ARTHUR
ANDERSEN

Edison Mission Energy Limited

Accounts for the year ended 31 December 1998
together with directors' and auditors' reports

Registered number: 2704476

Directors' report

For the year ended 31 December 1998

The directors present their annual report on the affairs of the company together with the accounts and auditors' report for the year ended 31 December 1998.

Principal activity and business review

The principal activity of the company is to perform marketing and development services on behalf of an intermediate parent company, Edison Mission Energy (a United States corporation) and other group undertakings.

Turnover is derived from recharges to the US parent and other group companies of expenditure incurred in performing marketing services on that company's behalf, at a mark up.

Turnover for the year amounted to £6,041,386 (1997 - £4,852,980) and profit before taxation was £661,674 (1997 - £407,086).

Results and dividends

The results for the year were as follows:

	1998 £	1997 £
Retained profit 1 January	962,758	621,758
Profit for the financial year	426,798	341,000
Retained profit at 31 December	1,389,556	962,758

The directors recommend that no dividend be paid (1997 - £nil).

Directors and their interests

The directors who served during the year were as follows:

S.D. Melita	
P.C. Gracey, Jr.	
N.P. Grimstone	(resigned 8 September 1998)
C.S. Dubin	
N.F. Petrie	
T. V. Charlton	(appointed 8 September 1997, resigned 27 July 1998)
S.L. Williams	(appointed 1 November 1998)
S.G. Brett	(appointed 6 July 1998)

No director had any interest required to be disclosed under Schedule 7 of the Companies Act 1985.

Directors' report (continued)

Year 2000
The company has recognised that the Year 2000 'computer bug' is an important issue and has established a programme to address the problem.

The company is following the framework set out by Edison International, the company's ultimate parent company, and work has been completed on assessing the impact upon the company.

The cost of implementing the Year 2000 compliance programme is estimated as being not significant to the company.

There can be no absolute guarantee that the problem will have been completely eliminated in advance of the Year 2000. However, the company is taking the steps it considers necessary to mitigate the risk.

Responsibilities of directors
Company law requires the directors to prepare accounts for each financial year which 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 period. In preparing those accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;

- make judgements and estimates that are reasonable and prudent;

- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and

- prepare the accounts 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 which disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors
The directors will place a resolution before the annual general meeting to reappoint Arthur Andersen as auditors for the ensuing year.

Directors' report (continued)

Liability insurance for company officers

As permitted by the Companies Act 1985 (as amended), the company has maintained insurance cover for the directors against liabilities in relation to the company.

Lansdowne House
Berkeley Square
London
W1X 5DH

By order of the Board,

C.S. Dubin
Director

28 October 1999

ARTHUR ANDERSEN

Auditors' report

London

To the Shareholders of Edison Mission Energy Limited:

We have audited the accounts on pages 5 to 12 which have been prepared under the historical cost convention and the accounting policies set out on pages 7 and 8.

Respective responsibilities of directors and auditors
As described on page 2, the company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts 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 accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, 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 accounts 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 accounts.

Opinion
In our opinion the accounts give a true and fair view of the state of affairs of the company at 31 December 1998 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Arthur Andersen

Arthur Andersen
Chartered Accountants and Registered Auditors

1 Surrey Street
London
WC2R 2PS

28 October 1999

Profit and loss account

For the year ended 31 December 1998

	Notes	1998 £	1997 £
Turnover	2	6,041,386	4,852,980
Operating expenses		(5,450,178)	(4,537,154)
Operating profit		591,208	315,826
Profit on sale of tangible fixed assets		6,540	69,020
Interest receivable		53,286	26,197
Interest payable		(384)	(8)
Foreign exchange profit (loss)		11,024	(3,949)
Profit on ordinary activities before taxation	3	661,674	407,086
Tax on profit on ordinary activities	5	(234,876)	(66,086)
Profit for the financial year	10	426,798	341,000
Retained profit, beginning of year	10	962,798	621,758
Retained profit, end of year	10	1,389,556	962,758

There are no recognised gains or losses in either year other than those included within the profit and loss account.

