

HUMBERLAND LIMITED
(Registered Number 2949541)

DIRECTORS' REPORT AND ACCOUNTS

31 March 1997



HUMBERLAND LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 1997

The directors present their report and the audited financial statements for the year ended 31 March 1997.

PRINCIPAL ACTIVITIES

The principal activity of the company is the investment in a gas fired power station at Stallingborough, North East Lincolnshire.

REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS

Humberland is a wholly owned subsidiary of Humber Power Limited.

Phase I of the project was substantially complete at the year end, becoming fully operational in April 1997.

Agreements were signed to increase the facility from 754 MW to 1265 MW in November 1996. The construction of Phase II is on schedule and within budget.

RESULT AND DIVIDENDS

The profit and loss account for the year is set out on page 4. The directors do not recommend the payment of a dividend and the loss for the year of £5,000 (1996 £15,000) has been added to the deficit on reserves.

SUBSEQUENT EVENTS

A take-over certificate was issued on 25 April 1997, at which point the company took ownership of Phase I of the power station.

DIRECTORS AND THEIR INTERESTS

The directors of the company during the period and at the date of this report were as follows:

K J Huopalahti	(Finnish)	(Chairman)
E Drewery	(British)	
J Bryant	(British)	
A Asakura	(Japanese)	

The alternate directors of the company during the period and at the date of this report were as follows:

J M Groves	(British)
J A Deane	(British)
W A J Poulton	- appointed 10/6/96 (British)
M R Miller	- resigned 10/6/96 (British)

No director had any interest in the shares of the company or its parent company at 31 March 1997 or at any time during the year.

HUMBERLAND LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 1997

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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 as at the end of the financial year and of the profit or loss for that period. In preparing those financial statements, the directors are required to:

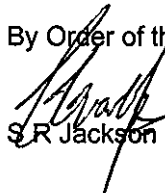
- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare 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 which disclose with reasonable accuracy at any time the financial position of the company and to 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 of fraud and other irregularities.

AUDITORS

Price Waterhouse have indicated their willingness to continue in office and a resolution concerning their re-appointment will be proposed at the Annual General Meeting.

By Order of the Board



S. R. Jackson

Secretary
11 September 1997

Price Waterhouse



AUDITORS' REPORT TO THE MEMBERS OF HUMBERLAND LIMITED

We have audited the financial statements on pages 4 to 12 which have been prepared under the historical cost convention, as modified by the revaluation of certain fixed assets, and the accounting policies set out on pages 6 and 7.

RESPECTIVE RESPONSIBILITIES OF THE DIRECTORS AND AUDITORS

As described on page 2 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 judgments 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 as at 31 March 1997 and of the loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Price Waterhouse

PRICE WATERHOUSE
Chartered Accountants
and Registered Auditors

11 September 1997

HUMBERLAND LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 MARCH 1997

	Note	1997 £'000	1996 £'000
Administrative expenses		<u>(5)</u>	<u>(15)</u>
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION	2	(5)	(15)
Tax on loss on ordinary activities	5	<u>-</u>	<u>-</u>
LOSS FOR THE YEAR ADDED TO THE DEFICIT ON RESERVES	12	<u>(5)</u>	<u>(15)</u>

All figures in the profit and loss account relate to continuing operations.

The company has no recognised gains and losses other than those included in the profit and loss account above.

HUMBERLAND LIMITED

BALANCE SHEET AS AT 31 MARCH 1997

	Note	1997 £'000	1996 £'000
FIXED ASSETS			
Tangible assets	6	547,541	337,483
		<hr/>	<hr/>
CURRENT ASSETS			
Debtors	8	17,817	5,731
Cash at bank and in hand		<u>3</u>	<u>426</u>
		17,820	6,157
CREDITORS - Amounts falling due within one year	9	<u>(12,154)</u>	<u>(3,843)</u>
NET CURRENT ASSETS		<u>5,666</u>	<u>2,314</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		(553,207)	339,797
CREDITORS - Amounts falling due after more than one year	10	<u>(552,385)</u>	<u>(338,970)</u>
NET ASSETS		<u>822</u>	<u>827</u>
CAPITAL AND RESERVES			
Called up share capital	11	-	-
Profit and loss account	12	(20)	(15)
Revaluation reserve	12	<u>842</u>	<u>842</u>
EQUITY SHAREHOLDERS' FUNDS	13	<u>822</u>	<u>827</u>

Approved by the board of directors on 11 September 1997
and signed on their behalf by:

DIRECTOR



HUMBERLAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS 31 MARCH 1997

1 PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below:

(1) Basis of preparation

The financial statements are prepared under the historical cost convention, as modified by the revaluation of certain fixed assets, and in accordance with applicable Accounting Standards.

