

POWERGEN CHP LIMITED
REPORT AND ACCOUNTS
for the year ended 31 December 2000



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Registered No: 2684288

POWERGEN CHP LIMITED

Report of the directors for the year ended 31 December 2000

The directors present their report and the audited financial statements of the Company for the year ended 31 December 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 continue to be opportunities in the CHP market.

Results and dividends

The Company's profit for the financial year is £5,362,000 (nine months ended 3 January 1999: profit £5,978,000). The directors do not recommend a final dividend on ordinary shares (year ended 31 December 2000: £ nil per ordinary share). A dividend of £2,898,000 (nine months ended 3 January 1999: nil) on cumulative preference shares has been accrued at 31 December 2000 and been paid on 28 February 2001.

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 (resigned 10 January 2001)

During the year, no director had an interest in the shares of the Company. On 15 January 2001 G J Bartlett was appointed as a director.

The following directors had the following interests in the ordinary shares of Powergen plc, the Company's ultimate parent undertaking, at the beginning and end of the year.

	Beneficial holdings in ordinary shares		Options over ordinary shares			
	At 2 January 2000	At 31 December 2000	At 2 January 2000	Exercised / Lapsed	Granted	At 31 December 2000
R J Kennett	57	214	34,336	(2,836)	82,500	114,000
T E Chappell	1,608	11,432	68,500	(48,500)	-	20,000
R G Barber	11,603	11,760	77,671	(4,000)	-	73,671
D J Jackson	14,730	15,112	92,075	(4,575)	152,283	239,783

T E Chappell's options in the Share-Save scheme lapsed in 1999, therefore they do not appear in the interests for 2000.

D J Jackson and R J Kennett cancelled their existing Share-Save schemes during the year and therefore their grant of options lapsed.

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 31 December 2000 (continued)

Introduction of the Euro

The Powergen group recognises the wide implications of the Euro for businesses, including impacts on commercial arrangements and financial systems. Appropriate preparation is being made in those of its entities resident in Euro-land countries, based on the EU timetable for transition towards the introduction of hard currency in January 2002. Within the UK, the Group's preparations recognise the uncertain position regarding possible UK entry to the single currency, and the situation is monitored closely.

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 34 days (2 January 2000: 6 days).

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.

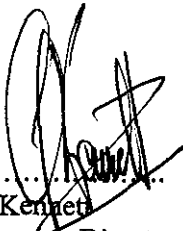
POWERGEN CHP LIMITED

Report of the directors for the year ended 31 December 2000 (continued)

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.

By order of the board



.....
R J Kenneth
Managing Director

53 New Broad Street
London
EC2M 1SL

1 March 2001

POWERGEN CHP LIMITED

Report of the Auditors to the members of Powergen CHP Limited

We have audited the financial statements on pages 5 to 16.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report. As described on page 2, 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.

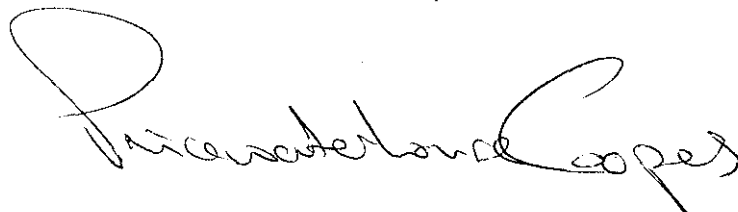
Basis of audit opinion

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 31 December 2000 and of its result for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



.....
PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Birmingham
1 March 2001

POWERGEN CHP LIMITED

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2000

	Note	Year ended 31 December 2000 £'000	Year ended 2 January 2000 £'000
Turnover	2	87,654	65,265
Cost of sales		(73,439)	(57,210)
Gross profit		14,215	8,055
Administrative expenses	3	(5,867)	(4,469)
Operating profit	4	8,348	3,586
Net interest payable	7	(11,226)	(6,863)
Loss on ordinary activities before taxation		(2,878)	(3,277)
Tax on loss on ordinary activities	8	8,240	9,255
Profit on ordinary activities after taxation		5,362	5,978
Dividends payable		(2,898)	-
Retained profit for the financial year	17	2,464	5,978

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.

All the above amounts relate to continuing operations.

The accounting policies and the notes on pages 7 to 16 form part of these financial statements.

POWERGEN CHP LIMITED

BALANCE SHEET AS AT 31 DECEMBER 2000

	Note	At 31 December 2000 £'000	At 2 January 2000 £'000
Fixed assets			
Tangible assets	9	244,321	208,102
Investments	10	97,823	98,187
		<u>342,144</u>	<u>306,289</u>
Current assets			
Stock	11	3,197	907
Debtors: amounts falling due within one year	12	13,787	7,669
Cash at bank and in hand		29,939	38,343
		<u>46,923</u>	<u>46,919</u>
Creditors: amounts falling due within one year	13	(265,365)	(232,036)
Net current liabilities		<u>(218,442)</u>	<u>(185,117)</u>
Total assets less current liabilities		123,702	121,172
Creditors: amounts falling due after more than one year	14	-	(106,834)
		<u>123,702</u>	<u>14,338</u>
Capital and reserves			
Called up equity share capital	16	107,000	100
Profit and loss account	17	16,702	14,238
		<u>123,702</u>	<u>14,338</u>
Equity shareholders' funds	18	66,702	14,338
Non equity shareholders' funds		57,000	-
		<u>123,702</u>	<u>14,338</u>

The financial statements on pages 5 to 16 were approved by the Board on 1 March 2001 and were signed on its behalf by:

.....