The accompanying notes are an integral part of this profit and loss account.

Balance sheet

31 December 1998

	Notes	1998 £	1997 £
Fixed assets			
Tangible assets	6	554,304	772,397
Current assets			
Debtors	7	5,209,209	2,946,739
Cash		834,593	360,535
		6,043,802	3,307,274
Creditors: Amounts falling due within one year	8	(5,208,548)	(3,116,911)
Net current assets		835,254	190,363
Total assets less current assets		1,389,558	962,760
Net assets		1,389,558	962,760
Capital and reserves			
Called-up equity share capital	9	2	2
Profit and loss account	10	1,389,556	962,758
Total capital employed	10	1,389,558	962,760

Signed on behalf of the Board

C.S. Dubin Director

28 October 1999

The accompanying notes are an integral part of this balance sheet.

Notes to accounts
31 December 1998

1 Accounting policies
A summary of the principal accounting policies, all of which have been applied consistently throughout the year and the preceding year, is set out below.

a) Basis of accounting
The accounts have been prepared under the historical cost convention and in accordance with applicable accounting standards.

b) Turnover
Turnover comprises the value of sales (excluding VAT) of goods and services in the normal course of business.

c) Tangible fixed assets
Tangible fixed assets are shown at historical cost less accumulated depreciation.

Depreciation is provided at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over its expected useful life as follows:

Fixtures, fittings and equipment	3-7 years
Leasehold improvements	shorter of lease term and useful economic life

d) Taxation
Corporation tax payable is provided on taxable profits at the current rate.

Deferred taxation (which arises from differences in the timing of the recognition of items, principally depreciation, in the accounts and by the tax legislation) has been calculated using the liability method. Deferred taxation is provided on timing differences which will probably reverse, at the rates of tax likely to be in force at the time of the reversal. Deferred tax is not provided on timing differences which, in the opinion of the directors, will probably not reverse.

e) Pension costs
The company makes contributions to the private pension schemes of employees. The amount charged to the profit and loss account comprises the contributions payable during the year.

f) Foreign currency
Transactions denominated in foreign currencies are recorded in the local currency at the actual exchange rates prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the year end are reported at the rates of exchange prevailing at the year end. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the profit and loss account.

Notes to accounts (continued)

1 Accounting policies (continued)

g) Leases

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to sign operating leases are spread on a straight-line basis over the lease term, or, if shorter than the full lease term, over the period to the review date on which the rent is first expected to be adjusted to the prevailing market rate.

h) Cash flow statement

Under the provisions of Financial Reporting Standard No. 1 (Revised) the company has not prepared a cash flow statement because its ultimate parent company has prepared consolidated accounts which include the results of the company for the year and are publicly available.

i) Related party disclosures

Under the provisions of Financial Reporting Standard No. 8, the company has not disclosed related party transactions because its ultimate parent company has prepared consolidated accounts which include the results of the company for the year and are publicly available.

2 Turnover

Turnover represents service fees, which are derived by means of recharging to Edison International Inc. (a company incorporated in the United States) and other group undertakings such expenditure as is incurred in performing marketing and development services on behalf of those companies. Costs are generally recharged with a 7.5% mark-up (1997 - 7.5%).

3 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging:

	1998	**1997**
	£	**£**
Depreciation	402,917	408,634
Staff costs (note 4)	2,609,297	1,922,699
Auditors' remuneration:		
- audit services	12,500	6,500
- non-audit services	12,600	7,465

Notes to accounts (continued)

4 Staff costs

Particulars of employees (including executive directors) are as shown below:

Employee costs during the year amounted to:

	1998 £	1997 £
Wages and salaries	2,348,487	1,702,583
Social security costs	151,294	132,804
Other pension costs	109,516	87,312
	2,609,297	1,922,699

The average weekly number of persons employed by the company during the year was as follows:

	1998 Number	1997 Number
Administration	33	28
Marketing	7	7
	40	35

Directors' remuneration

Remuneration

The remuneration of the directors was as follows:

