IPM Energy Limited

(formerly Edison Mission Energy Limited)

Financial statements for the year ended 31 December 2003

together with directors' and auditors' reports

Registered number: 2704476

Directors' report

The directors present their annual report on the affairs of the Company together with the financial statements and auditors' report for the year ended 31 December 2003.

Principal activity and business review

The principal activity of the Company is to perform marketing, development and asset management services on behalf of other group undertakings. This activity is continuing.

Results and dividends

Turnover for the year amounted to £9,446,764 (2002 - £11,427,781) and profit before taxation was £146,489 (2002 – loss of £721,132). The retained profit for the year was £137,572 (2002 – retained loss of £716,005).

The directors recommend that no dividend be paid (2002 - £nil).

Directors and their interests

The directors who served during the year and thereafter were as follows:

A S J Ramsay	(appointed 16 December 2004)
P T Jenkinson	(appointed 16 December 2004)
S Pinnell	(appointed 10 January 2005)
S Riley	(appointed 16 December 2004)
T Umezu	(appointed 16 December 2004)
S D Melita	(resigned 8 December 2004)
C S Dubin	(resigned 16 December 2004)
A D Hume	(appointed 10 March 2003, resigned 16 December 2004)
C J Warden	(resigned 8 December 2004)

No director had any interest in the shares of the Company or any group undertaking as required to be disclosed under Schedule 7 of the Companies Act 1985.

Responsibilities of directors

Company law requires the directors to prepare financial statements 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 financial statements, 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 financial statements; and

- 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 the system of internal control, 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 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.

Subsequent events

In December 2004, Edison Mission Energy sold its non-US assets to a 70:30 consortium of International Power plc and Mitsui and Co Limited. The Company's ultimate parent is now International Power plc.

A major lease for land and buildings, with an expiry date of between two and five years was cancelled in April 2005 and a payment to cover dilapidations and surrender costs paid May 2005 (Note 12).

The Company changed its name on 29 March 2005 from Edison Mission Energy Limited to IPM Energy Limited.

Auditors

Following the conversion of our auditors PricewaterhouseCoopers to a Limited Liability Partnership (LLP) from 1 January 2003, PricewaterhouseCoopers resigned on 1 April 2003 and the directors appointed its successor, PricewaterhouseCoopers LLP, as auditors.

Corporate governance

IPM Energy Limited is committed to the highest level of integrity in all its business dealings and to maintaining a high standard of corporate governance.

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.

By order of the Board,

Director

Senator House
85 Queen Victoria Street
London
EC4V 4DP

20 June 2005

Auditors' report

Independent auditors' report to the member of IPM Energy Limited

We have audited the financial statements of IPM Energy Limited which comprise the profit and loss account, the balance sheet and the related notes, which have been prepared under the historical cost convention and accounting policies set out in the accounting policies statement.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or in to whose hands it may come save where expressly agreed by our prior consent in writing.

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 1985. We also report 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 directors' 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.

Auditors' report

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2003 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
1 Embankment Place
London WC2N 6RH

20 June 2005

Profit and Loss Account

For the year ended 31 December 2003

	Notes	2003 £	2002 £
Turnover	1(b)	9,446,764	11,427,781
Operating expenses	3,4	(9,251,042)	(12,074,110)
Operating profit/(loss)		195,722	(646,329)
Loss on sale of tangible fixed assets		(45,972)	(105,855)
Interest receivable		8,300	25,976
Foreign exchange (loss)/profit		(11,561)	5,076
Profit/(loss) on ordinary activities before taxation	2	146,489	(721,132)
Tax on profit/(loss) on ordinary activities	5	(8,917)	5,127
Retained profit/(loss) for the year	10	137,572	(716,005)

There are no recognised gains or losses in either year other than the results for that year.

All results are generated from continuing operations.

The accompanying notes on pages 7 to 18 are an integral part of this profit and loss account.

Balance Sheet
As at 31 December 2003

	Notes	2003 £	2002 £
Fixed assets			
Tangible assets	6	634,678	1,231,847
Current assets			
Debtors: amounts falling due within one year	7	7,904,112	13,994,343
Cash at bank and in hand		924,500	862,166
		8,828,612	14,856,509
Creditors: Amounts falling due within one year	8	(5,829,561)	(12,592,199)
Net current assets		2,999,051	2,264,310
Total assets less current liabilities		3,633,729	3,496,157
Net assets		3,633,729	3,496,157
Capital and reserves			
Called-up share capital	9	2	2
Profit and loss account	10	3,633,727	3,496,155
Equity shareholder's funds	10	3,633,729	3,496,157

The financial statements on pages 5 to 18 were approved by the Board of directors on 20 June 2005 and were signed on its behalf by:

Director

The accompanying notes on pages 7 to 18 are an integral part of this balance sheet.

