## Notes to the financial statements for the year ended 29 March 1998

### 1 Accounting policies

#### (a) Basis of accounting

The accounts are prepared under the historical cost convention and in accordance with applicable UK accounting standards.

#### (b) Overhaul

Charges are made annually against profits to provide for the accrued proportion of the estimated costs of the cyclical programme for the major overhaul and maintenance of operating plant.

#### (c) Depreciation

Provision for depreciation is made so as to write off, on a straight line basis, the cost of tangible fixed assets. Assets are depreciated over their estimated useful lives. The estimated useful lives for the principal categories of fixed assets are:

| Asset                                        | Life in years |
|----------------------------------------------|---------------|
| Operating plant and buildings                | 10 - 15       |
| Office equipment and other short term assets | 3 - 5         |

#### (d) Tangible fixed assets

Tangible fixed assets are stated at original cost less accumulated depreciation. In the case of assets constructed by the Company, related works, administrative overheads and commissioning costs are included in cost. Assets in the course of construction are included in tangible fixed assets on the basis of expenditure incurred at the balance sheet date.

#### (e) Leases

Rents payable under operating leases are charged to the profit and loss account evenly over the term of the lease.

## POWERGEN CHP LIMITED

### Notes to the financial statements for the year ended 29 March 1998

(f) Stocks

Stores of general and engineering stocks are stated at the lower of cost and net realisable value. Where necessary, provision is made for obsolete, slow moving and defective stocks.

(g) 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 or asset will crystallise in the foreseeable future.

(h) Pensions

The Group operates a defined benefit pension scheme. Pension contributions are charged to the profit and loss account so as to spread the cost of pensions over employees' remaining working lives. The regular cost is attributed to individual years using the projected unit credit method. Variations in pension costs, which are identified as a result of actuarial valuations, are amortised over the average expected remaining service lives of members. Differences between the amounts funded and the amounts charged to the profit and loss account are treated as either provisions or prepayments in the balance sheet.

(i) Cash flow statement

The Company is a wholly owned subsidiary of PowerGen plc and the cash flows of the Company are included in the consolidated group cash flow statement of PowerGen plc. Consequently the Company is exempt under the terms of Financial Reporting Standard No. 1 (Revised) from publishing a cash flow statement.

(j) Claims and litigation

Provisions for claims and litigation against the Company is made as soon as it is believed that a liability will arise, but claims made by the Company are not recognised in the profit and loss account until the outcome is reasonably certain.

## POWERGEN CHP LIMITED

### Notes to the financial statements for the year ended 29 March 1998

#### 2 Turnover

Turnover relates to continuing activities and principally derives from the sale of energy within the UK.

#### 3 Operating costs

Operating costs relate to continuing activities and are made up as follows:

|                         | 1998<br>£'000 | 1997<br>£'000 |
|-------------------------|---------------|---------------|
| Cost of sales           | 55,384        | 43,806        |
| Administration expenses | 3,458         | 1,788         |
|                         | <hr/> 58,842  | <hr/> 45,594  |

Operating costs include auditors' remuneration for audit of £5,500 (1997: £6,000), depreciation of £7,108,000 (1997 £5,175,000) and other operating lease rentals of £85,000 (1997: £63,000). The auditors received no remuneration (1997: Nil) for provision of non-audit services to the Company during the year.

#### 4 Employee information

The average number of persons, including directors, employed by the Company during the year was 114 (1997 104). All employees are involved in the sale of energy within the UK.

The salaries and related costs of employees, including directors, were:

|                       | 1998<br>£'000 | 1997<br>£'000 |
|-----------------------|---------------|---------------|
| Wages and salaries    | 3,532         | 2,932         |
| Social security costs | 289           | 257           |
| Other pension costs   | 442           | 382           |
|                       | <hr/> 4,263   | <hr/> 3,571   |

# POWERGEN CHP LIMITED

## Notes to the financial statements for the year ended 29 March 1998

### 5 Directors' emoluments

|                      | 1998<br>£'000 | 1997<br>£'000 |
|----------------------|---------------|---------------|
| Aggregate emoluments | <u>115</u>    | <u>101</u>    |

Retirement benefits are accrued to one director under the Company's defined benefit scheme.

