



COTTAM DEVELOPMENT CENTRE

## **COTTAM DEVELOPMENT CENTRE LIMITED**

### **REPORT**

**for the 12 Months ended 31 December 2002**



Registered No: 3273552

# **COTTAM DEVELOPMENT CENTRE LIMITED**

## **Report of the directors for the period ended 31 December 2002**

The directors submit their report and audited financial statements of the Company for the 12 months ended 31 December 2002.

### **Review of activities and future developments**

The principal activity of the company is currently the operation of a combined cycle gas turbine power generation facility.

The retained profit for the year ended 31 December 2002 was £6,797,000 (retained profit of £3,574,000 for the year ended 31 December 2001).

Capacity Fee income of £17.3m (2001 - 17.0m) from availability of the station for generation was £4.8m below budget as a result of the delayed outage return in the first Quarter. Thereafter capacity revenues were in line with planned figures. Operating profits of £14.5m (2001 - £9.9m) were £2.1m less than planned and reflect the mitigating impact of reduced operating costs on the revenue shortfall. On successful completion of the testing and monitoring phase of the V94.3a(2) gas turbine, the station has been operating successfully and was taken over on 1 May 2002 into commercial operation.

### **Dividends**

The directors do not recommend the payment of a dividend.

### **Directors**

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

Dr F Ruess	(Resigned 31 Mar 2003)
Dr AD Cocker	
Mr.H-J Schulz	
Mr.MR Draper	
Mr.W Hermann	(Appointed 1 April 2003)

None of the directors had any interest in the share capital of the company.

## COTTAM DEVELOPMENT CENTRE LIMITED

### Auditors

On 16 October 2002 Deloitte & Touche were re-appointed as auditors of the company.

On 1 August 2003 Deloitte & Touche transferred their business to Deloitte & Touche LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. The Company's consent has been given to treating the appointment of Deloitte & Touche as extending to Deloitte & Touche LLP with effect from 1 August 2003 under the provisions of section 26(5) of the Companies Act 1989. A resolution to re-appoint Deloitte and Touche LLP as the Company's auditor will be proposed at the forthcoming Annual General Meeting.

### 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



Dr. AD Cocker

Date 29/9/3

## COTTAM DEVELOPMENT CENTRE LIMITED

### 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 2002 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 and Touche LLP  
Chartered Accountants and Registered Auditors  
Nottingham

Date: 29<sup>th</sup> September 2003.

## **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 Ltd. for the year ended 31 December 2002 which comprise the profit and loss account, the balance sheet, the cash flow statement, the reconciliation of operating profit to net cash inflow from continuing operating activities and the related notes 1 to 22. 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.

**PROFIT AND LOSS ACCOUNT**  
**FOR THE YEAR ENDED 31 DECEMBER 2002**

		12 months ended 31 Dec 2002	12 months ended 31 Dec 2001
	Note	£'000	£'000
Turnover: continuing activities	2	27,798	32,126
Cost of Sales	3	<u>(1,218)</u>	<u>(10,916)</u>
Gross Profit		26,580	21,210
Operating costs	4	<u>(12,041)</u>	<u>(11,345)</u>
Operating profit : continuing activities		14,539	9,865
Interest payable	7	<u>(5,938)</u>	<u>(5,050)</u>
Profit on ordinary activities before taxation		8,601	4,815
Tax on profit on ordinary activities	8	<u>(1,804)</u>	<u>(1,241)</u>
Retained profit for the financial year	16	<u>6,797</u>	<u>3,574</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.

# COTTAM DEVELOPMENT CENTRE LIMITED

## BALANCE SHEET AS AT 31 December 2002

	Note	31 Dec 2002 £'000	31 Dec 2001 £'000
<b>Tangible fixed assets</b>	9	94,916	88,609
<b>Current assets</b>			
Stock	10	3,741	0
Debtors	11	6,565	2,390
Short term deposits		350	1,900
Cash at bank and in hand		622	294
		<hr/> 11,278	<hr/> 4,584
<b>Creditors: amounts falling due within one year</b>	12	(1,732)	(1,937)
		<hr/>	<hr/>
<b>Net current (liabilities) / assets</b>		9,546	2,647
		<hr/>	<hr/>
<b>Total assets less current liabilities</b>		104,462	91,256
<b>Creditors: amounts falling due after more than one year</b>	13	(64,594)	(60,119)
<b>Provisions for liabilities and charges</b>	14	(7,355)	(5,421)
		<hr/>	<hr/>
<b>Net Assets</b>		32,513	25,716
<b>Capital and reserves</b>		<hr/>	<hr/>
Called up share capital	15	19,978	19,978
Profit and loss account	16	12,535	5,738
		<hr/>	<hr/>
<b>Total Equity Shareholders' Funds</b>	17	32,513	25,716
		<hr/>	<hr/>

