



ARTHUR ANDERSEN & CO SC

First Hydro Finance plc
(formerly Mission Funding plc)

Financial statements for the period ended 31 March 1996
together with directors' and auditors' reports

Registered number: 3085928



Directors' report

For the period from 31 July 1995 to 31 March 1996

The directors present their first annual report on the affairs of the company, together with the accounts and auditors' report, for the period from 31 July 1995 to 31 March 1996.

Incorporation

The company was incorporated on 31 July 1995 as Mossdrive plc and changed its name on 11 December 1995 to Mission Funding plc and subsequently on 15 December 1995 to First Hydro Finance plc. It became a wholly owned subsidiary of First Hydro Holdings Company on 15 December 1995.

Principal activity and business review

The principal activity of the company is to facilitate financing for an investment in a group whose principal activity is the generation of electricity. The acquisition of the investment took place on 21 December 1995 and the results for the period reflect this fact.

On 18 December 1995, the company entered into a Credit Facility Agreement and on 21 December 1995 drew down £400 million under this facility and issued non-interest bearing loan stock of £295 million to First Hydro Holdings Company. Also on 21 December 1995, the company acquired the entire share capital of First Hydro Company (formerly First Hydro Limited) and £120,000 of loan stock issued by First Hydro Company for a total of £682 million plus acquisition costs.

Subsequently, the company sold two tranches of the share capital of First Hydro Company to First Hydro Holdings Company, resulting in First Hydro Holdings Company owning 99% of the share capital of First Hydro Company, for a consideration of £699,950,127. This was financed by a debt instrument of £400 million issued to the company by First Hydro Holdings Company, and by the retirement of an element of loan stock.

As part of the foregoing arrangements, the company issued £400 million of Guaranteed Secured Bonds which carry rights to interest at 9% per annum and are secured by fixed and floating charges over the assets of the company, First Hydro Company and First Hydro Holdings Company. The Bonds are redeemable in 2021.

Results and dividends

The results for the period are shown in the profit and loss account. The following represents a summary of those results.

	Period ended 31 March 1996 £'000
Operating loss	(73)
Investment income	10,021
Interest payable and similar changes	(9,619)
Profit on ordinary activities before taxation	<u>329</u>

The directors do not recommend payment of a dividend.

Directors' report (continued)

Directors and their interests

The directors who served during the period are shown below:

C.S. Dubin	(appointed 8 December 1995)
R.J. Stone	(appointed 8 December 1995)
P.C. Gracey	(appointed 8 December 1995)
S.D. Melita	(appointed 8 December 1995)
M.E. Richards	(appointed 31 July 1995, resigned 8 December 1995)
P.J. Charlton	(appointed 31 July 1995, resigned 8 December 1995)

The directors who held office at 31 March 1996 had no interests (including options) in the shares, debentures and loan stock of the company or other UK group companies requiring disclosure under Schedule 7 of the Companies Act 1985.

Directors' responsibilities

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.

Directors' report (continued)

Auditors

During the year, Coopers and Lybrand were appointed auditors of the company but following their later resignation, Arthur Andersen were appointed to fill the vacancy created.

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

Lansdowne House
Berkeley Square
London
W1X 5DH

By order of the Board,



22 July 1996

P.C. Gracey
Director

Auditors' report

London

To the Shareholders of First Hydro Finance plc:

We have audited the financial statements on pages 5 to 11 which have been prepared under the historical cost convention and the accounting policies set out on pages 7.

Respective responsibilities of directors and auditors

As described on page 2, the company's directors are responsible for the preparation of the 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 company's state of affairs at 31 March 1996 and of its profit for the period 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

22 July 1996

Profit and loss account

For the period from 31 July 1995 to 31 March 1996

	Notes	Period ended 31 March 1996 £'000
Operating expenses		(73)
Operating loss		(73)
Investment income	2	10,021
Interest payable and similar charges	3	(9,619)
Profit on ordinary activities before taxation	4	329
Tax on profit on ordinary activities	5	(10)
Profit on ordinary activities after taxation		319
Profit and loss account, at beginning of period		-
Profit and loss account, at end of period	12	319

There are no recognised gains or losses in the period other than those included in the profit and loss account presented above.

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

Balance sheet

As at 31 March 1996

	Notes	31 March 1996 £'000
Fixed assets		
Investments	7	<u>6,935</u>
Current assets		
Debtors		
- due within one year	8	7,613
- due after more than one year	8	409,000
Cash at bank and in hand		<u>2,039</u>
		409,652
Creditors: Amounts falling due within one year	9	<u>(8,356)</u>
Net current assets		<u>401,296</u>
Total assets less current liabilities		<u>408,231</u>
Creditors: Amounts falling due after more than one year	10	<u>(407,899)</u>
Net assets		<u>332</u>
Capital and reserves		
Called-up equity share capital	11	13
Profit and loss account	12	<u>319</u>
Total equity capital employed	13	<u>332</u>

Signed on behalf of the Board

P.C. Gracey

Director



22 July 1996

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

Notes to the accounts

31 March 1996

1 Accounting policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the period, 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 financing reporting standards.

b) Cash flow statement

The company is not required to present a cash flow statement in accordance with Financial Reporting Standard No.1, as First Hydro Holdings Company prepares a consolidated statement which includes the cash flows of the company.

c) Investments

Fixed asset investments are shown at cost less amounts written off. Provisions are made for permanent diminutions in value, but not for temporary diminutions.

