

POWERGEN RETAIL GAS LIMITED
(formerly Sterling Gas Limited)

REPORT AND ACCOUNTS

for the year ended 2 January 2000



Registered No: 3407430

POWERGEN RETAIL GAS LIMITED
(formerly Sterling Gas Limited)

Report of the directors for the year ended
2 January 2000

The directors present their report and the audited financial statements of the Company for the year ended 2 January 2000.

Principal activities, review of business and future developments

The Company's principal activity during the year was the supply and shipping of Natural Gas.

Both the level of business and the financial position of the Company at the year end were satisfactory and the directors believe that the present level of activity will be sustained in the current year.

Results and dividends

The Company's profit for the financial year is £9.9m (period ended 3 January 1999: loss £1.3m). The directors do not recommend the payment of a dividend.

Directors and their interests

The directors who held office during the year are given below:

PowerGen Directors Limited (formerly East Midlands Electricity Directors Limited)
PowerGen Secretaries Limited (formerly East Midlands Electricity Secretaries Limited)
C J Boon (resigned 19 March 1999)

During the year, no director had an interest in the shares of the Company, nor did they have an interest in the shares of any other member of the group, other than as a nominee on behalf of PowerGen plc.

Year 2000

The Company is involved in the Year 2000 project of PowerGen plc. The Year 2000 issue concerns computer problems associated with the Year 2000 date and the need to ensure that the PowerGen Group is not adversely affected by the use of dates beyond 31 December 1999.

The PowerGen Group conducted a risk-based review of its computer systems and computer controlled processes to identify those which could be affected by the Year 2000 date change, and established a dedicated project team accordingly. A plan and work programme was then developed to test those systems and processes identified and to take appropriate action, such as replacing or repairing the affected systems or processes in collaboration with the respective suppliers. The programme covered business systems, process control and issues relating to the energy supply/demand chain as a whole, including key suppliers and customers. Given the key position of PowerGen in the national infrastructure, the Group also developed and tested Year 2000 business continuity plans.

Over the Millennium period there was no impact on customers or critical systems from Year 2000 issues. No high priority issues arose, and the small number of low level issues were quickly resolved.

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Report of the directors for the year ended
2 January 2000 (continued)

Year 2000 (Cont/...)

The total cost of this project to the PowerGen Group to 2 January 2000 was £55.9 million, £24.7 million of which was incurred during the year ended 2 January 2000. Expenditure in 2000 is expected to be less than £0.3m as individual projects and the central programme formally end. There was no cost of this project to PowerGen Retail Gas Limited.

Introduction of the Euro

The Company is a wholly owned subsidiary undertaking of PowerGen plc. The PowerGen Group made appropriate preparations in advance of the introduction of the Euro, recognising the potential impact on commercial arrangements and financial systems. The position is being monitored as it develops.

Creditor Payment Policy

Where appropriate in relation to specific contracts, the Company's practice is to:

- Settle the terms of payment with the supplier when agreeing the terms of each transaction;
- Ensure that those suppliers are made aware of the terms of payment by inclusion of other relevant terms in the contracts; and
- Pay in accordance with its contractual and other legal obligations.

For all other cases the Company supports the Better Payments Practice Code 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 requirement in the Companies Act is 47 days (3 January 1999: 41 days).

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year that 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 year. In preparing those financial statements, the directors are required to:

- a) select suitable accounting policies and then apply them consistently;
- b) make judgements and estimates that are reasonable and prudent;
- c) state whether applicable accounting standards have been followed, subject to any material departure disclosed and explained in the financial statements; and
- d) 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 that disclose with reasonable accuracy at any time the financial position of the company and 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 and detection of fraud and other irregularities.

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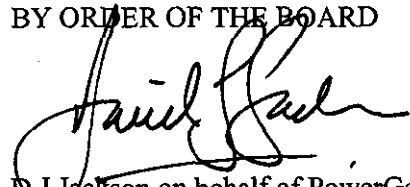
Report of the directors for the year ended
2 January 2000 (continued)

Auditors

On 16th February 1999, Deloitte & Touche resigned from office and PricewaterhouseCoopers were appointed in their place as auditors of the Company.

In accordance with the provisions under Section 379A of the Companies Act 1989, elective resolutions were passed on 6th November 1999 dispensing with both obligations of holding Annual General Meetings and appointing auditors annually.

BY ORDER OF THE BOARD

A handwritten signature in dark ink, appearing to read 'David Jackson', is written over the printed name.

