

POWERGEN CHP LIMITED

ANNUAL REPORT

for the nine month period ended 3 January 1999



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COMPANIES HOUSE 28/10/99

Registered No: 2684288

POWERGEN CHP LIMITED

Report of the directors for the nine month period ended 3 January 1999

The directors submit their report and audited financial statements of the Company for the nine month period ended 3 January 1999.

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.

During December 1998 PowerGen CHP Ltd successfully completed the acquisition of Yorkshire CoGen Limited from Yorkshire Electricity plc. The assets purchased comprised CHP, CCGT and Peaking Plant bringing the total number of schemes in operation within PowerGen CHP Ltd to sixteen. The acquisition also increases the number of sites under construction and provides additional development opportunities. The directors believe that there continues to be opportunities in the UK CHP market. The parent company, PowerGen UK plc, has declared its support for the Company.

The retained profit for the nine month period ended 3 January 1999 was £6,702,000 (1997/8: loss £5,087,000)

Dividends

The directors are not recommending the payment of a dividend in respect of the nine month period ended 3 January 1999.

Directors

The directors of the Company at 3 January 1999 were N P Baldwin, R J Kennett, T E Chappell, D J Jackson and R G Barber.

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 PLC ORDINARY SHARES OF £1 EACH

	Beneficial		Options			
	3 January 1999	29 March 1998	3 January 1999	Granted	Exercised	29 March 1998
R J Kennett	-	-	34,836	5,000		29,836
T E Chappell	-	66,152	70,722	9,500		61,222
R G Barber	9,995	9,915	66,222	9,500		56,722
D J Jackson	14,550	14,360	75,075	12,000		63,075

POWERGEN CHP LIMITED

Report of the directors for the nine month period ended 3 January 1999

The interests of N P Baldwin are disclosed in the Directors' Report published within the consolidated financial statements of PowerGen plc for the nine month period ended 3 January 1999.

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 34 days (1997/8: 19 days).

POWERGEN CHP LIMITED

Report of the directors for the nine month period ended 3 January 1999 (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. As part of the Year 2000 assessment, the Company has sought assurances from its major suppliers and customers regarding their Year 2000 compliance. The approximate external cost of this work is estimated at £50,000 and all business-critical work is due to be completed by the end of September 1999.

Introduction of the Euro

Although the company does not export any of its products, it does import certain materials and, on a less frequent basis, items of plant from Europe. Consequently, the Company will have to cope with handling invoices and making payments in Euro to our suppliers. Therefore, the Company as part of a group-wide initiative by its parent PowerGen plc, is expecting to upgrade the computer software to handle the Euro and its implications. The impact on the PowerGen CHP corporate systems is not expected to be significant. Further details on the position of the parent company with respect to the implementation of the EMU can be found in the accounts of PowerGen plc.

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 1998 and a resolution to appoint the new firm, PricewaterhouseCoopers, as auditors to the Company was passed at the Annual General Meeting.

POWERGEN CHP LIMITED

**Report of the directors for the nine month period ended
3 January 1999 (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

16 September 1999

POWERGEN CHP LIMITED

Report of the auditors to the members of PowerGen CHP Limited

We have audited the financial statements on pages 7 to 22 which have been prepared in accordance with the historical cost convention and the accounting policies on page 9.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors are responsible for preparing the Annual Report including, as described on page 5, the financial statements. Our responsibilities, as independent auditors, are established 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 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 misstatements or material inconsistencies with the financial statements.

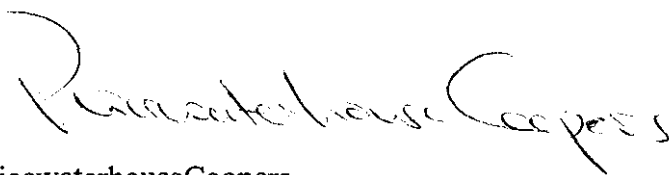
BASIS OF AUDIT OPINION

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 3 January 1999 and of its profit for the 9 months then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Birmingham

22 October 1999

POWERGEN CHP LIMITED
PROFIT AND LOSS ACCOUNT
For the 9 month period ended 3 January 1999

	Note	9 months ended 3 January 1999 £,000	12 months ended 29 March 1998 (restated) £,000
Turnover : continuing operations	2	50,550	63,408
Cost of sales		(42,773)	(54,938)
Gross profit		7,777	8,470
Administrative expenditure		(2,891)	(3,458)
Operating profit : continuing operations		4,886	5,012
Net interest receivable from/(payable to) from parent	7	305	(74)
Profit on ordinary activities before taxation		5,191	4,938
Tax on profit on ordinary activities	8	1,511	1,066
Profit on ordinary activities after taxation		6,702	6,004
Dividends	9	-	(11,091)
Retained profit/(loss) for the financial period	19	6,702	(5,087)

