

COTTAM DEVELOPMENT CENTRE LIMITED

REPORT

for the 12 Months ended 31 December 2004



Registered No: 3273552

COTTAM DEVELOPMENT CENTRE LIMITED

Report of the directors for the period ended 31 December 2004

The directors submit their report and audited financial statements of the Company for the 12 months ended 31 December 2004.

Review of activities and future developments

The principal activity of the company up until 27 April 2004 was the operation of a combined cycle gas turbine power generation facility.

On 27 April 2004 the company ceased to trade following the transfer of its trade and acquisition of the company's assets and liabilities by E.ON UK plc (formally Powergen UK plc).

Dividends

No dividend was paid.

Directors

The directors who have served on the Board since the previous report are:

Dr AD Cocker
Mr H-J Schulz (Resigned 28 January 2004)
Mr MR Draper (Resigned 31 March 2004)
Mr W Bischoff (Resigned 28 January 2004)
Mr K Plowman (Appointed 31 March 2004)

None of the directors had any interest in the share capital of the company. Interests of the directors in the ultimate holding company, E.ON AG (a Company registered in Germany), are as disclosed in its respective directors report.

Auditors

As the company is now a wholly owned subsidiary of E.ON UK plc a resolution to appoint PricewaterhouseCoopers LLP as the company's auditor will be proposed at the forthcoming Annual General Meeting.

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Statement of directors' responsibilities

The directors:

- acknowledge the legal requirement under United Kingdom company law for the preparation of 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 and loss for that period;
- acknowledge their responsibility for keeping proper accounting records, for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities;
- confirm that suitable accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, have been used in the preparation of the financial statements;
- confirm that applicable accounting standards have been followed;
- confirm that the financial statements have been prepared on a going concern basis.

Signed on behalf of the Board of Directors



K Plowman
24 March 2005

COTTAM DEVELOPMENT CENTRE LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF COTTAM DEVELOPMENT CENTRE LIMITED

We have audited the financial statements of Cottam Development Centre Limited for the year ended 31 December which comprise the profit and loss account, the balance sheet, and the related notes 1 to 21. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

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 with the company is not disclosed.

We read the directors' report for the above year and consider the implications for our report if we become aware of any apparent misstatements.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom 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.

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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 2004 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP

Signature of auditors

Deloitte & Touche LLP

Chartered Accountants and Registered Auditors
Nottingham

Date:

4th April 2005

COTTAM DEVELOPMENT CENTRE LIMITED

PROFIT AND LOSS ACCOUNT FOR THE PERIOD ENDED 31 December 2004

	Note	12 months ended 2004 £'000	12 months ended 2003 £'000
Turnover: discontinued activities	2	9,831	26,058
Cost of Sales	3	<u>(526)</u>	<u>(1,369)</u>
Gross Profit		9,305	24,689
Operating costs	4	<u>(4,246)</u>	<u>(13,543)</u>
Operating profit: discontinued activities		5,059	11,146
Exceptional profit (on termination of operation)	7	11,675	-
Interest payable	8	<u>(9,589)</u>	<u>(6,177)</u>
Profit on ordinary activities before taxation		7,145	4,969
Tax on profit on ordinary activities	9	<u>10,553</u>	<u>(1,565)</u>
Profit on ordinary activities after taxation		17,698	3,404
Dividends Paid		-	(11,500)
Retained profit/(loss) for the financial year	17, 18	<u>17,698</u>	<u>(8,096)</u>


The Company has no recognised gains or losses during the period, other than the profit shown above and therefore no separate statement of total recognised gains and losses is presented.