The accounts have been approved by the Board on 29 Sept 2003 and were signed on its behalf by:

 ..... Director  
 Dr. AD Cocker

# COTTAM DEVELOPMENT CENTRE LIMITED

## CASHFLOW STATEMENT Year ended 31 December 2002

		12 months ended 31 Dec 2002 £'000	12 months ended 31 Dec 2001 £'000
	Note		
Net cash inflow from continuing activities	Below	9,969	13,974
<b>Returns on investment &amp; servicing of finance:</b>			
Interest received		97	63
<b>Net cash inflow from returns on investment &amp; servicing of finance:</b>		<u>97</u>	<u>63</u>
<b>Taxation (Consortium Tax Relief)</b>		411	-
<b>Capital Expenditure</b>			
Purchase of tangible fixed assets		(10,199)	(2,240)
<b>Net cash outflow from capital expenditure</b>		<u>(9,788)</u>	<u>(2,240)</u>
<b>Net cash inflow before management of liquid resources and financing</b>		278	11,797
<b>Management of liquid resources</b>			
Movement in Cash placed on short term deposit		1,550	(1,900)
<b>Financing</b>			
Repayments of loan	18	(1,500)	(10,800)
<b>Net cash inflow from liquid resources &amp; financing</b>		<u>50</u>	<u>(12,700)</u>
<b>(Decrease) / Increase in cash in the period</b>	18	<u>328</u>	<u>(903)</u>
<b>Reconciliation of operating profit to net cash inflow from continuing operating activities</b>			
Operating profit		14,539	9,865
Depreciation on tangible fixed assets		3,892	3,274
Increase in Stock		(3,741)	
Decrease / (Increase) in debtors	11	(4,522)	1,313
(Decrease) / Increase in creditors	12	(199)	(478)
<b>Net cash inflow from continuing operating activities</b>		<u>9,969</u>	<u>13,974</u>



# COTTAM DEVELOPMENT CENTRE LIMITED

## Notes to the financial statements for the period ended 31 December 2002

### 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 other than the main plant are stated at original cost less accumulated depreciation. In the case of the main plant, the value reflects the final contract price of the current configuration (including the V94.3a(2) gas turbine) as finalised in the Settlement Agreement. This reflects the contract price adjustment to the PDA resulting from early Full Takeover of the plant in April 2002.

#### (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

No depreciation is charged on assets in the course of construction.

#### (d) Leases

Rents payable under operating leases are charged to the profit and loss account evenly over the term of the lease.

#### (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.

## COTTAM DEVELOPMENT CENTRE LIMITED

### 2 Turnover

Turnover relates to continuing activities and principally derives from the sale of power generation capacity to Powergen plc. With Full Take-Over at the end of April, the testing and development role of the Plant ceased and the remaining testing fees became due under the termination terms of the Monitoring Agreement.

Turnover relating to continuing activities constitutes the following:

	31 Dec 2002 £'000	31 Dec 2001 £'000
Generation Income	460	10,363
Capacity Fees	17,281	16,963
Testing Fees	9,929	4,800
Starts and inspection Fee Income	128	-
	<u>27,798</u>	<u>32,126</u>

### 3 Cost of Sales

	31 Dec 2002 £'000	31 Dec 2001 £'000
Gas deemed to have been used	460	10,363
Operational Efficiency Costs	758	553
	<u>1,218</u>	<u>10,916</u>

Since the introduction of the New Electricity Trading Arrangements, generation income assigned to Powergen plc is no longer included as turnover, neither is the cost of gas deemed to have been reflected in cost of sales. Hence the significant reduction in this figure which now only includes these costs in relation to ancillary services and contractual efficiency adjustments.