R J Kennett, Managing Director
1 March 2001

The accounting policies and the notes on pages 7 to 16 form part of these financial statements.

POWERGEN CHP LIMITED

Notes to the financial statements for the year ended 31 December 2000

1 Accounting policies

These financial statements are prepared under the historical cost convention, the accounting policies set out below and in accordance with applicable United Kingdom accounting standards all of which have been consistently applied. The Company is exempt from the requirement to produce consolidated financial statements as it is included in the consolidated financial statements of Powergen plc, a company registered in England and Wales.

(a) Fixed asset investments

Fixed asset investments are stated at original cost plus subsequent loans advanced. Provision is made for any impairment in the value of investments.

(b) Tangible fixed assets

Tangible fixed assets are stated at their purchase or production cost less provision for depreciation. The provision for depreciation is calculated so as to write off the cost of tangible fixed assets, less their estimated residual values, 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.

(c) 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.

(d) Leases

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

(e) Fuel stocks and stores

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.

(f) Pension costs

The Company contributes to a funded group pension scheme operated by Powergen UK plc, the assets of which are invested in a separate trustee-administered fund. 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 31 December 2000 (continued)

(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 will crystallise in the foreseeable future.

(h) Foreign currencies

Assets and liabilities denominated in foreign currencies are translated into sterling at exchange rates ruling at the end of the financial year. 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 account in the period in which they arise.

(i) 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).

(j) 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.

(k) Going concern

Notwithstanding the fact that the company has net current liabilities, the directors have prepared the accounts on the going concern basis having received confirmation from the parent group of its continued financial support to enable the company to meet its obligations as they fall due.

2 Turnover

Turnover, which excludes Value Added Tax, represents the value of sale of energy from CHP sources. 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 31 December 2000 £'000	Year Ended 2 January 2000 £'000
Administrative expenses	5,867	4,469
	<u>5,867</u>	<u>4,469</u>

POWERGEN CHP LIMITED

Notes to the financial statements for the year ended 31 December 2000 (continued)

4 Operating profit

Operating profit is stated after charging:

	Year ended 31 December 2000 £'000	Year ended 2 January 2000 £'000
Depreciation of tangible fixed assets	12,274	9,250
Operating lease charges:		
Plant and machinery	359	21
Buildings	40	46
Vehicles	204	67
Auditors' remuneration:		
Audit services	9	11
	<hr/>	<hr/>

5 Employee information

	Year ended 31 December 2000 £'000	Year ended 2 January 2000 £'000
Wages and salaries	4,915	4,321
Social security costs	436	301
Other pension costs	602	424
Staff costs	<hr/> 5,953 <hr/>	<hr/> 5,046 <hr/>

The average monthly number of persons (including executive directors) employed by the company during the year was 190 (year ended 2 January 2000: 140). All employees are involved in activities relating to the sale of energy within the UK.

6 Directors' emoluments

	Year ended 31 December 2000 £'000	Year ended 2 January 2000 £'000
Aggregate emoluments	<hr/> 168 <hr/>	<hr/> 129 <hr/>

Retirement benefits are accruing to 1 director (year ended 2 January 2000 was 1) under a defined benefit scheme.

POWERGEN CHP LIMITED

Notes to the financial statements for the year ended 31 December 2000 (continued)

7 Net interest payable and similar items

	Year ended 31 December 2000 £'000	Year ended 2 January 2000 £'000
Interest payable to fellow subsidiary undertakings	11,226	6,921
Total interest payable and similar charges	11,226	6,921
Interest receivable	-	(58)
Net interest payable and similar items	11,226	6,863

8 Tax on loss on ordinary activities

	Year ended 31 December 2000 £'000	Year ended 2 January 2000 £'000
UK Corporation Tax Credit at 30% (year ended 2 January 2000: 30.25%)	8,240	9,255

The tax credit on the loss on ordinary activities of £2,878,000 (year ended 2 January 2000: loss £3,277,000) represents an amount receivable from group undertakings in respect of the transfer of tax losses at a rate of 30% under group relief provisions.

POWERGEN CHP LIMITED

Notes to the financial statements for the year ended 31 December 2000 (continued)

9 Tangible fixed assets

	Operating plant & buildings £'000	Other short term assets £'000	Total £'000
Cost:			
At 3 January 2000	239,846	595	240,441
Additions	47,370	1,123	48,493
At 31 December 2000	<u>287,216</u>	<u>1,718</u>	<u>288,934</u>
Depreciation:			
At 3 January 2000	32,049	290	32,339
Charge for the year	12,125	149	12,274
At 31 December 2000	<u>44,174</u>	<u>439</u>	<u>44,613</u>
Net book value:			
At 31 December 2000	<u>243,042</u>	<u>1,279</u>	<u>244,321</u>
At 2 January 2000	<u>207,797</u>	<u>305</u>	<u>208,102</u>

Of the additions during the period on operating plant and buildings £44,999,981 (2 January 2000 £76,931,436) are in respect of assets under construction. The remaining value to be committed is £26,550,154.