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 on the liability method. Deferred taxation is provided on timing differences 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) Debt

Debt is initially stated at the amount of the net proceeds after deduction of issue costs. The carrying amount is increased by the finance cost in respect of the accounting period and reduced by payments made in the period.

2 Investment income

	Period ended 31 March 1996 £000's
Income from fixed asset investments	295
Interest receivable on loans to other group companies	9,726
	<hr/> 10,021 <hr/>

Notes to the accounts (continued)

As at 31 March 1996

3 Interest payable and similar charges

	Period ended 31 March 1996 £000's
Bank loans, overdrafts and other loans	
- repayable within five years, not by instalments	2,116
- repayable after five years	7,503
	<hr/> 9,619

4 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging:

	Period ended 31 March 1996 £000's
Auditors' remuneration	
- audit fee	12
- other	3
	<hr/>

The company does not employ any staff.

5 Tax on profit on ordinary activities

The tax charge for the period comprises:

	Period ended 31 March 1996 £000's
Tax charge on franked investment income	<hr/> 10

6 Directors' remuneration

No remuneration was paid to directors during the period in respect of services to the company.

Notes to the accounts (continued)

As at 31 March 1996

7 Fixed asset investments

First Hydro Finance plc has a 1% interest in another group undertaking, First Hydro Company. The movement on this investment during the period comprised:

	1996 £000's
At acquisition - 100% shareholding	699,950
Sale of 99% shareholding to First Hydro Holdings Company	(692,951)
Repayment of capital by First Hydro Company	(64)
	<u>6,935</u>

8 Debtors

31 March 1996
£000's

Amounts falling due within one year:

Amounts owed by parent undertaking	7,398
VAT	214
Other debtors	1
	<u>7,613</u>

Amounts falling due after more than one year:

Amounts owed by parent undertaking (due 2021)	400,000
	<u>407,613</u>

Amounts owed by parent undertaking, due within one year, arise from interest charged at 9% on the £400 million owed by the company's immediate parent undertaking.

9 Creditors: Amounts falling due within one year

31 March 1996
£000's

Amounts owed to other group undertakings	615
Interest payable	7,398
Accruals and deferred income	343
	<u>8,356</u>

Notes to the accounts (continued)

As at 31 March 1996

10 Creditors: Amounts falling due after more than one year

	31 March 1996 £000's
Amounts owed to other group undertakings	7,899
Guaranteed Secured Bonds (see below)	400,000
	<u>407,899</u>

The Guaranteed Secured Bonds are redeemable on 31 July 2021 and carry interest at a rate of 9% per annum, payable semi-annually. They are secured by charges granted by the company, First Hydro Company and First Hydro Holdings Company (see note 14).

11 Called-up equity share capital

	31 March 1996 £000's
<i>Authorised</i>	
50,000 ordinary shares of 100p each	<u>50</u>
<i>Allotted</i>	
50,000 ordinary shares of 100p each	<u>50</u>
<i>Called-up and paid-up</i>	
49,998 ordinary shares called up to 25p each and 2 ordinary shares called up to 100p each	<u>13</u>

The company was incorporated on 31 July 1995 and at that date had an issued share capital of £2, comprising two fully paid up shares of £1, and an authorised share capital of 50,000 shares of £1 each. On 15 December 1995, the company issued all its remaining authorised share capital of 49,998 shares of £1 each, of which 25 pence was called up and is now fully paid, for a consideration of £12,499.50, in order to provide funds to the parent company.

12 Reserves

	Profit and loss account £000's
Balance at beginning of period	-
Profit for the period	319
At 31 March 1996	<u>319</u>

Notes to the accounts (continued)

As at 31 March 1996

13 Reconciliation of movement in equity shareholders' funds

	31 March 1996 £000's
Profit for the period	319
New share capital subscribed	13
Addition to shareholders' funds	<u>332</u>
Opening shareholders' funds	-
Closing shareholders' funds	<u>332</u>

14 Ultimate parent company

The company is a subsidiary undertaking of the ultimate parent company, Edison International Inc. The consolidated accounts of this group are available to the public and may be obtained from PO Box 800, 2244 Walnut Grove Avenue, Rosemead, CA 91770.

The smallest group within which the company is consolidated is that headed by First Hydro Holdings Company, an unlimited company registered in England and Wales whose principal place of business is at Lansdowne House, Berkeley Square, London W1X 5DH.