

POWERGEN NORTH SEA LIMITED

ACCOUNTS

for the year ended 30 March 1997

Registered No: 2855151



POWERGEN NORTH SEA LIMITED

Report of the Directors for the year ended 30 March 1997

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

Review of activities

The principal activities of the Company comprise the exploration for, and the development and production of, oil and gas. These activities are likely to remain the principal activities of the Company for the foreseeable future. The parent company, PowerGen plc, has declared its on going financial support for the Company.

The second phase of development on the Galleon field was approved and work commenced towards the end of 1996.

The Liverpool Bay field has continued to experience commissioning problems however in recent months, following remedial work, oil production has increased significantly.

Profit and dividend

The retained profit for the year ended 30 March 1997 was £4,694,000 (1996: £5,410,000). The directors are not recommending a dividend.

Directors

The directors of the Company who served during the year were Dr A Roberts (Chairman, resigned 19 September 1997), Dr J R Morgan (Managing Director), Mr J L Rennocks (resigned 15 July 1996), Mr P Kingston, Mr A C Henshaw, Mr D P Houghton (appointed 25 April 1996, resigned 8 October 1997) and Mr R G Barber (appointed 23 December 1996). Since the year end Mr J W Astrop has been appointed a director (appointed 8th May 1997).

POWERGEN NORTH SEA LIMITED

Report of the Directors for the year ended 30 March 1997

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

	Beneficial Holdings in Ordinary Shares		Options for Ordinary Shares (including Options under SAYE schemes)			
	31 March 1996*	30 March 1997	Under option 31 March 1996*	Exercised	Granted	Under option 30 March 1997
Dr J R Morgan	18,477	18,477	25,000	-	8,000	33,000
Mr P Kingston	-	-	-	-	-	-
Mr A C Henshaw	420	420	271	-	2,586	2,857
Mr D P Houghton	-	1,500	1,351	-	4,575	5,926
Mr R G Barber	31,654	21,654	49,812	-	-	49,812

* or date of appointment if later

The interests of Dr A Roberts are stated in the "Report on Directors' Remuneration and Related Matters" starting on page 27 of the consolidated financial statements of PowerGen plc for the year ended 30 March 1997. No director had any interest (other than as nominee on behalf of PowerGen plc) in the shares of any other member of the Group.

Policy and Practice 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 contracts; 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 calculated in accordance with the requirements of the Companies Act is 28 days.

Auditors

The Board of Directors resolved by written resolution dated 2 February 1994 that Coopers & Lybrand of 1 Embankment Place, London WC2N 6NN, having agreed to act, be appointed auditor to the Company. On the same date, the Company passed a written resolution dispensing with the requirement to appoint auditors annually.

POWERGEN NORTH SEA LIMITED

Directors' Statement of Responsibility

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 for that year. The accounts have been prepared on a going concern basis.

In preparing the accounts, the directors confirm that they have:

- selected suitable accounting policies and applied them consistently;
- made judgements and estimates that are reasonable and prudent; and
- followed applicable accounting standards.

The directors are responsible for ensuring that proper accounting records are kept 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 responsible for safeguarding the assets of the Company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

BY ORDER OF THE BOARD

Dr J R Morgan, Managing Director

53 New Broad Street

London, EC2M 1JJ

18th December 1997



POWERGEN NORTH SEA LIMITED

Report of the Auditors to the Members of PowerGen North Sea Limited

We have audited the financial statements on pages 5 to 15.

Respective responsibilities of directors and auditors

As described on page 3, the Company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

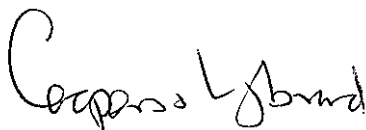
Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company at 30 March 1997 and of its profit and total recognised gains for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Coopers & Lybrand

Chartered Accountants and Registered Auditors

London

18 December 1997

POWERGEN NORTH SEA LIMITED

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 30 MARCH 1997

	Note	Year ended 30 March 1997 £'000	Year ended 31 March 1996 £'000
Turnover - continuing activities	2	66,010	35,832
Operating costs	3	<u>(50,958)</u>	<u>(30,702)</u>
Operating Profit - continuing activities		15,052	5,130
Net interest payable	4	<u>(10,460)</u>	<u>(8,975)</u>
Profit/(Loss) on ordinary activities before taxation		4,592	(3,845)
Tax on profit on ordinary activities	5	<u>102</u>	<u>9,255</u>
Retained profit for year	14	<u>4,694</u>	<u>5,410</u>


The Company had no recognised gains or losses other than included in the profit for the year and therefore no statement of total recognised gains or losses is presented. There is no difference between the profit on ordinary activities before taxation and the retained profit for the year, and the historical cost equivalents.