### 6 Interest payable

Interest payable is all payable to the parent undertaking in respect of amounts owed to parent undertaking falling due within one year.

### 7 Tax on profit/(loss) on ordinary activities

|                                                   | 1998<br>£'000 | 1997<br>£'000 |
|---------------------------------------------------|---------------|---------------|
| United Kingdom corporation tax at 31% (1997: 33%) | 1,315         | 3,936         |
| Adjustments in respect of prior years             | (111)         | (1,130)       |
|                                                   | <u>1,204</u>  | <u>2,806</u>  |

The tax credit on the loss on ordinary activities of £1,315,000 (1997: £3,936,000) represents an amount receivable from the parent company in respect of the transfer of tax losses, at a tax rate of 31% (1997: 33%), under group relief provisions.

### 8 Dividends

|                                    | 1998<br>£'000 | 1997<br>£'000 |
|------------------------------------|---------------|---------------|
| Net dividend per ordinary share    |               |               |
| Final proposed £110.91(1997 : Nil) | <u>11,091</u> | <u>Nil</u>    |

# POWERGEN CHP LIMITED

## Notes to the financial statements for the year ended 29 March 1998

### 9 Tangible fixed assets

|                         | Operating<br>plant and<br>buildings<br>£'000 | Other<br>short term<br>assets<br>£'000 | Total<br>£'000  |
|-------------------------|----------------------------------------------|----------------------------------------|-----------------|
| <b>Cost</b>             |                                              |                                        |                 |
| At 31 March 1997        | 107,113                                      | 278                                    | 107,391         |
| Additions               | 12,224                                       | 72                                     | 12,296          |
| <b>At 29 March 1998</b> | <b>119,337</b>                               | <b>350</b>                             | <b>119,687</b>  |
| <b>Depreciation</b>     |                                              |                                        |                 |
| At 31 March 1997        | (8,891)                                      | (102)                                  | (8,993)         |
| Charge for year         | (7,039)                                      | (69)                                   | (7,108)         |
| <b>At 29 March 1998</b> | <b>(15,930)</b>                              | <b>(171)</b>                           | <b>(16,101)</b> |
| <b>Net book value</b>   |                                              |                                        |                 |
| <b>At 29 March 1998</b> | <b>103,407</b>                               | <b>179</b>                             | <b>103,586</b>  |
| At 31 March 1997        | 98,222                                       | 176                                    | 98,398          |

Of the additions during the period on operating plant and buildings £ 11,868,000 (1997: £15,819,000) are in respect of assets under construction.

The net book value of freehold buildings as at 29 March 1998, included within operating plant and buildings, was £7,075,000 (1997: £7,324,000).

## POWERGEN CHP LIMITED

### Notes to the financial statements for the year ended 29 March 1998

#### 10 Debtors

|                                    | 29 March<br>1998<br>£'000 | 30 March<br>1997<br>£'000 |
|------------------------------------|---------------------------|---------------------------|
| Trade debtors                      | 5,235                     | 822                       |
| Amounts owed by parent undertaking | 5,744                     | 2,806                     |
| Amounts owed by related company    | 126                       | -                         |
| Other debtors                      | 525                       | 2,459                     |
| Prepayments and accrued income     | 7,912                     | 4,189                     |
|                                    | <hr/>                     | <hr/>                     |
|                                    | 19,542                    | 10,276                    |
|                                    | <hr/>                     | <hr/>                     |

Of the total debtors £8,000 (1997: £14,000) fall due after more than one year.

#### 11 Creditors: amounts falling due within one year

|                                    | 29 March<br>1998<br>£'000 | 30 March<br>1997<br>£'000 |
|------------------------------------|---------------------------|---------------------------|
| Trade creditors                    | 1,284                     | 766                       |
| Amounts owed to parent undertaking | 17,099                    | 14,329                    |
| Taxation and social security       | 1,743                     | 1,259                     |
| Accruals and deferred income       | 5,708                     | 6,650                     |
|                                    | <hr/>                     | <hr/>                     |
|                                    | 25,834                    | 23,004                    |
|                                    | <hr/>                     | <hr/>                     |

## POWERGEN CHP LIMITED

### Notes to the financial statements for the year ended 29 March 1998

#### 12 Creditors: amounts falling due after more than one year

|                                    | 29 March<br>1998<br>£'000 | 30 March<br>1997<br>£'000 |
|------------------------------------|---------------------------|---------------------------|
| Amounts owed to parent undertaking | 106,834                   | 88,285                    |
| Other creditors                    | 970                       | 876                       |
|                                    | <hr/> 107,804 <hr/>       | <hr/> 89,161 <hr/>        |

The amounts owed to the parent undertaking represent an unsecured loan repayable on 31 October 2003.