D J Jackson on behalf of PowerGen Directors Limited as director
53 New Broad Street
London
EC2M 1SL

11 May 2000

POWERGEN RETAIL GAS LIMITED
(formerly Sterling Gas Limited)

Report of the Auditors to the members of PowerGen Retail Gas Limited

We have audited the financial statements on pages 5 to 11 which have been prepared in accordance with the accounting policies set out on page 7.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report. As described on page 2, this includes responsibility for preparing the financial statements, in accordance with applicable United Kingdom accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and our profession's ethical guidance.

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 United Kingdom Companies Act. We also report to you 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 is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

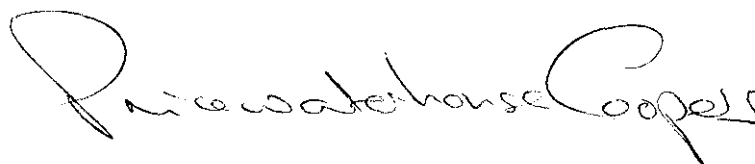
Basis of audit opinion

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 the Company's affairs at 2 January 2000 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Birmingham
11 May 2000

POWERGEN RETAIL GAS LIMITED
(formerly Sterling Gas Limited)

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 2 JANUARY 2000

		Year ended 2 January 2000 £000	Period Ended 3 January 1999 £000
	Note		
Turnover – continuing operations	2	86,464	29,777
 Cost of sales		 (71,040)	 (26,823)
Gross profit		<hr/> 15,424	<hr/> 2,954
Net operating expenses	3	(1,148)	(3,747)
Operating profit/(loss) – continuing operations	4	14,276	(793)
Net interest payable	6	(36)	(93)
 Profit/(loss) on ordinary activities before taxation		<hr/> 14,240	<hr/> (886)
Tax on profit/(loss) on ordinary activities	7	(4,300)	(370)
Retained profit/(loss) for the financial year	13	<hr/> 9,940	<hr/> (1,256)

The Company has no recognised gains and losses other than the profit/loss above and therefore no separate statement of total recognised gains and losses has been presented.

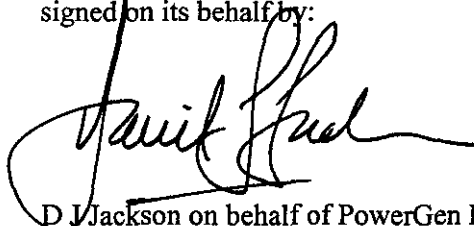
There is no difference between the profit/loss on ordinary activities before taxation and the retained profit/loss for the year stated above and their historical cost equivalents.

POWERGEN RETAIL GAS LIMITED
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BALANCE SHEET AS AT 2 JANUARY 2000

	Note	2000 £000	1999 £000
Fixed assets			
Tangible assets	8	71	97
Current assets			
Stock	9	-	167
Debtors: amounts falling due within one year	10	35,285	13,055
		<u>35,285</u>	<u>13,222</u>
Creditors: amounts falling due within one year	11	(23,672)	(11,575)
Net current assets		<u>11,613</u>	<u>1,647</u>
Net assets		<u>11,684</u>	<u>1,744</u>
Capital and reserves			
Called up share capital	12	3,000	3,000
Profit and loss account	13	8,684	(1,256)
Equity shareholders' funds	14	<u>11,684</u>	<u>1,744</u>

The financial statements on pages 5 to 11 were approved by the Board on 11 May 2000 and were signed on its behalf by:



D. I. Jackson on behalf of PowerGen Directors Limited as director
11 May 2000

POWERGEN RETAIL GAS LIMITED
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Notes to the financial statements
for the year ended 2 January 2000

1 Accounting policies

These financial statements are prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards which have been consistently applied. The Company is exempt from the requirement to produce consolidated financial statements as it is consolidated into the consolidated financial statements of PowerGen plc, a company registered in England and Wales.

(a) Tangible fixed assets

Tangible fixed assets are stated at their purchase cost less provision for depreciation. Provision for depreciation is calculated so as to write off the cost of tangible fixed assets less estimated residual value on a straight line basis over their useful economic lives. The estimated useful economic life used is five years.

(b) Stock

Stock is stated at the lower of cost and net realisable value.

(c) Deferred taxation

Deferred taxation arises in respect of items where there is a timing difference between their treatment for accounting purposes and their treatment for taxation purposes. Provision for deferred taxation using the liability method, is made to the extent that it is probable that a liability will crystallise in the foreseeable future.

(d) Cash flow statement

The Company is a wholly-owned subsidiary undertaking of PowerGen plc and is included in the consolidated financial statements of PowerGen plc, which are publicly available. Consequently, the Company has taken advantage of the exemption from preparing a cash flow statement under the terms of Financial Reporting Standard 1 (revised 1996).