## COTTAM DEVELOPMENT CENTRE LIMITED

### 4 Operating costs

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

	31 Dec 2002 £'000	31 Dec 2001 £'000
Operational expenses	11,145	10,414
Administration expenses	896	931
	12,041	11,345

Operational Costs include depreciation charges of £3,891,385 (2001 - £3,274,362) of which £3,854,383 (2001 - £3,235,925) is a provision for main plant depreciation and £37,002 (2001 - £38,437) for shorter term assets. Also included are auditors' remuneration of £12,000 (2001 - £10,000). The auditors received £13,400 (2001 - £5,725) of remuneration for provision of non-audit services to the Company during the period.

### 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 Interest payable

	31 Dec 2002 £'000	31 Dec 2001 £'000
Interest payable on inter-company loans < 5 yrs	5,969	5,049
Decommissioning finance charges	66	64
Interest receivable on deposits	(97)	(63)
	5,938	5,050

Interest payable is all payable to the ultimate parent undertakings Powergen plc and Siemens AG.

# COTTAM DEVELOPMENT CENTRE LIMITED

## 8 Tax on profit on ordinary activities

	31 Dec 2002 £'000	31 Dec 2001 £'000
United Kingdom corporation tax at 30% based on profit for the year	-	-
<b>Consortium Relief</b>		
Current year	-	(322)
Adjustment in respect of Previous years	(65)	-
Total Current Tax	(65)	(322)
<b>Deferred taxation charge</b>		
Charge for timing differences arising in the year	2,561	2,500
(Increase) in discount	(886)	(940)
Adjustment in respect of prior years	194	3
	<u>1,804</u>	<u>1,241</u>

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 exceeds the standard rate for the reasons set out in the following reconciliation:

	31 Dec 2002 £'000	31 Dec 2001 £'000
Profit on ordinary activities before tax	8,601	4,815
Tax on profit on ordinary activities at standard rate	<u>2,580</u>	<u>1,444</u>
Factors affecting tax charge for the period		
Expenses not deductible for tax purposes	43	49
Capital allowances in excess of depreciation	(2,831)	(3,257)
Movement in short term timing differences	208	757
Consortium relief surrendered at < 30%	-	685
Current tax credit for the period	<u>-</u>	<u>(322)</u>

# COTTAM DEVELOPMENT CENTRE LIMITED

## 9 Tangible fixed assets

	Plant and Buildings	Other Short term Assets	Assets Under Construction	Total
	£'000	£'000	£'000	£'000
<b>Cost</b>				
At 31 Dec 2001	95,769	346	0	96,115
Additions	10,110	49	40	10,199
<b>At 31 December 2002</b>	<b>105,879</b>	<b>395</b>	<b>40</b>	<b>106,314</b>
<b>Accumulated depreciation</b>				
At 31 Dec 2001	(7,303)	(203)	0	(7,506)
Charge for the period	(3,854)	(38)	0	(3,892)
<b>At 31 December 2002</b>	<b>(11,157)</b>	<b>(241)</b>	<b>0</b>	<b>(11,398)</b>
<b>Net book value</b>				
At 31 December 2002	94,722	154	40	94,916
<b>At 31 December 2001</b>	<b>88,466</b>	<b>143</b>	<b>0</b>	<b>88,609</b>

Of the additions during the period to operating plant and buildings, £9,929,000 reflects the Settlement Price in respect of the Plant Development Agreement Contract Price. The remainder in respect of tangible fixed assets is based on cost.

## 10 Stock

The stock of £3,741,122 (2001 - £0) comprises spares holdings for the power station.

# COTTAM DEVELOPMENT CENTRE LIMITED

## 11 Debtors

	31 Dec 2002 £'000	31 Dec 2001 £'000
<b>Due within one year</b>		
Capacity & monitoring fees (trade debtors)	68	970
Accrued Income	2,094	-
Consortium tax relief	567	913
Other taxation and social security	493	-
Prepayments and other debtors	3,343	507
	<u>6,565</u>	<u>2,390</u>

## 12 Creditors: amounts falling due within one year

	31 Dec 2002 £'000	31 Dec 2001 £'000
Trade creditors	154	158
Amounts owed to parent undertakings	361	799
Other taxation and social security	-	18
Accruals and deferred income	1,217	962
	<u>1,732</u>	<u>1,937</u>

## 13 Creditors: amounts falling due after more than one year

	31 Dec 2002 £'000	31 Dec 2001 £'000
Amounts owed to ultimate parent undertakings	<u>64,594</u>	<u>60,119</u>

The amounts owed to parent undertakings are split equally between Powergen plc and Siemens AG and represent draw-downs and rolled up interest on an unsecured loan which expires in June 2007. Interest is payable on the loan at rates which approximate to 7% and the Company has elected to roll-up the interest into the principal.