	1998 £	1997 £
Emoluments	2,003,609	1,320,297
Amounts receivable under long-term incentive schemes	2,759,776	583,172
Company contributions to money purchase pension schemes	31,725	31,934
	4,795,110	1,935,403

Pensions

The number of directors who were members of pension schemes was as follows:

	1998 £	1997 £
Money purchase schemes	3	3
Defined benefit schemes	5	3
	8	6

4 Staff costs (continued)

Highest paid director

The above amounts for remuneration include the following in respect of the highest paid director:

	1998 £	1997 £
Emoluments and long-term incentive schemes	1,973,178	829,896

The accrued pension entitlement under a defined benefit scheme of the highest paid director at 31 December 1998 was £22,387 (1997 - £5,992).

5 Tax on profit on ordinary activities

The taxation charge is based on the profit for the year and comprises:

	1998 £	1997 £
Corporation tax at 31% (1997 - 31.5%)	240,967	197,989
Less: utilisation of group relief	-	(131,903)
Adjustments in respect of prior years	(6,091)	-
	234,876	66,086

6 Tangible fixed assets

	Leasehold improvements £	Fixtures, fittings and equipment £	Total £
Cost			
Beginning of year	472,889	1,385,684	1,858,573
Additions	-	185,013	185,013
Disposals	-	(21,360)	(21,360)
End of year	472,889	1,549,337	2,022,226
Depreciation			
Beginning of year	(392,885)	(693,291)	(1,086,176)
Charge	(80,004)	(322,913)	(402,917)
Disposals	-	21,171	21,171
End of year	(472,889)	(995,033)	(1,467,922)
Net book value			
Beginning of year	80,004	692,393	772,397
End of year	-	554,304	554,304

Notes to accounts (continued)

7 Debtors

The following are included in debtors, all of which fall due within one year:

	1998	1997
	£	£
Amounts owed by group undertakings	3,806,293	2,260,492
VAT	122,216	65,174
Other debtors	947,934	440,919
Prepayments and accrued income	332,766	180,154
	5,209,209	2,946,739

8 Creditors: Amounts falling due within one year

	1998	1997
	£	£
Trade creditors	16,258	28,140
Amounts owed to group undertakings	3,947,804	2,623,935
Corporation tax	192,140	66,086
Social security and PAYE	55,377	36,767
Accruals and deferred income	996,969	361,983
	5,208,548	3,116,911

9 Called-up equity share capital

	1998	1997
	£	£
Authorised		
100 ordinary shares of £1 each	100	100
Allotted, called-up and fully paid		
2 ordinary shares of £1 each	2	2

Notes to accounts (continued)

10 Reconciliation of movements in capital and reserves

	Share capital	Profit and loss account	Capital and reserves
	£	£	£
At 31 December 1997	2	962,758	962,760
Profit for the year	-	426,798	426,798
At 31 December 1998	2	1,389,556	1,389,558

11 Operating lease commitments

The company leases buildings under non-cancellable operating leases. The minimum annual rentals under the foregoing leases are as follows:

	Land and buildings		Other	
	1998	1997	1998	1997
	£	£	£	£
Operating leases which expire:				
- within 1 year	-	183,348	76,379	121,700
- between 2-5 years	893,760	-	29,671	125,225
	893,760	183,348	106,050	246,925

During 1993 the company contracted to take out a five year lease on new office premises, and occupied them in March 1994. The lease expired in August 1998 and was renegotiated for a further three years. The annual rental expense, spread over the period of occupancy, will be £523,000. An additional lease was also negotiated, with an annual rental of £370,760. This lease also expires 31 August 2001.

The lease agreements provide that the company will pay all insurance, maintenance and repairs.

12 Ultimate parent company

The ultimate parent company is Edison International, a company incorporated in the USA.

The largest group of which the company is a member and for which consolidated accounts are prepared is that headed by Edison International. The accounts of this group are available to the public and may be obtained from 2244 Walnut Grove Avenue, Rosemead, California 91770, USA.

The smallest group is that headed by Mission Energy Company (UK) Limited, a company registered in England and Wales. The accounts of this company are available to the public and may be obtained from Lansdowne House, Berkeley Square, London W1X 5DH.