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BALANCE SHEET AS AT 31 December 2004

	Note	31 Dec 2004 £'000	31 Dec 2003 £'000
Tangible fixed assets	10	-	99,801
Current assets			
Stock	11	-	4,261
Debtors	12	42,115	5,818
Short term deposits		-	1,500
Cash at bank and in hand		-	438
Total current assets		42,115	12,017
Creditors: amounts falling due within one year	13	-	(9,866)
Net current assets		42,115	2,151
Total assets less current liabilities		42,115	101,952
Creditors: amounts falling due after more than one year	14	-	(67,827)
Provision for liabilities and charges	15	-	(9,708)
Net assets		42,115	24,417
Capital and reserves			
Called up share capital	16	19,978	19,978
Profit and loss account	17	22,137	4,439
Total Equity Shareholders' Funds	18	42,115	24,417

The accounts have been approved by the Board on 24 March 2005 and were signed on its behalf by:

 Director
K Plowman

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Notes to the financial statements for the period ended 31 December 2004

1 Accounting policies

(a) Basis of accounting

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

(b) Tangible fixed assets

Tangible fixed assets are stated at original cost less accumulated depreciation.

(c) Depreciation

Provision for depreciation is made so as to write off, on a straight-line basis, the cost of tangible fixed assets. Assets are depreciated over their estimated useful lives. Generation assets have been depreciated from January 2000, but not during periods of non operation. The estimated useful lives for the principal categories of fixed assets are:

Asset	Life in years
Operating plant and buildings from Provisional Takeover	23
Office equipment and other short term assets	3

(d) Stock

Stocks are valued at the lower of cost and net realisable value.

(e) Deferred taxation

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply, when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the Financial Statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are discounted.

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(f) **Financial instruments**

Derivatives are used by the company in the form of interest rate swaps. The company does not hold or issue derivative financial instruments for speculative purposes. The interest rate swaps are used for hedging purposes to change a floating interest rate held on a loan to a fixed rate. Amounts payable or receivable in respect of interest rate swaps are recognised as adjustments to interest expense over the period of the loan agreement.

(g) **Cash flow statement**

The company has taken advantage of the exemption permitted by Financial Reporting Standard 1 (revised) not to prepare a cash flow statement as it is a wholly owned subsidiary of E.ON UK plc.

2 **Turnover**

Turnover relates to discontinuing activities and principally derives from the sale of power generation capacity to E.ON UK plc.

Turnover relating to discontinuing activities constitutes the following:

	31 Dec 2004 £'000	31 Dec 2003 £'000
Ancillary Services Income	35	472
Capacity Fees	9,760	25,390
Starts and sundry income	36	196
	<u>9,831</u>	<u>26,058</u>

3 **Cost of Sales**

	31 Dec 2004 £'000	31 Dec 2003 £'000
Gas deemed to have been used	27	481
Thermal Efficiency Costs	499	888
	<u>526</u>	<u>1,369</u>

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4 Operating costs

Operating costs relate to discontinuing activities and are made up as follows:

	31 Dec 2004 £'000	31 Dec 2003 £'000
Operational expenses	4,194	13,229
Administration expenses	52	314
	<u>4,246</u>	<u>13,543</u>

Operational Costs include depreciation charges of 1,577,042 (2003 - £4,708,452) of which £1,553,765 (2003 - £4,661,316) is a provision for main plant depreciation and £23,278 (2003 - £47,136) for shorter term assets. Included in administration expenses are auditors' remuneration of £nil (2003 - £12,000). A sum of £6,000 will be paid by the parent company for auditors' remuneration for the year.

The auditors received £nil (2003 - £18,750) of remuneration for provision of non-audit services to the Company during the period.

The directors believe that the nature of the company's business is such that the analysis of operating costs set out in the Companies Act 1985 format is not appropriate. As required by the Act, the directors have therefore adopted the format presented in these accounts so that operating costs are disclosed in a manner appropriate to the company's principal activities.

5 Employee information

The Company has no employees other than the Directors and the Company Secretary.

6 Directors' emoluments

The directors, who represent the interests of the shareholders, received no remuneration for services to the Company during the period.

7 Exceptional item

In anticipation of the sale of the trade and assets to E.ON UK plc the deferred tax and decommissioning provisions were released to the profit and loss account. The remaining assets and liabilities, with the exception of corporation tax, were sold to E.ON UK plc.