# COTTAM DEVELOPMENT CENTRE LIMITED

## 14 Provisions for liabilities and Charges

	31 Dec 2002 £'000	31 Dec 2001 £'000
Deferred taxation	6,562	4,693
Decommissioning Provision	793	728
	<u>7,355</u>	<u>5,421</u>

The decommissioning provision reflects the total discounted cost of decommissioning the plant at the end of the station's useful life in 2023.

Deferred Taxation	31 Dec 2002 £'000
At 31 December 2001	4,693
Current year charge	1,869
At 31 December 2002	<u>6,562</u>

The amounts of deferred taxation provided and unprovided in the accounts are as follows:

	Provided 31 Dec 2002 £'000	Provided 31 Dec 2001 £'000
Capital allowances in excess of depreciation	11,978	8,954
Other timing differences	(2,264)	(1,995)
Deferred Tax Provision before Discounting	<u>9,714</u>	<u>6,959</u>
Discounting	<u>(3,152)</u>	<u>(2,266)</u>
	<u>6,562</u>	<u>4,693</u>

## COTTAM DEVELOPMENT CENTRE LIMITED

### 15 Called up share capital

The share capital of the company comprises:

	31 Dec 2002 £'000	31 Dec 2001 £'000
<b>Authorised</b>		
30,000,000 ordinary shares of £1 each (2001: 30,000,000)	<u>30,000</u>	<u>30,000</u>
<b>Allotted, called up and fully paid</b>		
19,978,000 ordinary shares of £1 each (2001: 19,978,000)	<u>19,978</u>	<u>19,978</u>

### 16 Movement on Reserves

	Profit and Loss account £'000
Balance at 1 January 2002	5,738
Profit for the Year	<u>6,797</u>
Balance at 31 December 2002	<u><u>12,535</u></u>

### 17 Reconciliation of movements in shareholders' funds

	31 Dec 2002 £'000	31 Dec 2001 £'000
Opening shareholders' funds	25,716	22,142
Profit for the year	<u>6,797</u>	<u>3,574</u>
Closing shareholders' funds	<u><u>32,513</u></u>	<u><u>25,716</u></u>



## COTTAM DEVELOPMENT CENTRE LIMITED

### 18 Reconciliation of net cashflow to movement in net debt

	31 Dec 2002	31 Dec 2001
	£'000	£'000
Opening net debt	(57,925)	(64,884)
(Decrease) / increase in cash in the period	328	(903)
Cash outflow from change in debt	1,500	10,800
Cash outflow / (inflow) from (decrease) / increase in liquid resources	(1,550)	1,900
Change in net debt from cashflows	278	11,797
Rolled up interest	(5,975)	(4,838)
Movement in net debt	(5,697)	6,959
Closing net debt	(63,622)	(57,925)

### 19 Analysis of net debt

	31 December 2001	Cashflow	Non cash items	31 December 2002
	£'000	£000	£000	£'000
Cash in hand at bank	294	328	-	622
Short Term Deposits	1,900	(1,550)	-	350
Loans due < 5 years	(60,119)	1,500	(5,975)	(64,594)
Net debt	(57,925)	278	(5,975)	(63,622)

The non-cash item relates to interest charges rolled up into the loans.

### 20 Capital commitments

At 1<sup>st</sup> January 2003, the company had commitments of £7,597,112 for replacement blades and vanes. A final payment to fully takeover the Plant was made 1<sup>st</sup> May 2002 on which no further capital commitments are outstanding.

### 21 Ultimate parent undertaking

The Company is a wholly owned 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 EON AG (a Company registered in Germany)

## **22      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 Powergen plc, and the Company and members of the Siemens AG Group.

During the year, the Company had operational transactions totalling £23,961,685 (2001 - £29,577,308) with Powergen plc. £17,281,168 (2001 - £16,962,530) of this was capacity fee income on availability. The balance primarily comprised starts and inspection fee income, contractual obligations for operations and maintenance staff and project management. All charges are based on arms length terms. Of this, costs of £301,072 (2001 - £444,823) was outstanding, but not overdue at the 31 December 2002.

During the year, the Company had operational transactions totalling £28,207,309 (2001 - £8,756,410) with companies within the Siemens AG group. Of this, costs of £59,783 (2001 - £354,306) was outstanding, but not overdue at the 31 December 2002.