POWERGEN NORTH SEA LIMITED

BALANCE SHEET - AS AT 30 MARCH 1997

	Note	30 March 1997 £'000	31 March 1996 £'000
Fixed assets			
Intangible fixed assets	6	2,035	3,302
Tangible fixed assets	6	293,462	313,033
		<u>295,497</u>	<u>316,335</u>
Current assets			
Stocks	7	737	708
Debtors: Amounts falling due within one year	8	13,480	10,680
Short term deposits		-	1,302
		<u>14,217</u>	<u>12,690</u>
Creditors: Amounts falling due within one year	9	(15,881)	(13,559)
Net current (liabilities)		<u>(1,664)</u>	<u>(869)</u>
Total assets less current liabilities		293,833	315,466
Creditors: Amounts falling due after more than one year	10	(150,919)	(179,338)
Provisions for liabilities and charges	11	(4,046)	(1,954)
Net assets		<u>138,868</u>	<u>134,174</u>
Capital and Reserves			
Called up share capital	13	120,000	120,000
Profit and loss account	14	18,868	14,174
Equity Shareholders' Funds		<u>138,868</u>	<u>134,174</u>

The accounts on pages 5 to 15 were approved by the Board of Directors on 18th December 1997 and were signed on its behalf by:


 Director
 DR J R Morgan

POWERGEN NORTH SEA LIMITED

Notes to the Financial Statements for the year ended 30 March 1997

1 Accounting Policies

(a) Basis of Preparation of Accounts

The accounts are prepared under the historical cost convention and in accordance with applicable UK accounting standards.

(b) Turnover

Turnover represents the sales value of the Company's share of production during the year, exclusive of value added tax. Payments received on account relating to delivery of future production under gas sales take or pay contracts are included in deferred income and only credited to turnover when delivery of production takes place.

(c) Consumable stores

Consumable stores are stated at the lower of cost and net realisable value.

(d) Foreign currencies

Transactions in foreign currencies are translated into sterling at rates prevailing at the date of each transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rates of exchange prevailing at the balance sheet date. Differences on exchange are taken to the profit and loss account.

(e) Petroleum Revenue Tax

Petroleum Revenue Tax is provided on an arising basis on revenue after deducting all allowable costs and expenditure reliefs. Petroleum Revenue Tax is treated as a production cost and is charged or credited before arriving at operating profit.

(f) Deferred Corporation Tax

Deferred Corporation Tax is provided in respect of liabilities relating to timing differences between profits as computed for taxation purposes and profits as stated in the accounts, except to the extent that the liability is not expected to crystallise in the foreseeable future.

Tax losses, when surrendered to group companies, are reflected in the current year's tax charge as a credit and a cash payment is received from the group company when the benefit of the losses surrendered is received.

(g) Abandonment

The estimated future cost, at current prices, of abandonment is amortised on a unit of production basis calculated on the commercial reserves of each field. The provision for abandonment is included in provisions for liabilities and charges.

POWERGEN NORTH SEA LIMITED

Notes to the Financial Statements for the year ended 30 March 1997 (cont'd)

(h) Commercial Reserves

Proven and probable reserves ("Commercial reserves") used in the unit of production calculations are estimated quantities of commercially producible hydrocarbons which existing geological, geophysical and engineering data show to be recoverable in future years from known reservoirs.

(i) Fixed Assets

(i) Intangible Fixed Assets

Exploration and appraisal costs are accounted for under the successful efforts method.

Costs relating to licence and data acquisition, geological and geophysical activity, exploration and appraisal drilling and other evaluation costs are initially capitalised as intangible fixed assets. When a decision is reached concerning the commercial viability of the prospect to which the expenditure relates, the expenditure is either written off or transferred to tangible fixed assets and accumulated with the associated development costs.

(ii) Tangible Fixed Assets

All expenditure transferred from intangible fixed assets and all development costs of specific oil and gas fields are classified as tangible fixed assets. No depletion is charged until the field commences commercial production. Depletion is calculated on a field by field basis using a unit of production method based on the proportion of production for the year to the total estimated commercial reserves at the beginning of the year. The costs depleted include future development costs at current prices that are estimated to be required to produce the remaining commercial reserves from that field.

Each year the net book value of the capitalised costs carried in respect of each field is compared to the estimated future net revenues of the commercial reserves in each field. Where the directors are of the opinion that any permanent impairment of value has occurred an additional depletion charge is made.