(2) Development costs

Expenditure incurred during the development period of both Phase I and Phase II of the power station, including the cost of financing loans for development and apportionment of management charges, is capitalised and carried forward at cost until the completion of construction. These costs are shown as "Assets in the course of Construction" until the power station becomes operational, at which point they will be reclassified as "Generating Assets".

Net revenues arising from the sale of electricity during the commissioning period of Phase I and Phase II of the power station are set off against development costs.

(3) Fixed assets

Fixed assets, with the exception of freehold land, are stated at cost. Depreciation will commence on completion of commissioning once the power station becomes operational.

Depreciation will be provided on all fixed assets other than freehold land, at rates calculated to write off the cost, less estimated residual value based on prices prevailing at the date of acquisition, of each asset evenly over its useful life. Depreciation is to be charged from the take-over date for each Phase based upon useful asset lives as follows:

Power station	25 years
Tools and machinery	3 years
Computer software and equipment	3 years
Office equipment	3 years

(4) Deferred tax

Deferred taxation is provided on the liability basis to take account of the difference between the incidence of income and expenditure for accounting and taxation purposes to the extent that it is likely that a liability will crystallise in the foreseeable future.

HUMBERLAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS 31 MARCH 1997 (CONTINUED)

1 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(5) Finance lease

Assets held under finance lease arrangements have been capitalised and are included in fixed assets at their fair value at the inception of the lease. Finance lease assets will be depreciated at rates calculated to write off the cost, less estimated residual value, evenly over their useful life, which is deemed to be 25 years. The obligations relating to finance leases, net of finance charges in respect of future years, are included as appropriate under creditors due within or after more than one year. The interest element of the lease rental is allocated to accounting periods during the lease on an accruals basis. The interest charge is based on the outstanding finance lease creditor.

(6) Interest payable/receivable

Interest on borrowing specifically related to the financing of each Phase has been capitalised during the construction period. All other interest is charged/credited directly to the profit and loss account.

(7) Leasing commitments

Rentals payable/receivable under operating leases are charged to income on a straight line basis over the term of the lease.

2 LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

Loss on ordinary activities before taxation is stated after charging:

	1997 £'000	1996 £'000
Auditors' remuneration - audit fees and expenses	<u>5</u>	<u>4</u>

3 DIRECTORS' EMOLUMENTS

The directors received no emoluments from the company during the year (1996 Nil).

4 EMPLOYEE INFORMATION

There were no employees of the company during the year (1996 None).

5 TAXATION

There is no tax charge for the year (1996 £Nil).

HUMBERLAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS 31 MARCH 1997 (CONTINUED)

6 TANGIBLE FIXED ASSETS

	Short Leasehold property £'000	Freehold land £'000	Assets in the course of construction £'000	Total £'000
Cost or valuation				
At 1 April 1996	6	2,202	335,275	337,483
Additions	<u>-</u>	<u>2</u>	<u>210,056</u>	<u>210,058</u>
At 31 March 1997	<u>6</u>	<u>2,204</u>	<u>545,331</u>	<u>547,541</u>
Depreciation				
At 1 April 1996 and 31 March 1997	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net book amounts				
At 31 March 1997	<u>6</u>	<u>2,204</u>	<u>545,331</u>	<u>547,541</u>
At 31 March 1996	<u>6</u>	<u>2,202</u>	<u>335,275</u>	<u>337,483</u>

The net book amount of tangible fixed assets includes an amount of £430,908,000 (1996 £273,720,000) in respect of assets held under finance leases.

Details of interest and similar charges included in "Assets in the course of construction" are set out in note 7.

The company's freehold land was valued by the directors on 31 March 1995. The historical cost and net book amount of the company's freehold land at 31 March 1997 is £1,362,000.

HUMBERLAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS 31 MARCH 1997 (CONTINUED)

7 CAPITALISED INTEREST AND SIMILAR CHARGES

All interest, both payable and receivable, and similar charges on funding associated with the construction of the power station have been capitalised as part of fixed assets under "Assets in the course of construction". Capitalised interest comprises:

	1997 £'000	1996 £'000
Interest payable and similar charges		
Group loans	13,647	6,695
Finance leases	38,863	21,262
Interest rate swaps	<u>18,095</u>	<u>9,001</u>
	70,605	36,958
Less: Interest receivable on cash balances	<u>(172)</u>	<u>(153)</u>
Capitalised interest and similar charges	<u>70,433</u>	<u>36,805</u>

8 DEBTORS

Amounts due from parent company	15,205	3,742
Other debtors	225	128
Prepayments and accrued income	<u>2,387</u>	<u>1,861</u>
	17,817	5,731

9 CREDITORS - AMOUNTS FALLING DUE WITHIN ONE YEAR

Trade creditors	397	2,770
Obligations under finance leases	10,753	750
Accruals and deferred income	<u>1,004</u>	<u>323</u>
	12,154	3,843

HUMBERLAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS 31 MARCH 1997 (CONTINUED)

10 CREDITORS - AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	1997 £'000	1996 £'000
Amounts due to parent company under loan agreements	131,500	66,000
Obligations under finance leases	420,155	272,970
Accruals and deferred income	<u>730</u>	<u>-</u>
	<u>552,385</u>	<u>338,970</u>

Fixed and floating charges exist over all the assets of the company to secure the financing liabilities of both the company and its parent company.

Loans from parent company

	1997 £'000	1996 £'000
Amounts repayable by instalments:		
Between one and two years	802	-
Between two and five years	9,271	3,128
Over five years	<u>121,427</u>	<u>62,872</u>
	<u>131,500</u>	<u>66,000</u>

The loans from the parent company bear interest at various margins above LIBOR.

Finance leases

The net finance lease obligations to which the company is committed are:

	1997 £'000	1996 £'000
Less than one year	10,753	750
Between one and five years	5,686	15,439
Over five years	<u>414,469</u>	<u>257,531</u>
	<u>430,908</u>	<u>273,720</u>

The total amounts repayable by instalments, any part of which falls due after more than five years, are as follows:

	1997 £'000	1996 £'000
Loans from parent company	<u>131,500</u>	<u>66,000</u>
Finance leases	<u>430,908</u>	<u>272,970</u>

HUMBERLAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS 31 MARCH 1997 (CONTINUED)

11 CALLED UP SHARE CAPITAL

The company has authorised, allotted, called up and fully paid share capital comprising 100 ordinary shares of £1 each at a cost of £100 (1996 £100).

12 RESERVES

	Revaluation reserve £'000	Profit and loss account £'000
At 1 April 1996	842	(15)
Loss for the year	—	(5)
At 31 March 1997	842	(20)
	<u> </u>	<u> </u>

13 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	1997 £'000	1996 £'000
Loss for the year	(5)	(15)
Opening shareholders' funds	<u>827</u>	<u>842</u>
Closing shareholders' funds	<u>822</u>	<u>827</u>

14 CAPITAL COMMITMENTS

The company has signed various contracts in connection with the construction and financing of Phase I and Phase II of the power station. At 31 March 1997 the company had capital commitments contracted for of £72,478,000.

15 ULTIMATE CONTROLLING PARTY

The directors regard Humber Power Limited, the company's parent undertaking, as the ultimate controlling party. Copies of the parent company's consolidated financial statements are available by writing to the Secretary, South Humber Bank Power Station, South Marsh Road, Stallingborough, North East Lincolnshire DN41 8BZ.

HUMBERLAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS 31 MARCH 1997 (CONTINUED)

16 RELATED PARTY TRANSACTIONS

The following transactions between the Company and group undertakings of the shareholders of its ultimate controlling party have been included in these financial statements.

(1) Construction contracts

During the year the Company has capitalised amounts paid and payable to group undertakings of the following shareholder of its ultimate controlling party under the terms of various contracts:

<u>Name of shareholder</u>	<u>Type of contract</u>	<u>Amount paid/payable</u>
ABB Energy Ventures BV	Construction contracts	£136 million

Trade creditors include £393,000 payable under the construction contracts.