(e) Related party transactions

The company is exempt under the terms of Financial Reporting Standard 8 from disclosing related party transactions with entities that are part of the PowerGen plc group or investees of the PowerGen plc group.

2 Turnover

Turnover, which excludes value added tax, represents the value of Natural Gas supplied. The majority of the Company's turnover, all of which arises in the course of the company's principal activity, arises in the United Kingdom.

POWERGEN RETAIL GAS LIMITED
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Notes to the financial statements
for the year ended 2 January 2000 (continued)

3 Net operating expenses

	Year ended 2 January 2000 £000	Period ended 3 January 1999 £000
Administrative expenses	<u>1,148</u>	<u>3,747</u>

4 Operating profit/loss

Operating profit/loss is stated after charging:

	Year ended 2 January 2000 £000	Period ended 3 January 1999 £000
Depreciation of tangible fixed assets	27	8
Software development costs written-off	211	2,867
Auditors' remuneration	<u>-</u>	<u>-</u>

5 Directors' emoluments and employees information

The directors and employees are remunerated by PowerGen Energy plc. They do not receive remuneration in respect of their services as directors and employees of PowerGen Retail Gas Limited and it is not practicable to allocate their remuneration for other services rendered.

6 Net interest payable

	Year ended 2 January 2000 £000	Period ended 3 January 1999 £000
Net interest payable to group undertakings	<u>36</u>	<u>93</u>

POWERGEN RETAIL GAS LIMITED
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Notes to the financial statements
for the year ended 2 January 2000 (continued)

7 Tax on profit on ordinary activities

	Year ended 2 January 2000	Period ended 3 January 1999
	£000	£000
UK Corporation Tax at 30.25 % (1999: 31%)	4,300	370
	<hr/> 4,300 <hr/>	<hr/> 370 <hr/>

8 Tangible fixed assets

	Fixtures fittings and computer equipment £000
Cost:	
At 3 January 1999	114
Additions	1
Disposals	-
At 2 January 2000	<hr/> 115 <hr/>
Depreciation:	
At 3 January 1999	17
Charge for the year	27
Disposals	-
At 2 January 2000	<hr/> 44 <hr/>
Net book value:	
At 2 January 2000	<hr/> 71 <hr/>
At 3 January 1999	<hr/> 97 <hr/>

9 Stock

	2 January 2000 £000	3 January 1999 £000
Gas for resale	<hr/> - <hr/>	<hr/> 167 <hr/>

POWERGEN RETAIL GAS LIMITED
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10 Debtors: amounts falling due within one year

	2 January 2000 £000	3 January 1999 £000
Trade debtors	25,871	11,751
Amounts owed by group undertakings	8,759	56
Other debtors	655	1,248
	<u>35,285</u>	<u>13,055</u>

Amounts owed by group undertakings are unsecured and interest free with no fixed repayment terms.

11 Creditors: amount falling due within one year

	2 January 2000 £000	3 January 1999 £000
Trade creditors	10,512	8,813
Amounts owed to group undertakings	13,160	2,392
Corporation tax	-	370
	<u>23,672</u>	<u>11,575</u>

Amounts owed to group undertakings are unsecured and interest free with no fixed repayment terms.

12 Share capital

	2 January 2000 £000	3 January 1999 £000
Authorised		
3,000,000 (1999: 3,000,000) ordinary shares of £1 each	<u>3,000</u>	<u>3,000</u>
Allotted, called up and fully paid		
3,000,000 (1999: 3,000,000) ordinary shares of £1 each	<u>3,000</u>	<u>3,000</u>

POWERGEN RETAIL GAS LIMITED
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Notes to the financial statements
for the year ended 2 January 2000 (continued)

13 Reserves

	Profit and Loss Account £000
At 3 January 1999	(1,256)
Retained profit for the financial year	9,940
At 2 January 2000	<u>8,684</u>

14 Reconciliation of movements in shareholders' funds

	2 January 2000 £000	3 January 1999 £000
Profit/(loss) for the financial year	9,940	(1,256)
Net proceeds of issue of ordinary share capital	-	2,999
Net addition to shareholders' funds	9,940	1,743
Opening shareholders' funds	1,744	1
Closing shareholders' funds	<u>11,684</u>	<u>1,744</u>

15 Ultimate parent undertaking and controlling party

The immediate parent undertaking is PowerGen Energy plc. The ultimate parent undertaking and controlling party is PowerGen plc, which is the parent company of the largest group to consolidate these financial statements. The smallest group to consolidate these financial statements is that of which PowerGen Energy plc is the parent undertaking. 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 1SL