(iii) Other Tangible Assets

Other tangible assets comprise mainly of office equipment which is depreciated over 3 years starting in the year following acquisition.

(j) Effect of Changes in Estimates

The effect of revisions of previous estimates of proven and probable oil and gas reserves and of future costs is taken up prospectively in the unit of production calculations.

POWERGEN NORTH SEA LIMITED

Notes to the Financial Statements for the year ended 30 March 1997 (cont'd)

(k) Pensions

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.

(l) Cashflow Statement

The Company is a wholly owned subsidiary of PowerGen plc. The cashflows of the Company are included in the consolidated cashflow statement of PowerGen plc. Consequently, the Company is exempt under the terms of Financial Reporting Standard 1 from publishing a cashflow statement.

2 Turnover

Turnover relates to continuing activities and derives principally from the sale of hydrocarbons in the United Kingdom.

3 Operating Costs

(i) Operating costs relate to continuing activities and are made up as follows:

	Year ended 30 March 1997 £'000	Year ended 31 March 1996 £'000
Cost of sales	16,466	10,483
Depletion and depreciation	27,138	13,758
Provision for abandonment	2,092	1,344
Provision for PRT	1,116	1,750
Exploration costs written off	1,590	1,487
Administrative expenses	2,556	1,853
	<u>50,958</u>	<u>30,702</u>

(ii) The audit fees of the Company were met by the ultimate holding company, PowerGen plc.

POWERGEN NORTH SEA LIMITED

Notes to the Financial Statements for the year ended 30 March 1997 (cont'd)

- (iii) The average number of employees, including directors, during the year was 13 (1996:9). The salaries and related costs of employees, including directors, were:

	Year ended 30 March 1997 £'000	Year ended 31 March 1996 £'000
Wages and salaries	616	461
Social security costs	60	42
Other pension costs	84	60
	<u>760</u>	<u>563</u>

- (iv) Directors' Remuneration

The total directors' remuneration for the year was as follows:

	Year ended 30 March 1997 £'000	Year ended 31 March 1996 £'000
Salary and benefits	276	127
Fees for services	57	63
	<u>333</u>	<u>190</u>

The highest paid director received aggregate emoluments of £112,500 (1996:£109,000).

4 Net Interest Payable

	Year ended 30 March 1997 £'000	Year ended 31 March 1996 £'000
Interest payable on loans from parent company	(10,511)	(8,927)
Other interest payable	(1)	(109)
Interest receivable	52	61
	<u>(10,460)</u>	<u>(8,975)</u>

POWERGEN NORTH SEA LIMITED

Notes to the Financial Statements for the year ended 30 March 1997 (cont'd)

5 Taxation

The tax credit for the period represents an amount receivable from the parent company for tax losses transferred, at a tax rate of 33%, under group relief provisions.

6 Fixed Assets

(i) Intangible Assets

	Exploration & Appraisal Expenditure £'000
Cost at 31 March 1996	3,302
Additions	323
Amounts written off	(1,590)
Cost at 30 March 1997	2,035

(ii) Tangible Assets

	Development Expenditure £'000	Other £'000	Total £'000
Cost			
At 31 March 1996	332,427	138	332,565
Additions	7,604	9	7,613
At 30 March 1997	340,031	147	340,178
Depletion & Depreciation			
At 31 March 1996	19,507	25	19,532
Charge for the year	27,138	46	27,184
At 30 March 1997	46,645	71	46,716
Net book value at 31 March 1997	293,386	76	293,462
Net book value at 30 March 1996	312,920	113	313,033

POWERGEN NORTH SEA LIMITED

Notes to the Financial Statements for the year ended 30 March 1997 (cont'd)

7 Stocks

	30 March 1997 £'000	31 March 1996 £'000
Oil Stocks	111	78
Raw Materials & Consumables	626	630
	<u>737</u>	<u>708</u>

8 Debtors: amounts falling due within one year

	30 March 1997 £'000	31 March 1996 £'000
Trade debtors	27	9
Other debtors	5,342	1,369
Prepayments and accrued income	8,111	9,302
	<u>13,480</u>	<u>10,680</u>

9 Creditors: amounts falling due within one year

	30 March 1997 £'000	31 March 1996 £'000
Bank overdraft	834	-
Trade creditors	570	509
Accruals and other creditors	5,580	9,835
Deferred Income	-	2,999
Amounts owed to parent company	8,897	216
	<u>15,881</u>	<u>13,559</u>

POWERGEN NORTH SEA LIMITED

Notes to the Financial Statements for the year ended 30 March 1997 (cont'd)

10 Creditors: amounts falling due after more than one year

	30 March 1997 £'000	31 March 1996 £'000
Deferred Income	18,419	17,838
Amounts owed to parent company	132,500	161,500
	<u>150,919</u>	<u>179,338</u>

The amount owed to parent company is an unsecured loan repayable on 1 March 1999. Interest is payable at 1% above the Barclays Bank Base Rate.