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

POWERGEN CHP LIMITED

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
for the nine month period ended 3 January 1999

	9 months ended 3 January 1999 £,000	12 months ended 29 March 1998 £,000 (restated)
Profit/(Loss) attributable to shareholders	<u>6,702</u>	<u>6,142</u>
Total recognised gains/(losses) for the period	6,702	6,142
Prior year adjustment (note 4)	<u>1,558</u>	<u>-</u>
Total recognised gain since last Annual report	<u>8,260</u>	<u>6,142</u>

POWERGEN CHP LIMITED

BALANCE SHEET
As at 3 January 1999

	Note	3 January 1999 £,000	29 March 1998 (restated) £,000
Fixed assets			
Tangible assets	10	139,611	104,243
Investments	11	96,782	-
Current assets			
Stocks	12	918	1,214
Debtors due within one year	13	11,099	19,542
Cash at bank and in hand		31,735	9,396
		<u>43,752</u>	<u>30,152</u>
Creditors: amounts falling due within one year	14	<u>(164,951)</u>	<u>(24,933)</u>
Net current (liabilities)/assets		<u>(121,199)</u>	<u>5,219</u>
Total assets less current liabilities		115,194	109,462
Creditors: amounts falling due after more than one year	15	<u>(106,834)</u>	<u>(107,804)</u>
Net assets		<u>8,360</u>	<u>1,658</u>
Capital and reserves			
Called up share capital	18	100	100
Profit and loss account	19	<u>8,260</u>	<u>1,558</u>
Equity shareholders' funds	20	<u>8,360</u>	<u>1,658</u>

The accounts were approved by the Board on 16 September 1999 and were signed on its behalf by:

.....
R J Kennett
Director

POWERGEN CHP LIMITED

Notes to the financial statements for the nine month period ended 3 January 1999

1 Accounting policies

(a) Basis of accounting

The accounts are prepared under the historical cost convention and in accordance with applicable UK accounting standards which have been consistently applied.

(b) 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:

<u>Asset</u>	<u>Life in years</u>
Operating plant and buildings	10 - 20
Overhead costs (see (d))	2 - 3
Office equipment and other short term assets	3 - 5

(c) Fixed Assets

Tangible fixed assets are stated at original cost less accumulated depreciation. In the case of assets constructed by the Company, related works, directly attributable 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.

(d) Overhaul of generation plant

Prior to the adoption of Financial Reporting Standard 12 *Provisions, Contingent Liabilities and Contingent Assets* on 30 March 1998, charges were made annually against profits for the accrued proportion of the estimated cost of the cyclical programme for the major overhaul and maintenance of generation plant. Since that date estimated overhaul costs have been capitalised as part of the generating assets and depreciated on a straight line basis over their estimated useful life, typically the period until the next major overhaul. That period is usually between two and three years. As a result of this change in accounting policy, prior year figures have been restated.

POWERGEN CHP LIMITED

Notes to the financial statements for the nine month period ended 3 January 1999

(e) Leases

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

(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 PowerGen Group operates a funded 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 is included in the consolidated financial statements of PowerGen plc which are publicly available. Consequently the Company has taken advantage of the exemption, under the terms of Financial Reporting Standard No. 1 (Revised) from publishing a cash flow statement.

POWERGEN CHP LIMITED

Notes to the financial statements **for the nine month period ended 3 January 1999**

(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.

(k) Foreign currency

Assets and liabilities expressed in foreign currencies, including those of subsidiary and associated undertakings, are translated into sterling at rates of exchange ruling at the end of the financial period.

Transactions denominated in foreign currencies are translated to 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 the contract is used. All foreign exchange differences are taken to the profit and loss account in the year in which they arise.

(l) Consolidation

PowerGen CHP consolidated accounts are not prepared as the Company is a wholly owned subsidiary of PowerGen plc and is included in the consolidated financial statements of PowerGen plc which are publicly available.

POWERGEN CHP LIMITED

Notes to the financial statements for the nine month period ended 3 January 1999

2 Turnover

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

3 Operating Profit

Operating profit is stated after charging:

	9 months ended 3 January 1999 £,000	12 months ended 29 March 1998 £,000
Wages and salaries	2,901	3,532
Social security costs	248	289
Other pension costs	350	442
	<hr/>	<hr/>
Staff costs	3,499	4,263
Depreciation of tangible fixed assets	6,675	7,108
Operating leases	98	85
Auditors' remuneration		
Audit services	6	6
Non-audit services	53	-
	<hr/>	<hr/>

POWERGEN CHP LIMITED

Notes to the financial statements for the nine month period ended 3 January 1999

4. Prior year adjustment

Financial Reporting Standard 12 'Provisions, Contingent Liabilities and Contingent Assets' (FRS 12) was adopted from 30 March 1998. This has necessitated adjustments to provisions made in prior periods, relating to major overhauls of generating plant.

