

**AQUILA STERLING LIMITED**  
**REPORT AND FINANCIAL STATEMENTS**  
**for the year ended 31 December 2004**



**Registered No: 4391954**

## **AQUILA STERLING LIMITED**

### **Report of the directors for the year ended 31 December 2004**

The directors present their report and the audited financial statements of the Company for the year ended 31 December 2004.

#### **Principal activities, review of business and future developments**

The Company's principal activity during the year and at the year end was that of a holding company and it is expected to continue as such in the future.

#### **Results and dividends**

The Company's profit for the financial year is £nil (2003: £3,900,000 loss). The directors do not recommend the payment of a dividend (2003: £nil).

#### **Directors and their interests**

The directors who held office during the year and subsequent to the year end are given below:

|               |  |
|---------------|--|
| D G Bacon     | (resigned 16 January 2004)                         |
| M T Clark     | (resigned 16 January 2004)                         |
| K G Stamm     | (alternate to D G Bacon, resigned 16 January 2004) |
| G J Bartlett  | (appointed 16 January 2004)                        |
| P Bridgewater | (appointed 16 January 2004)                        |
| P Golby       | (appointed 16 January 2004)                        |
| R Taylor      | (appointed 16 January 2004)                        |

During the year, no director had an interest in the shares of the Company. At 31 December 2003 and 31 December 2004, no director had any interest requiring disclosure.

#### **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. The directors confirm that they have fulfilled their responsibilities.

## **AQUILA STERLING LIMITED**

### **Report of the directors for the year ended 31 December 2004 (continued)**

#### **Auditors**

KPMG resigned and PricewaterhouseCoopers LLP were appointed auditors of the Company on 16 April 2004. On 15 March 2002, the Company passed an elective resolution dispensing with the requirement to appoint auditors annually. Therefore, PricewaterhouseCoopers LLP will continue in office.

BY ORDER OF THE BOARD

A handwritten signature in black ink, appearing to read 'P Bridgewater', with a large, stylized loop at the end.

Peter Bridgewater  
Director  
Aquila Sterling Limited  
Westwood Way  
Westwood Business Park  
Coventry  
CV4 8LG

28 October 2005

## **AQUILA STERLING LIMITED**

### **Independent auditors' report to the members of Aquila Sterling Limited**

We have audited the financial statements which comprise the profit and loss account, the balance sheet and the related notes.

#### **Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and Accounting Standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or in to whose hands it may come save where expressly agreed by our prior consent in writing.

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 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. The other information comprises only the directors' report.

#### **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 31 December 2004 and of its result for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



**PricewaterhouseCoopers LLP**

Chartered Accountants and Registered Auditors  
Birmingham

31 October 2005

**AQUILA STERLING LIMITED**  
**PROFIT AND LOSS ACCOUNT**  
**FOR THE YEAR ENDED 31 DECEMBER 2004**

|  | Note | Year ended<br>31 December<br>2004<br>£'000 | Year ended<br>31 December<br>2003<br>£'000 |
|--|------|--|--|
| Amounts written off investments                              | 2    | -  | (3,900)                                    |
| <b>Profit/ (loss) on ordinary activities before taxation</b> | 3    | -  | (3,900)                                    |
| Tax on loss on ordinary activities                           | 4    | -  | -  |
| <b>Profit/ (loss) for the financial year</b>                 | 7    | -  | (3,900)                                    |

There are no material differences between the profit/(loss) on ordinary activities before taxation and the retained profit/(loss) for either of the years stated above and their historical cost equivalents.

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.

All the above amounts relate to continuing operations.

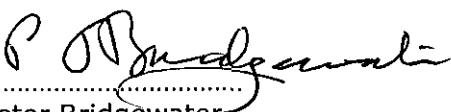
The accounting policies and the notes on pages 6 to 9 form part of these financial statements.