1 Accounting policies

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

(a) Basis of accounting

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting and financial reporting standards. The Company has adopted all applicable accounting and financial reporting standards effective prior to 31 December 2003 but has not elected for the early adoption of other published, but not effective, reporting standards.

(b) Turnover

Turnover comprises the value of sales (excluding VAT) of goods and services in the normal course of business and represents service fees, which are derived from recharges to group undertakings of expenditure incurred in performing marketing, development and asset management services on their behalf.

(c) Tangible fixed assets and depreciation

Tangible fixed assets are shown at cost, net of depreciation and any provision for impairment. Depreciation is provided on all tangible fixed assets 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 is provided at amounts expected to be paid (or recovered) using the tax rates that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured at the weighted average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

(e) Pension costs

The Company makes contributions to the private pension schemes of employees. The amount charged to the profit and loss account is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

The amount charged to the profit and loss account under defined benefit schemes is the estimated regular cost of providing the benefits accrued in the year. The regular cost is calculated so that it represents a substantially level percentage of current and future payroll. The defined benefit scheme is externally funded, with the assets of the scheme held separately from those of the group in separate Trustee administered funds. Further information on pensions is given in Note 11 to the financial statements.

(f) Foreign currency

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date. All exchange differences are included in the profit and loss account.

(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

The Company has taken advantage of the exemption from preparing a cash flow statement afforded by Financial Reporting Standard No. 1 (Revised) because it is a wholly owned subsidiary of a parent company which prepares consolidated financial statements which are publicly available and contain a cash flow statement.

(i) Related party disclosures

As a subsidiary undertaking of Edison International Inc., the Company has taken advantage of the exemption afforded by Financial Reporting Standard No. 8 (Revised) from disclosing transactions with other members of the group headed by Edison International.

2. Profit/loss on ordinary activities before taxation

Profit/(loss) on ordinary activities before taxation is stated after charging:

	2003 £	2002 £
Depreciation	617,129	911,508
Staff costs (Note 3)	4,852,670	6,725,846
Operating lease rentals – land and buildings	681,462	965,585
Operating lease rentals – other	75,413	121,364
Auditors' remuneration:		
- audit services	13,900	12,350
- non-audit services	-	-

3. Staff costs

The average monthly number of employees was:

	2003 Number	2002 Number
Administration	40	55
Marketing	31	34
	71	89

Their aggregate remuneration comprised:

	2003 £	2002 £
Wages and salaries	3,969,177	5,593,952
Social security costs	456,747	522,687
Pension costs – regular contributions	354,136	373,249
Exceptional pension costs – termination payments	72,610	235,958
	4,852,670	6,725,846

4. Directors' remuneration

Remuneration

The remuneration of the directors was as follows:

	2003 £	2002 £
Emoluments	1,166,667	1,683,584
Amounts receivable under long-term incentive schemes	89,416	135,125
Company contributions to money purchase pension schemes	18,924	13,892
	1,275,007	1,832,601

Pensions

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

	2003 Number	2002 Number
Money purchase schemes	2	1
Defined benefit schemes	2	2
	4	3

Highest paid director

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

	2003 £	2002 £
Emoluments and amounts receivable under long-term incentive schemes	663,778	1,034,708

The accrued pension entitlement under a defined benefit scheme of the highest paid director at 31 December 2003 was £213,562 (2002 - £178,478).

Share Options

Two of the directors exercised share options in the ultimate parent company, Edison International during the year. The cost of these share options and long-term incentive schemes are borne by Edison International.

5 Tax on profit/(loss) on ordinary activities

The taxation charge/(credit) comprises:

	2003 £	2002 £
UK Corporation tax	-	-
Under/(over) provision from prior years	8,917	(5,127)
	8,917	(5,127)

The current tax charge /(credit) is lower than the standard rate of Corporation tax in the UK (30%) as detailed below.

	2003 £	2002 £
Profit/(loss) on ordinary activities	146,489	(721,132)
Profit/(loss) on ordinary activities multiplied by the standard rate in the UK of 30% (2002 – 30%)	43,947	(216,340)
Effects of:		
Expenses not deductible for tax purposes	7,094	23,751
Capital allowances for the year less than depreciation	37,034	94,983
Transfer pricing adjustment	28,879	6,401
Tax losses surrendered by other UK companies	(116,954)	-
Tax losses surrendered to other UK companies	-	91,205
Prior year corporation tax adjustments	8,917	(5,127)
	(35,030)	211,213
Current tax charge/(credit) for the year	8,917	(5,127)

No deferred tax asset has been provided in respect of accelerated capital allowances as this is dependent on available taxable profits from which the future reversal of the underlying timing difference can be deducted.