Prior to the adoption of FRS 12 charges were 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 generation plant. Since that date overhaul costs have been capitalised as part of generating assets and depreciated on a straight line basis over the period until the next major overhaul. That period is usually between two and four years. As a result of this change in accounting policy, prior year figures have been restated.

The impact of the adoption of FRS 12 on retained profits and opening net assets is as follows:

	9 months ended 3 January 1999 £,000	12 months ended 29 March 1998 £,000	Balance Sheet as at 29 March 1998 £,000
Overhaul	69	446	2,258
Taxation	(21)	(138)	(700)
	<u>48</u>	<u>308</u>	<u>1,558</u>

5 Employee information

The average monthly number of persons, including directors, employed by the Company during the year was 120 (1997/8 114). All employees are involved in activities relating to the sale of energy within the UK.

6 Directors' emoluments

	9 months ended 3 January 1999 £,000	12 months ended 29 March 1998 £,000
Aggregate emoluments	<u>93</u>	<u>115</u>

Retirement benefits are accruing to one director (1997/98 one director) under the Company's defined benefit scheme.

POWERGEN CHP LIMITED

Notes to the financial statements for the nine month period ended 3 January 1999

6 Directors' emoluments (continued)....

The emoluments of the directors other than R J Kennett are paid by fellow PowerGen group companies. Their emoluments are deemed to be mainly attributable to those other group companies and it is not possible to make an accurate apportionment of their emoluments. Accordingly, the above details include no emoluments in respect of those other directors.

7 Interest receivable/payable

Amounts of interest receivable/payable which relates solely to the parent undertaking in respect of amounts due from/owed to PowerGen CHP Ltd falling due within one year are as follows:

	9 months ended 3 January 1999 £,000	12 months ended 29 March 1998 £,000
Interest receivable	415	42
Interest payable	(110)	(116)
Net interest receivable/payable	<u>305</u>	<u>(74)</u>

8 Tax on profit on ordinary activities

	9 months ended 3 January 1999 £,000	12 months ended 29 March 1998 (Restated) £,000
United Kingdom corporation tax at 31% (1997/8: 31%)	428	(1,177)
Deferred tax	-	-
Adjustments in respect of prior years for provision	(1,939)	111
	<u>(1,511)</u>	<u>(1,066)</u>

The £1,939,000 credit (1997/8: £111,000 debit) relates to an adjustment to the amount receivable from the parent company in respect of prior year tax losses under group loss relief provisions.

POWERGEN CHP LIMITED

Notes to the financial statements
for the nine month period ended 3 January 1999

9 Dividends

	1998	1997/8
	£,000	£,000
Equity – ordinary		
Final proposed: Nil	0	11,091

10 Tangible fixed assets

	Operating Plant & Buildings £,000	Other short term assets £,000	Total £,000
Cost			
At 30 March 1998	120,292	366	120,658
Additions	41,963	79	42,043
At 3 January 1999	162,271	429	162,701
Depreciation			
At 30 March 1998	(16,244)	(171)	(16,415)
Charge for year	(6,628)	(46)	(6,675)
At 3 January 1999	(22,872)	(217)	(23,090)
Net book value at 3 January 1999	139,399	212	139,611
At 30 March 1998 (restated)	104,048	195	104,243

Of the additions during the period on operating plant and buildings, £40,918,115 (1997/8: £15,819,000) are in respect of assets under construction.

At 3 January 1999 assets with a cost of £49,208,349 were under construction and not subject to depreciation.

The net book value of freehold buildings as at 3 January 1999, included within operating plant and buildings, was £6,641,476 (1997/8: £7,075,000).

POWERGEN CHP LIMITED

Notes to the financial statements for the nine month period ended 3 January 1999

11 Investment in subsidiary

The acquisition of Yorkshire CoGen Limited by PowerGen CHP Limited was completed on 31 December 1998 and has been recorded in the accounts as follows:

£'000

Fixed Asset Investment	96,117
Costs of Acquisition	665
Total	96,782

The Company owns 100% of the nominal value of issued shares of Yorkshire CoGen Limited. Yorkshire CoGen Limited is incorporated in England and Wales and its principal business activity is the generation and sale of electricity.