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Exceptional items include:	£'000
Profit on sale of trade and assets	10,810
Release of decommissioning provision	<u>865</u>
	<u>11,675</u>

The release of the deferred tax provision of £8,973 is included within the tax credit for the year (see note 9a).

8 Interest payable

	31 Dec 2004 £'000	31 Dec 2003 £'000
Interest payable on inter-company loans	10,985	6,311
Interest receivable on inter-company loans	(1,368)	-
Decommissioning finance charge	-	72
Interest receivable on deposits	(28)	(206)
	<u>9,589</u>	<u>6,177</u>

Interest payable is all payable to the ultimate parent undertakings existing during the year, E.ON UK plc and Siemens AG. Included in the interest payable is a charge of £9.6m for the termination of the interest rate swap contract which was held to hedge the floating rate of interest on the loan which was repaid on 28th January 2004.

9(a) Tax on profit on ordinary activities

	31 Dec 2004 £'000	31 Dec 2003 £'000
United Kingdom corporation tax at 30% based on profit for the year (see 8(b))	(1,944)	-
Adjustment in respect of Previous years	234	(716)
Total Current Tax	<u>(1,710)</u>	<u>(716)</u>
Deferred taxation		
Charge for timing differences arising in the year	592	1,536
Decrease/(Increase) in discount	2	(762)
Adjustment in respect of prior years	(464)	1,507
Exceptional release on disposal of assets	<u>(8,973)</u>	<u>-</u>
	<u>(8,843)</u>	<u>2,281</u>
	<u>(10,553)</u>	<u>1,565</u>

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9(b) Factors affecting the tax charge for the period:

The standard rate of tax for the year, based on the UK standard rate of corporation tax is 30%. The actual tax charge for the current and previous year differs from the standard rate for the reasons set out in the following reconciliation:

	31 Dec 2004 £'000	31 Dec 2003 £'000
Profit on ordinary activities before tax	7,145	4,969
Tax charge on profit on ordinary activities at standard rate	2,144	1,491
Factors affecting tax charge for the period:		
Exceptional profit on termination of operation	(3,503)	-
Expenses not deductible for tax purposes	8	45
Capital allowances in excess of depreciation	(593)	(1,536)
Adjustment in respect of previous years	234	(716)
Current tax credit for the period	(1,710)	(716)

10 Tangible fixed assets

	Plant and Buildings £'000	Other Short term Assets £'000	Assets Under Construction £'000	Total £'000
Cost				
At 31 Dec 2003	115,377	433	97	115,907
Additions	-	3	-	3
Transfer	-	7	(7)	-
Disposal	(115,377)	(443)	(90)	(115,910)
At 31 Dec 2004	-	-	-	-
Accumulated depreciation				
At 31 Dec 2003	(15,818)	(288)	-	(16,106)
Charge for the period	(1,554)	(23)	-	(1,577)
Disposal	17,372	311	-	17,683
At 31 Dec 2004	-	-	-	-
Net book value				
At 31 December 2004	-	-	-	-
At 31 December 2003	99,559	145	97	99,801

11 Stock

The stock of £nil (2003 - £4,261,481) comprised of spares holdings for the power station.

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12 Debtors

	31 Dec 2004 £'000	31 Dec 2003 £'000
Due within one year		
Capacity & monitoring fees (trade debtors)	-	16
Accrued Income	-	2,999
Consortium tax relief	2,426	1,284
Other taxation and social security	-	451
Prepayments and other debtors	-	1,068
Amount due from ultimate parent company	39,689	-
	<u>42,115</u>	<u>5,818</u>

13 Creditors: amounts falling due within one year

	31 Dec 2004 £'000	31 Dec 2003 £'000
Trade creditors	-	101
Amounts owed to parent undertakings	-	8,986
Other taxation and social security	-	-
Accruals and deferred income	-	779
	<u>-</u>	<u>9,866</u>

14 Creditors: amounts falling due after more than one year

	31 Dec 2004 £'000	31 Dec 2003 £'000
Amounts owed to ultimate parent undertakings	-	67,827

The amounts owed to parent undertakings at 31 December 2003 were split equally between Powergen plc and Siemens AG and represented draw-downs and rolled up interest on an unsecured long term loan which, at 31 December 2003, was due to expire in 2007. Interest was payable on the loan at rates which approximate to 7% and the company had elected to roll-up the interest into the principal.