# AQUILA STERLING LIMITED

## BALANCE SHEET AS AT 31 DECEMBER 2004

|  | Note | At<br>31 December<br>2004<br>£'000 | At<br>31 December<br>2003<br>£'000 |
|--|------|------------------------------------|------------------------------------|
| <b>Fixed assets</b>                          |      |                                    |                                    |
| Investments                                  | 5    | <b>176,000</b>                     | 36,000                             |
| <b>Current assets</b>                        |      |                                    |                                    |
| Cash at bank and in hand                     |      | <b>10</b>                          | 10                                 |
| <b>Total assets less current liabilities</b> |      | <b>176,010</b>                     | 36,010                             |
| <b>Net assets</b>                            |      | <b>176,010</b>                     | 36,010                             |
| <b>Capital and reserves</b>                  |      |                                    |                                    |
| Called-up share capital                      | 6    | <b>49</b>                          | 10                                 |
| Share premium account                        | 7    | <b>336,101</b>                     | 196,140                            |
| Profit and loss reserve                      | 7    | <b>(160,140)</b>                   | (160,140)                          |
| <b>Equity shareholders' funds</b>            | 8    | <b>176,010</b>                     | 36,010                             |

The financial statements on pages 4 to 9 were approved by the Board of Directors on 28 October 2005 and were signed on its behalf by:

  
 .....  
 Peter Bridgewater  
 Director

28 October 2005

The accounting policies and the notes on pages 6 to 9 form part of these financial statements.

# **AQUILA STERLING LIMITED**

## **Notes to the financial statements** **for the year ended 31 December 2004**

### **1 Accounting policies**

These financial statements are prepared on the going concern basis, under the historical cost convention, in accordance with the Companies Act 1985 and applicable United Kingdom accounting standards, all of which have been consistently applied. The Company is exempt from the requirement to produce consolidated financial statements as it is included in the consolidated financial statements of E.ON AG, a company registered in Germany. The principal accounting policies are set out below.

#### **(a) Fixed asset investments**

Fixed asset investments are stated at original cost plus subsequent loans advanced or amounts invested. Provision is made for any impairment in the value of investments.

#### **(b) Taxation**

The tax charge for the year is based on the profits or losses on ordinary activities for the year and takes into account full provision for deferred tax in respect of timing differences on a discounted basis, using the approach set out in Financial Reporting Standard 19 'Deferred tax' (FRS 19).

#### **(c) Cash flow statement**

The Company is a wholly-owned subsidiary undertaking of E.ON AG, the ultimate parent undertaking of the E.ON Group, and is included in the publicly available consolidated financial statements of E.ON AG. 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).

#### **(d) Related party transactions**

The Company is exempt under the terms of Financial Reporting Standard 8 from disclosing related party transactions with E.ON AG, its subsidiaries and associates (together "the E.ON Group") or investees of the E.ON Group.

### **2 Amounts written off investments**

For the year ended 31 December 2003, the company's investment in Avon Energy Partners Holdings was impaired and written down to reflect the Directors' view that the net assets should equal the amount received from the sale by Aquila Inc. and First Energy Corp. of their interest in Aquila Sterling Limited to E.ON AG on 15 January 2004. This resulted in a charge of £3.9m to the Profit and Loss account.

## **AQUILA STERLING LIMITED**

### **Notes to the financial statements** **for the year ended 31 December 2004 (continued)**

#### **3 Profit/ (loss) on ordinary activities before taxation**

All administration costs were borne by parent undertaking E.ON UK plc and not recharged.

The directors received no emoluments from the Company during the year (2003: £nil).

Auditors' remuneration is borne by the parent undertaking E.ON UK plc and not recharged.

There were no employees during the year (2003: nil).

#### **4 Tax on profit/(loss) on ordinary activities**

The Company had no current tax charge for either this or the prior year. The prior year loss before tax of £3.9m resulted in no corporation tax credit as the expenses were not subject to tax. There was no provided or unprovided deferred tax at 31 December 2004 or 31 December 2003.

