

POWERGEN CHP LIMITED

ANNUAL REPORT

for the year ended 30 March 1997

Registered No: 2684288



POWERGEN CHP LIMITED

Report of the directors for the year ended 30 March 1997

The directors submit their report and audited financial statements of the Company for the year ended 30 March 1997.

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 three operational CHP schemes. In addition the Company has two schemes under construction, and has contracted with Brunner Mond & Co Ltd for energy from a proposed scheme at Winnington, Cheshire. 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 profit for the year ended 30 March 1997 was £2,289,000 (1996: £2,528,000)

Directors

The directors of the Company at 30 March 1997 were Dr A Roberts, R J Kennett, T E Chappell and R G Barber. R G Barber was appointed on 9 January 1997. D Parry and J L Rennocks, both of whom were directors at 31 March 1996, resigned on 1 April and 15 July 1996 respectively.

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 30 March 1997 (continued)

The directors had the following interests in the ordinary shares of PowerGen plc, the Company's parent undertaking, at 30 March 1997:

Ordinary shares of £1 each				
	At 30 March 1997		At 31 March 1996	
	Beneficial	Options	Beneficial	Options
R J Kennett	-	22,830	-	12,500
T E Chappell	63,891	54,312	52,461	45,358
R G Barber	21,654	49,812	31,654*	49,812*

* Figure is as at date of appointment, not 31 March 1996.

The interests of Dr A Roberts are disclosed in the directors' report published within the consolidated financial statements of PowerGen plc for the year ended 30 March 1997.

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:

- 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 relevant terms in the contract; and
- 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.

POWERGEN CHP LIMITED

Report of the directors for the year ended 30 March 1997 (continued)

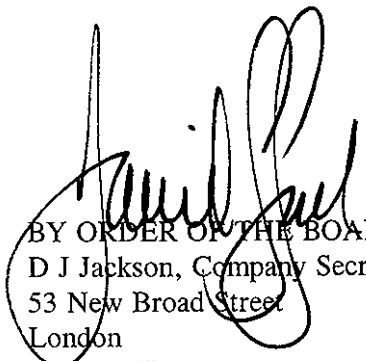
Auditors

On 29 January 1993 the Company passed an elective resolution dispensing with the requirement to appoint auditors annually. Coopers & Lybrand continue in office.

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.



BY ORDER OF THE BOARD
D J Jackson, Company Secretary
53 New Broad Street
London
EC2M 1JJ
10 July 1997

POWERGEN CHP LIMITED

Report of the auditors to the members of PowerGen CHP Limited

We have audited the financial statements on pages 6 to 16.

Respective responsibilities of directors and auditors

As described on page 4, 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 30 March 1997 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Coopers & Lybrand
Chartered Accountants and Registered Auditors
London
10 July 1997

POWERGEN CHP LIMITED
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 30 MARCH 1997

	Note	1997 £'000	1996 £'000
Turnover : continuing activities	2	45,759	26,412
Operating costs	3	(45,594)	(28,283)
Operating profit / (loss) : continuing activities		165	(1,871)
Interest payable	6	(682)	(1,122)
Loss on ordinary activities before taxation		(517)	(2,993)
Tax on loss on ordinary activities	7	2,806	5,521
Retained profit for the financial year		2,289	2,528

STATEMENT OF RETAINED PROFITS
FOR THE YEAR ENDED 30 MARCH 1997

	£'000
Retained profit at 1 April 1996	3,106
Profit for the year	2,289
Retained profit at 30 March 1997	5,395

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.

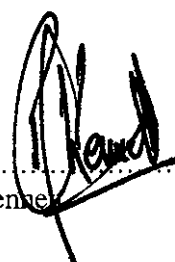
There is no difference between the loss on ordinary activities before taxation and the retained profit for the year stated above, and their historical cost equivalents.

POWERGEN CHP LIMITED

BALANCE SHEET AS AT 30 MARCH 1997

	Note	30 March 1997 £'000	31 March 1996 £'000
Tangible fixed assets	8	98,398	87,488
Current assets			
Stocks	1(f)	983	271
Debtors	9	10,276	23,115
Cash at bank and in hand		8,003	2,502
		19,262	25,888
Creditors: amounts falling due within one year	10	(23,004)	(49,562)
Net current liabilities		(3,742)	(23,674)
Total assets less current liabilities		94,656	63,814
Creditors: amounts falling due after more than one year	11	(89,161)	(60,608)
Net assets		5,495	3,206
Capital and reserves			
Called up share capital	14	100	100
Profit and loss account		5,395	3,106
Equity shareholders' funds	15	5,495	3,206

The accounts were approved by the Board on 10 July 1997 and were signed on its behalf by:



 Director
 R J Kenne

POWERGEN CHP LIMITED

Notes to the financial statements for the year ended 30 March 1997

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 years	Life in
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 30 March 1997

(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 30 March 1997

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:

	1997 £'000	1996 £'000
Cost of sales	43,806	27,086
Administration expenses	1,788	1,197
	<hr/>	<hr/>
	45,594	28,283
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Operating costs include auditors' remuneration for audit of £6,000 (1996: £5,000) and depreciation of £5,175,000 (1996: £2,513,000). The auditors received no remuneration (1996: £2,000) 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 104 (1996: 73). All employees are involved in the sale of energy within the UK.