On 28 January 2004 the company became a 100% owned subsidiary of E.ON UK plc.

As a result of the change in ownership of the company, the loans were repaid in full on 28th January 2004 by the granting of a new long term loan from E.ON UK plc. This loan was repaid on 27 April following the transfer of trade and net assets to E.ON UK plc.

The repayment of the loan on 28 January 2004 resulted in a charge of £9.6 million for the termination of the interest rate swap contract which was held to hedge the floating rate of interest on the loan.

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15 Provisions for liabilities and Charges

	31 Dec2004 £'000	31 Dec 2003 £'000
Deferred taxation	-	8,843
Decommissioning Provision	-	865
	-	<u>9,708</u>

Deferred Taxation

	31 Dec2004 £'000
At 31 December 2003	8,843
Current year credit	<u>(8,843)</u>
At 31 December 2004	<u>-</u>

Decommissioning Provision

	31 Dec2004 £'000
At 31 December 2003	865
Release prior to transfer of trade	<u>(865)</u>
At 31 December 2004	<u>-</u>

16 Called up share capital

The share capital of the company comprises:

	31 Dec2004 £'000	31 Dec 2003 £'000
Authorised		
30,000,000 ordinary shares of £1 each (2002: 30,000,000)	<u>30,000</u>	<u>30,000</u>
Allotted, called up and fully paid		
19,978,000 ordinary shares of £1 each (2002: 19,978,000)	<u>19,978</u>	<u>19,978</u>

17 Movement on Reserves

	Profit and Loss account £'000
Balance at 1 January 2004	4,439
Retained Profit for the Year	<u>17,698</u>
Balance at 31 December 2004	<u>22,137</u>

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18 Reconciliation of movements in shareholders' funds

	31 Dec 2004 £'000	31 Dec 2003 £'000
Opening shareholders' funds	24,417	32,513
Retained Profit /(Loss) for the year	17,698	(8,096)
Closing shareholders' funds	<u>42,115</u>	<u>24,417</u>

19 Dividend

No ordinary final dividend paid (2003: 57.6 pence)

	31 Dec 2004 £'000	31 Dec 2003 £'000
Dividend Paid (2003: 57.6 pence)	<u>-</u>	<u>11,500</u>

20 Ultimate parent undertaking

The Company was a joint venture undertaking between Siemens Project Ventures GmbH, a wholly owned subsidiary of Siemens AG (a Company registered in Berlin and Munich, Germany) and Powergen plc a wholly owned subsidiary of E.ON AG (a Company registered in Germany)

On 28th January 2004 Powergen purchased Siemens' shares in Cottam Development Centre Ltd and the company became a 100% owned subsidiary of E.ON UK plc.

On 31st December 2004 the ultimate holding company of Cottam Development Centre Limited was E.ON AG.

21 Related party transactions

The Company has a significant number of transactions with the shareholders the majority of which are all defined within individual contracts between the Company and E.ON UK plc, and the Company and members of the Siemens AG Group.

During the year, the Company had operational transactions totalling £13,694,164 (2003 - £33,242,722) with E.ON UK plc. £9,759,399 (2003 - £28,788,782) of this was capacity fee income on availability. The balance primarily comprised starts income, contractual obligations for operations and maintenance staff and project management. All charges are based on arms length terms.

During the year, the Company had operational transactions totalling £(36,982) (2003 - £113,421) with companies within the Siemens AG group. Additionally, in the prior year the company had operational transactions totalling £10,017,819 with Siemens Power Generation Ltd, which was purchase of blades and vanes and other spares.