#### **5 Fixed asset investments**

|                            | <b>Shares at<br/>cost</b> | <b>Provision<br/>for<br/>impairment</b> | <b>Net Book<br/>Value</b> |
|----------------------------|---------------------------|---|---------------------------|
|                            | <b>£'000</b>              | <b>£'000</b>                            | <b>£'000</b>              |
| At 31 December 2003        | 196,200                   | (160,200)                               | 36,000                    |
| Additions                  | 140,000                   | -                                       | 140,000                   |
| <b>At 31 December 2004</b> | <b>336,200</b>            | <b>(160,200)</b>                        | <b>176,000</b>            |

Aquila Sterling Limited owns 100% of the share capital of Avon Energy Partners Holdings, a holding company incorporated in Great Britain.

On 30 April 2004 Aquila Sterling Limited acquired an additional 875,000,000 ordinary shares in Avon Energy Partners Holdings at par value for a consideration of £140,000,000.



**AQUILA STERLING LIMITED****Notes to the financial statements**  
**for the year ended 31 December 2004 (continued)****6 Share capital****Authorised ordinary shares of one pence each**

|                                      | <b>Number</b>     | <b>Nominal value<br/>£</b> |
|--------------------------------------|-------------------|----------------------------|
| At 31 December 2003                  | 1,000,000         | 10,000                     |
| Increase in authorised share capital | 9,000,000         | 90,000                     |
| <b>At 31 December 2004</b>           | <b>10,000,000</b> | <b>100,000</b>             |

**Allotted, called-up and fully paid ordinary shares of one pence each**

|                               | <b>Number</b>    | <b>Nominal value<br/>£</b> |
|-------------------------------|------------------|----------------------------|
| At 31 December 2003           | 1,000,000        | 10,000                     |
| Shares issued during the year | 3,888,889        | 38,889                     |
| <b>At 31 December 2004</b>    | <b>4,888,889</b> | <b>48,889</b>              |

On 30 April 2004, the authorised share capital of the Company was increased from £10,000 to £100,000 by the creation of an additional 9,000,000 ordinary shares of £0.01 each, to rank pari passu with the existing ordinary shares.

On 30 April 2004, 3,888,889 ordinary shares of £0.01 in the Company were issued to EME Distribution No. 2 Limited at a premium of £35.99 per share.

**7 Reserves**

|                                   | <b>Share<br/>premium<br/>account<br/>£'000</b> | <b>Profit and<br/>loss<br/>reserve<br/>£'000</b> |
|-----------------------------------|--|--|
| At 31 December 2003               | <b>196,140</b>                                 | <b>(160,140)</b>                                 |
| Premium on shares issued (note 6) | <b>139,961</b>                                 | <b>-</b>   |
| <b>At 31 December 2004</b>        | <b>336,101</b>                                 | <b>(160,140)</b>                                 |

## **AQUILA STERLING LIMITED**

### **Notes to the financial statements** **for the year ended 31 December 2004 (continued)**

#### **8 Reconciliation of movements in shareholders' funds**

|   | <b>31<br/>December<br/>2004<br/>£'000</b> | <b>31<br/>December<br/>2003<br/>£'000</b> |
|---|---|---|
| Profit/ (loss) for the financial year                           | -   | (3,900)                                   |
| Net proceeds of issue of ordinary<br>share capital (see note 6) | <b>140,000</b>                            | -   |
| Net addition to/(reduction in)<br>shareholders' funds           | <b>140,000</b>                            | (3,900)                                   |
| Opening shareholders' funds                                     | <b>36,010</b>                             | 39,910                                    |
| Closing shareholders' funds                                     | <b>176,010</b>                            | 36,010                                    |

#### **9 Ultimate parent undertaking and controlling party**

The immediate parent undertaking is EME Distribution No. 2 Limited. The ultimate parent undertaking and controlling party is E.ON AG, a company incorporated in Germany, 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 E.ON UK plc, the principal UK trading subsidiary of E.ON AG, is the parent undertaking. Copies of E.ON AG's accounts are available from the offices of E.ON AG at the following address:

E.ON AG  
E.ON-Platz 1  
D-40479  
Düsseldorf  
Germany