Assets include freehold land and buildings with a net book value of £5,500,000 (2 January 2000 £6,212,000).

10 Fixed asset investments

	Shares in group undertakings £'000	Loans to group undertakings £'000	Associate £'000	Loans to associates £'000	Total £'000
At 2 January 2000	28,824	67,998	1	1,364	98,187
Loan Repayments	-	-	-	(364)	(364)
At 31 December 2000	<u>28,824</u>	<u>67,998</u>	<u>1</u>	<u>1,000</u>	<u>97,823</u>

POWERGEN CHP LIMITED

Notes to the financial statements for the year ended 31 December 2000 (continued)

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 2000	31 March 2000
Aggregate amount of capital and reserves (£'000)	46,680	777
Profit of undertaking (£'000)	9,424	383

11 Stocks

	31 December 2000 £'000	2 January 2000 £'000
Fuel stocks	672	220
Consumable stores	2,525	687
	<u>3,197</u>	<u>907</u>

12 Debtors: amounts falling due within one year

	31 December 2000 £'000	2 January 2000 £'000
Trade debtors	13,136	7,554
Amounts owed by associates	-	93
Other debtors	18	16
Prepayments and accrued income	633	6
	<u>13,787</u>	<u>7,669</u>

POWERGEN CHP LIMITED

Notes to the financial statements for the year ended 31 December 2000 (continued)

13 Creditors: amounts falling due within one year

	31 December 2000 £'000	2 January 2000 £'000
Trade creditors	1,882	52
Amounts owed to group undertakings	236,673	189,730
Other tax and social security	3,353	1,520
Accruals and deferred income	20,559	40,734
Dividends payable	2,898	-
	<hr/> 265,365 <hr/>	<hr/> 232,036 <hr/>

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

14 Creditors: amounts falling due after more than one year

	31 December 2000 £'000	2 January 2000 £'000
Amounts owed to group undertakings	-	106,834
	<hr/> - <hr/>	<hr/> 106,834 <hr/>

15 Deferred taxation

The deferred tax provision comprises:

	31 December 2000			2 January 2000		
	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	28,207	28,207	-	22,161	22,161	-

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

POWERGEN CHP LIMITED

Notes to the financial statements for the year ended 31 December 2000 (continued)

16 Share capital

	31 December 2000 £'000	2 January 2000 £'000
Authorised		
50,000,000 ordinary shares of £1 each (2 January 2000: 100,000)	50,000	100
57,000,000 preference shares of £1 each (2 January 2000: £ nil)	57,000	-
	<hr/>	<hr/>
Allotted, called up and fully paid		
50,000,000 ordinary shares of £1 each (2 January 2000: 100,000)	50,000	100
57,000,000 preference shares of £1 each (2 January 2000: £ nil)	57,000	-
	<hr/>	<hr/>

During the year 49,900,000 ordinary shares were issued at nominal value in exchange for repayment of intercompany loans. 57,000,000 preference shares were issued at nominal value in exchange for repayment of intercompany loans.

The non-cumulative preference shares carry a fixed cumulative preference dividend, payable half yearly in arrears on 31 December and 30 June. The shares have no redemption entitlement. On winding up the holders have priority before all other classes to receive repayment of capital plus any arrears of dividend. The holders have no voting rights unless the dividend is in arrears by six months or more.

17 Reserves

	Profit and loss Account £'000
At 2 January 2000	14,238
Retained profit for the financial year	2,464
At 31 December 2000	<hr/> 16,702 <hr/>

POWERGEN CHP LIMITED

Notes to the financial statements for the year ended 31 December 2000 (continued)

18 Reconciliation of movements in shareholders' funds

Equity shareholders' funds	31 December 2000 £'000	2 January 2000 £'000
Ordinary Shares issued in financial year	49,900	-
Profit for the financial year	2,464	-
		5,978
Net addition to shareholders' funds	52,364	5,978
Opening shareholders' funds	14,338	8,360
Closing shareholders' funds	66,702	14,338
Non equity shareholders' funds	31 December 2000 £'000	2 January 2000 £'000
Preference shares issued in financial year	57,000	-
Net addition to shareholders' funds	57,000	-
Opening shareholders' funds	-	-
Closing shareholders' funds	57,000	-

19 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 UK 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 £602,000 (year ended 2 January 2000: £424,000).

POWERGEN CHP LIMITED

Notes to the financial statements for the year ended 31 December 2000 (continued)

20 Capital Commitments

At 31 December 2000 the Company had commitments of £26,550,000 (2 January 2000: (£9,135,000)).

21 Financial commitments

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

	As at 31 December 2000 £'000	As at 2 January 2000 £'000
After five years	1,131	1,131

22 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