12 Stocks

	3 January 1999 £,000	29 March 1998 £,000
Fuel Stocks	181	181
Stores	737	1,033
Total	918	1,214

13 Debtors

	3 January 1999 £,000	29 March 1998 £,000
Trade debtors	3,668	5,235
Amounts owed by parent undertaking	1,292	5,744
Amounts owed by related company	-	126
Other debtors	89	525
Prepayments and accrued income	6,050	7,912
	11,099	19,542

Of the total debtors £6,171 in relation to other debtors (1997/8: £8,000) fall due after more than one year. Amounts owed by group undertaking are unsecured, interest free and have no fixed date of repayment.

POWERGEN CHP LIMITED

Notes to the financial statements for the nine month period ended 3 January 1999

14 Creditors: amounts falling due within one year

	3 January 1999 £,000	29 March 1998 (restated) £,000
Trade creditors	556	1,284
Amounts owed to parent undertaking	47,464	17,799
Other creditors	96,432	-
Taxation and social security	1,725	1,743
Accruals and deferred income	18,774	4,107
	<hr/> 164,951 <hr/>	<hr/> 24,933 <hr/>

The other creditors reflect the amount owing to Yorkshire Electricity plc for the acquisition of Yorkshire CoGen Limited, which was settled on 5 January 1999.

15 Creditors: amounts falling due after more than one year

	3 January 1999 £,000	29 March 1998 £,000
Amounts owed to parent undertaking	106,834	106,834
Other creditors	-	970
	<hr/> 106,834 <hr/>	<hr/> 107,804 <hr/>

The amounts owed to the parent undertaking represent a non-interest bearing unsecured loan repayable on 31 October 2003.

POWERGEN CHP LIMITED

Notes to the financial statements for the nine month period ended 3 January 1999

16 Deferred taxation

An analysis of the full potential liability and the deferred taxation liability provided at 3 January 1999 at 30% (1997/8: 31%) is as follows:

	Full potential liability		Amounts provided	
	1998	1997/8	1998	1997/8
	£,000	£,000	£,000	£,000
Accelerated capital allowances	12,524	14,440	-	-
Deferred tax (asset) provision	-	-	-	-

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

17 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 funded 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 published actuarial valuation of the ESPS was at 31 March 1995.

The pension cost charged for the year ended 3 January 1999 was £350,268 (1997/8: £442,125).

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

POWERGEN CHP LIMITED

Notes to the financial statements
for the nine month period ended 3 January 1999

18 Called up share capital

The share capital of the company comprises:

	3 January 1999 £,000	29 March 1998 £,000
Authorised		
100,000 ordinary shares of £1 each	100	100
	<hr/>	<hr/>
Allotted, called up and fully paid		
100,000 ordinary shares of £1 each	100	100
	<hr/>	<hr/>

19 Reserves

Profit and loss reserve (restated)	£,000
Retained profit at 29 March 1998	Nil
Prior period adjustment	1,558
Retained profit for the year after tax	6,702
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Retained profit at 3 January 1999	8,260
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POWERGEN CHP LIMITED

Notes to the financial statements for the nine month period ended 3 January 1999

20 Reconciliation of movements in shareholders' funds

	9 months ended 3 January 1999 £,000	12 months ended 29 March 1998 £,000 (restated)
Profit for the financial period	6,702	6,004
Dividends	-	(11,091)
Net increase/(decrease) in shareholders' funds for the period	6,702	(5,087)
Opening shareholders' funds as restated for prior year adjustment (see below)	1,658	6,745
Closing shareholders' funds (restated)	8,360	1,658

Restatement of opening shareholders' funds for the year ended 29 March 1998.

	£	£
Opening shareholders' funds for the year ended 29 March 1998		5,495
Adjustment to net assets at 29 March 1998 (note 4)	1,558	
Adjustment to profit for the year ended 29 March 1998 (note 4)	(308)	
		<u>1,250</u>
		<u>6,745</u>

POWERGEN CHP LIMITED

Notes to the financial statements **for the nine month period ended 3 January 1999**

21 Capital commitments

At 3 January 1999, the Company had £82,112,417 commitments for capital expenditure and other project related expenditure (1997: £9,150,000).

22 Financial Commitments

At 3 January 1999 the company had annual commitments (none of which relate to land and buildings) under non-cancellable operating leases and plant maintenance contracts expiring as follows:

	3 January 1999 £,000	31 March 1998 £,000
Within one year	2,207	647
Within two to five years	2,207	2,207
After five years	1,688	2,207

23 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 UK plc
53 New Broad Street
London
EC2M 1JJ

24 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. There were no related party transactions with PowerGen Renewables.