#### 13 Deferred taxation

An analysis of the full potential liability and the deferred taxation liability provided at 29 March 1998 at 30% (1997: 31%) is as follows:

|                                | Full potential liability |               | Amounts provided |               |
|--------------------------------|--------------------------|---------------|------------------|---------------|
|                                | 1998<br>£'000            | 1997<br>£'000 | 1998<br>£'000    | 1997<br>£'000 |
| Accelerated capital allowances | 14,440                   | 12,104        | -                | -             |
|                                | <hr/>                    |               | <hr/>            |               |

No reversal of accelerated capital allowances is expected in the foreseeable future.

## POWERGEN CHP LIMITED

### Notes to the financial statements for the year ended 29 March 1998

#### 14 Pension scheme arrangements

The Company is a member of the PowerGen plc Group Scheme, and the Company's pension contributions are based on pension costs across the Group as a whole. The Group participates in the industry wide scheme, the Electricity Supply Pension Scheme (ESPS), for the majority of its employees. This scheme is of the defined benefit type, with assets invested in separate trustee administered funds.

An actuarial valuation of the ESPS is normally carried out every three years by the Scheme's actuary, who recommends the rates of contribution payable by each group participating in the scheme. In intervening years, the actuary reviews the continuing appropriateness of the rates. The latest actuarial valuation of the ESPS was at 31 March 1995.

The pension cost charged for the year ended 29 March 1998 was £ 442,000 (1997: £382,000).

Particulars of the actuarial valuation of the Group Scheme are contained in the financial statements of PowerGen plc.

#### 15 Called up share capital

The share capital of the company comprises:

|                                           | 29 March<br>1998<br>£'000 | 30 March<br>1997<br>£'000 |
|-------------------------------------------|---------------------------|---------------------------|
| <b>Authorised</b>                         |                           |                           |
| 100,000 ordinary shares of £1 each        | 100                       | 100                       |
|                                           | <hr/>                     | <hr/>                     |
| <b>Allotted, called up and fully paid</b> |                           |                           |
| 100,000 ordinary shares of £1 each        | 100                       | 100                       |
|                                           | <hr/>                     | <hr/>                     |
| <b>16 <u>Reserves</u></b>                 |                           | £'000                     |
| Retained profit at 31 March 1997          |                           | 5,395                     |
| Retained loss for the year                |                           | (5,395)                   |
|                                           |                           | <hr/>                     |
| <b>Retained profit at 29 March 1998</b>   |                           | <b>Nil</b>                |



## POWERGEN CHP LIMITED

### Notes to the financial statements for the year ended 29 March 1998

#### 17 Reconciliation of movements in shareholders' funds

|                             | 1998<br>£'000 | 1997<br>£'000 |
|-----------------------------|---------------|---------------|
| Opening shareholders' funds | 5,495         | 3,206         |
| Profit for the year         | 5,696         | 2,289         |
| Dividends                   | (11,091)      | -             |
| Closing shareholders' funds | 100           | 5,495         |

#### 18 Capital commitments

At 29 March 1998, the Company had no commitments for capital expenditure and other project related expenditure (1997: £9,150,00).

#### 19 Ultimate parent undertaking

The Company is a wholly owned subsidiary undertaking of PowerGen plc, a Company registered in England and Wales. Copies of PowerGen plc's consolidated financial statements are available by applying to:

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

#### 20 Related party transactions

PowerGen CHP Ltd is a wholly owned subsidiary of PowerGen plc. The company has taken advantage of the exemption allowed by Financial Reporting Standard No. 8 not to disclose transactions with related company undertakings, 90% or more of whose voting rights are controlled within the Group.