6 Tangible fixed assets

	Leasehold Improvements	Fixtures, Fittings and Equipment	Total
	£	£	£
Cost			
At 1 January 2003	1,554,861	4,285,320	5,840,181
Additions	-	81,399	81,399
Disposals	(9,685)	(625,748)	(635,433)
At 31 December 2003	1,545,176	3,740,971	5,286,147
Depreciation			
At 1 January 2003	(1,490,726)	(3,117,608)	(4,608,334)
Charge for the year	(48,655)	(568,474)	(617,129)
Disposals	9,685	564,309	573,994
At 31 December 2003	(1,529,696)	(3,121,773)	(4,651,469)
Net book value			
At 31 December 2002	64,135	1,167,712	1,231,847
At 31 December 2003	15,480	619,198	634,678

Due to the early termination of a property lease following the change in ownership of the Company post year end, the fixed assets were written down to nil net book value in April 2005. The total effect of this write down in 2005 was £239,274.

7 Debtors: due within one year

	2003	2002
	£	£
Amounts owed by group undertakings	7,242,275	13,491,786
Value Added Tax	166,700	128,897
Other debtors	124,635	112,751
Prepayments and accrued income	370,502	260,909
	7,904,112	13,994,343

8 Creditors: Amounts falling due within one year

	2003 £	2002 £
Trade creditors	84,737	79,124
Amounts owed to group undertakings	5,019,771	11,330,034
Corporation tax	197,518	197,518
Social security and PAYE	185	40,076
Accruals and deferred income	527,350	945,447
	5,829,561	12,592,199

The amounts owed to group undertakings bear no interest and have no fixed settlement date.

9 Called-up equity share capital

	2003 £	2002 £
Authorised		
100 (2002: 100) ordinary shares of £1 each	100	100
Allotted, called-up and fully paid		
2 (2002: 2) ordinary shares of £1 each	2	2

10 Reserves and reconciliation of movement in shareholder's funds

	Share capital £	Profit and loss account £	Shareholder's funds £
At 1 January 2003	2	3,496,155	3,496,157
Retained profit for the year	-	137,572	137,572
At 31 December 2003	2	3,633,727	3,633,729

11 Pension arrangements

a) SSAP 24 'Accounting for Pension Costs'

Employees of IPM Energy Limited are covered by, either the Edison Mission Energy Group pension arrangements, a defined benefit scheme, or the Group Personal Pension Scheme, a defined contribution scheme administered by Scottish Equitable.

The Company is accounting for its contributions to the Edison Mission Energy Group pension arrangements as if it were a defined contribution scheme because the Company's share of the assets and liabilities has not been separately identified. Accordingly, the charge to the profit and loss account is based on the payments made into the Scheme during the year, which amounted to £354,136 (2002 - £388,701).

The latest full actuarial valuation of the Edison Mission Energy Group of the Electricity Supply Pension Scheme was carried out by Hewitt Bacon and Woodrow, consulting actuaries, as at 31 March 2004. At that date, the assets had a market value of £29.9 million and the scheme had a funding ratio of 98%.

The main assumptions used in the actuarial valuation were as follows:

	Nominal (% pa)
Price inflation	2.3
Investment return	
– pre retirement	6.8
– post retirement	5.3
Pension increases	2.5
General salary increase	3.3

In light of the current stock market position, the Company increased its contribution to 12.4% of salaries with effect from 1 April 2002 and then again to 20% on 1 April 2003.

b) FRS 17 'Retirement Benefits'

Additional disclosures regarding the group's defined pension scheme are required under the transitional provisions of FRS17 "Retirement benefits". As noted above, the scheme's assets and liabilities were not separately identified for the Company, and hence the full scheme details are disclosed below.

An actuarial valuation of the Edison Mission Energy Group of the Electricity Supply Pension Scheme, was carried out at 31 December 2003, for the purposes of the disclosure required by FRS17, by Hewitt Bacon and Woodrow, consulting actuaries.