11 Provisions for liabilities and charges

	£'000
As at 30 March 1996	1,954
Provided in the year	2,092
As at 30 March 1997	<u>4,046</u>

The above provision relates to future abandonment costs.

12 Deferred Taxation

The full potential liability for deferred corporation tax at 33 per cent is as follows:

	30 March 1997 £'000	31 March 1996 £'000
Accelerated capital allowances	24,177	19,556
Other timing differences	(1,336)	(1,222)
	<u>22,841</u>	<u>18,334</u>

No provision is made for deferred taxation as the Company does not anticipate that the timing difference will crystallise in the foreseeable future.

POWERGEN NORTH SEA LIMITED

Notes to the Financial Statements for the year ended 30 March 1997 (cont'd)

13 Share Capital

	30 March 1997 £'000	31 March 1996 £'000
Authorised:		
500,000,000 ordinary shares of £1 each	500,000	500,000
Allotted, called up and fully paid:		
120,000,000 ordinary shares of £1 each (1996: 120,000,000)	120,000	120,000

14 Movement on Profit and Loss Account

	£'000
Profit and loss account at 31 March 1996	14,174
Retained profit for the year	4,694
Profit and loss account at 31 March 1997	<u>18,868</u>

15 Reconciliation of Movements in Shareholders' Funds

	30 March 1997 £'000	31 March 1996 £'000
Profit for the financial year	4,694	5,410
Opening shareholders' funds	134,174	128,764
Closing shareholders' funds	<u>138,868</u>	<u>134,174</u>

POWERGEN NORTH SEA LIMITED

Notes to the Financial Statements for the year ended 30 March 1997 (cont'd)

16 Pension Scheme Arrangements

The Company is a member of the PowerGen plc Group Scheme, and the Company's pension contributions are based on pension costs across the Group as a whole. The Group participates in the industry wide scheme, the Electricity Supply Pension Scheme (ESPS), for the majority of its employees. This scheme is of the defined benefit type, with assets invested in separate trustee administered funds.

An actuarial valuation of the ESPS is normally carried out every three years by the Scheme's actuary, who recommends the rates of contribution payable by each group participating in the scheme. In intervening years, the actuary reviews the continuing appropriateness of the rates. The latest actuarial valuation of the ESPS was as at 31 March 1995.

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

17 Commitments and Contingent Liabilities

The Company has no contingent liabilities other than those arising in the ordinary course of business.

At 30 March 1997 the Company had commitments of £17.3m (1996 £5.2m) for capital expenditure of which £8.6m (1996 £0.5m) related to expenditure to be incurred after one year.

Commitments include the Company's share of the remaining capital cost of Liverpool Bay and the Galleon Phase II project.

18 Related Party Transactions

PowerGen North Sea Limited is a wholly owned subsidiary of PowerGen plc, the consolidated financial statements of which are publicly available. Consequently, the financial statements of PowerGen North Sea Limited do not include disclosure of transactions with companies that are part of the group or investees of the group that qualify as related parties.

19 Ultimate Holding Company

The Company is a wholly owned subsidiary undertaking of PowerGen plc, a company registered in England and Wales. 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 1JJ

POWERGEN NORTH SEA LIMITED

Supplementary Information

1 Licences Held

Licence interests held - July 1997:

Licence	Block Number	Field	Interest %	Operator
P099	110/14a		8.90	BHP Petroleum
P380	43/26a	Ravenspurn North unit Johnston unit	12.00 5.87	BHP Petroleum BHP Petroleum
P710	110/13	Hamilton Hamilton North Douglas	8.90	BHP Petroleum
P791	110/15	Lennox	8.90	BHP Petroleum
P864	110/6		8.90	BHP Petroleum
P865	110/7c		8.90	BHP Petroleum
P882	21/5c		20.00	Conoco
P942	110/11b + 110/16a		8.90	BHP Petroleum
P103	21/5a		33.33	Conoco
P130	48/15a 48/15a	Audrey Unit Galleon Unit	30.78 10.0	Phillips Shell UK
	48/15a	Ensign Discovery	100.00	PowerGen North Sea