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

	1997 £'000	1996 £'000
Wages and salaries	2,932	2,130
Social security costs	257	185
Other pension costs	382	261
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	3,571	2,576
	<hr/>	<hr/>

POWERGEN CHP LIMITED

Notes to the financial statements for the year ended 30 March 1997

5 Directors' emoluments

The highest paid director received the following emoluments (including pension contributions) for management services:

	1997 £'000	1996 £'000
Salary payments including benefits in kind	121	115

No other director received remuneration for services to the Company during the year.

6 Interest payable

Interest payable is all payable to the parent undertaking in respect of a loan which is wholly repayable after more than 5 years.

7 Tax on loss on ordinary activities

	1997 £'000	1996 £'000
United Kingdom corporation tax at 33% (1996: 33%)	3,936	5,512
Adjustments in respect of prior years	(1,130)	9
	<u>2,806</u>	<u>5,521</u>

The tax credit on the loss on ordinary activities of £3,936,000 (1996: £5,512,000) represents an amount receivable from the parent company in respect of the transfer of tax losses, at a tax rate of 33%, under group relief provisions.

POWERGEN CHP LIMITED

Notes to the financial statements for the year ended 30 March 1997

8 Tangible fixed assets

	Operating plant and buildings £'000	Other short term assets £'000	Total £'000
Cost			
At 1 April 1996	91,139	167	91,306
Additions	15,974	111	16,085
At 30 March 1997	107,113	278	107,391
Depreciation			
At 1 April 1996	(3,760)	(58)	(3,818)
Charge for year	(5,131)	(44)	(5,175)
At 30 March 1997	(8,891)	(102)	(8,993)
Net book value			
At 30 March 1997	98,222	176	98,398
At 1 April 1996	87,379	109	87,488

Of the additions during the period on operating plant and buildings £15,819,000 (1996: £28,042,000) are in respect of assets under construction.

The net book value of freehold buildings as at 30 March 1997, included within operating plant and buildings, was £7,324,000 (1996: £7,573,000).

POWERGEN CHP LIMITED

Notes to the financial statements for the year ended 30 March 1997

9 Debtors

	30 March 1997 £'000	31 March 1996 £'000
Trade debtors	822	17,556
Amounts owed by parent undertaking	2,806	5,521
Other debtors	2,459	-
Prepayments and accrued income	4,189	38
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	10,276	23,115
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Of the total debtors £14,000 (1996: £7,000) fall due after more than one year.

10 Creditors: amounts falling due within one year

	30 March 1997 £'000	31 March 1996 £'000
Trade creditors	766	3,843
Amounts owed to parent undertaking	14,329	24,373
Taxation and social security	1,259	-
Other creditors	-	21,346
Accruals and deferred income	6,650	-
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	23,004	49,562
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POWERGEN CHP LIMITED

Notes to the financial statements for the year ended 30 March 1997

11 Creditors: amounts falling due after more than one year

	30 March 1997 £'000	31 March 1996 £'000
Amounts owed to parent undertaking	88,285	60,020
Other creditors	876	588
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	89,161	60,608
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The amounts owed to the parent undertaking represent an unsecured loan repayable on 31 October 2003.

12 Deferred taxation

An analysis of the full potential liability and the deferred taxation liability provided at 30 March 1997 at 31% (1996: 33%) is as follows:

	Full potential liability		Amounts provided	
	1997 £'000	1996 £'000	1997 £'000	1996 £'000
Accelerated capital allowances	12,104	10,229	-	-
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No reversal of accelerated capital allowances is expected in the foreseeable future.

POWERGEN CHP LIMITED

Notes to the financial statements for the year ended 30 March 1997

13 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 30 March 1997 was £382,000 (1996: £261,000).

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

14. Called up share capital

The share capital of the company comprises:

	30 March 1997 £'000	31 March 1996 £'000
Authorised		
100,000 ordinary shares of £1 each	100	100
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Allotted, called up and fully paid		
100,000 ordinary shares of £1 each	100	100
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POWERGEN CHP LIMITED

Notes to the financial statements for the year ended 30 March 1997

15 Reconciliation of movements in shareholders' funds

	1997 £'000	1996 £'000
Opening shareholders' funds	3,206	678
Profit for the year	2,289	2,528
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Closing shareholders' funds	5,495	3,206
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16 Capital commitments

At 30 March 1997, the Company had commitments of £9,150,000 (1996: £10,704,000) for capital expenditure and other project related expenditure, of which nil (1996: £1,764,000) related to expenditure to be incurred after one year. A further £144,484,000 (1996: £147,465,000) had been approved by the directors but had not been contracted for.

17 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

18 Related party transactions

PowerGen CHP Ltd is a wholly owned subsidiary of PowerGen plc. Consequently, the accounts of PowerGen CHP Ltd do not include disclosures of transactions with companies that are part of the PowerGen Group.