11 Pension arrangements (continued)

The major assumptions used for the actuarial valuation were:

	2003 %	2002 %	2001 %
Inflation assumption	2.8	2.3	2.5
Rate of increase in salaries	3.8	3.5	3.5
Rate of increase in pensions in payment and deferred pensions	2.9	2.5	2.7
Rate used to discount plan liabilities	5.5	5.5	6.0
Expected rate of return on equities	7.8	7.5	8.5
Expected rate of return on corporate bonds	5.1	5.0	6.0
Expected rate of return on gilts	4.8	4.5	5.25

The assets in the scheme and the expected rates of return were:

	2003 Long term rate of return %	2003 Value £'000	2002 Long term rate of return %	2002 Value £'000	2001 Long term rate of return %	2001 Value £'000
Equities	7.8	24,389	7.5	22,973	8.5	28,400
Gilts	4.8	2,427	-	-	-	-
Property	6.8	2,687	-	-	-	-
Total fair value of assets		29,503		22,973		28,400
Present value of scheme liabilities		(39,608)		(36,039)		(27,300)
(Deficit)/surplus in the scheme		(10,105)		(13,066)		1,100
Related deferred tax asset /(liability)		3,032		3,920		(400)
Net pension (liability)/asset		(7,073)		(9,146)		700

Analysis of amount that would have been charged to operating profit under FRS17:

	2003 £'000	2002 £'000
Current service cost	1,007	900
Curtailment cost	1,360	-
Total operating cost	2,367	900

11 Pension arrangements (continued)

Analysis of amount that would have been credited to other finance income under FRS17:

	2003 £'000	2002 £'000
Expected return on pension plan assets	1,702	2,300
Interest on pension plan liabilities	(1,978)	(1,600)
Net return	(276)	700

Analysis of amount that would have been recognised in statement of total recognised gains and losses under FRS17:

	2003 £'000	2002 £'000
Actual return less expected return on pension scheme assets	3,253	(9,000)
Experience gains arising on the scheme liabilities	2,356	100
Changes in assumptions underlying the present value of the scheme liabilities	(2,715)	(6,400)
Actuarial gain/(loss) recognised in statement of total recognised gains and losses	2,894	(15,300)

Analysis of movement in surplus/deficit during the year

	2003 £'000	2002 £'000
(Deficit)/surplus in scheme at beginning of year	(13,066)	1,100
Current service cost	(1,007)	(900)
Curtailment cost	(1,360)	-
Contributions	2,710	1,334
Other financial income	(276)	700
Actuarial gain/(loss)	2,894	(15,300)
Deficit in scheme at end of year	(10,105)	(13,066)

11 Pension arrangements (continued)

History of experience gains and losses

	2003 £'000	2002 £'000
Difference between the expected and actual return on pension scheme assets:		
Amount	3,253	(9,000)
Percentage of scheme assets	11.0	39.1
Experience gains/(losses) arising on the scheme liabilities:		
Amount	2,356	100
Percentage of the present value of scheme liabilities	5.9	0.28
Total amount recognised in statement of total recognised gains and losses:		
Amount	2,894	(15,300)
Percentage of the present value of scheme liabilities	7.3	42.5

Reconciliation to balance sheet under FRS17:

	2003 £'000	2002 £'000
Total market value of assets	29,503	22,973
Defined benefit obligation (DBO)	(39,608)	(36,039)
Deficit in scheme	(10,105)	(13,066)
Deferred tax asset	3,032	3,920
Net pension liability	(7,073)	(9,146)

12 Operating lease commitments

At 31 December 2003, the Company is committed to making payments under non-cancellable operating leases in the forthcoming year of £602,008 (2002 - £613,096). These leases were due to expire in the following periods after 31 December 2003:

	Land and buildings		Other	
	2003	2002	2003	2002
	£	£	£	£
Expiry date:				
- within one year	27,917	33,500	9,854	10,395
- between two and five years	539,750	539,750	24,487	29,451
	567,667	573,250	34,341	39,846

The lease agreements provide for the lessee to pay all insurance, maintenance and repair costs.

A lease for land and buildings, with an expiry date of between two and five years and lease payment of £539,750 disclosed above, was cancelled with effect from 18 April 2005. An amount of £350,000 to cover dilapidations and surrender costs was paid to the landlord in May 2005 and the relevant share of the dilapidation cost has been accrued in the 2003 financial statements.

13 Ultimate parent company

The Company was a subsidiary undertaking of the ultimate parent company, Edison International Inc., incorporated in the United States of America. The consolidated financial statements of this group are available to the public and may be obtained from Edison International Inc., PO Box 800, 2244 Walnut Grove Avenue, Rosemead, CA91770, USA. Subsequent to year end, the ultimate parent company changed to International Power plc; the consolidated accounts of this group are available to the public and may be obtained from Senator House, 85 Queen Victoria Street, London, EC4V 4DP.

The smallest group of which the company is a member and for which group financial statements are drawn up is that headed by Mission Energy Company (UK) Limited, a company incorporated in the United Kingdom. The consolidated financial statements of this group are available to the public and may be obtained from Senator House, 85 Queen Victoria Street, London EC4V 4DP.