Killingholme Power Group Limited

Annual report

for the year ended 25 March 2004

Registered Number 04498075

Killingholme Power Group Limited

Annual report
for the period ended 25 March 2004

Contents

Killingholme Power Group Limited

Directors' report for the year ended 25 March 2004

The directors present their report and the audited financial statements of the company for the year ended 25 March 2004.

Principal activities and review of the business

The principal activity of the company is the merchant generation and sale of electricity allied with the sale of gas.

In its first full year since refinancing the group has exceeded its original forecast levels of underlying profitability aided by a modest recovery in electricity markets from recent lows. Following gas market price increases the group has successfully marketed and completed the assignment of one of its gas contracts at a value considerably in excess of the estimates of value made at the time of its refinancing forecasts.

The group successfully completed a series of major maintenance programs on all its power plant turbines in the financial year.

The recovery in the electricity market, availability of an additional gas contract, high levels of cash retention in the business and favourable financing together with continued lender / shareholder support all led to increased stability in the business. There have been no breaches of the lending covenants and none are forecast and the company has the full support of its lenders / shareholders.

On 25 March 2004 Killingholme Power Limited ("KPL") sold one of its gas contracts for £118,000,000 thereby realising a profit of £73,897,000.

Events since the balance sheet date

After the balance sheet date the group repaid £105,000,000 of external bank debt out of the proceeds from the sale of one of the KPL gas contracts.

On 7 June 2004 KPL unconditionally exchanged contracts to sell its generating assets for £142,000,000 and its remaining gas contract and trading book for £14,000,000. This contract completed on 1 July 2004.

The asset sales on 25 March 2004 and 7 June 2004 have crystallised a tax liability of approximately £10,300,000 together with employee bonuses and other professional fees of approximately £19,000,000.

Following these transactions the group ceased to carry on any trading activities and the directors have commenced the process of winding up the group by way of a Members Voluntary Liquidation, consequently these accounts are not prepared on the going concern basis. The financial statements for the previous accounting period ended 25 March 2003 made full provision for all liabilities arising from the decision to wind up the group including all estimated tax liabilities, employee bonuses and other professional expenses referred to above. In addition the costs of winding up the group, which are estimated to be £2,000,000, were fully provided for. Assets have not been written up to reflect values realised subsequent to the year end. Based on current financial projections the directors anticipate that the winding up process will result in the full repayment of all creditors including subordinated debt providers. However, if there was any shortfall in cash realisations this would be borne by the subordinated debt holders. The total subordinated debt at the date of approval of these accounts was £65,996,000.

Killingholme Power Group Limited

Results and dividends
The result for the year is set out in the profit and loss account on page 5. The directors do not recommend the payment of a dividend.

Prompt payment policy
The company complied with the Confederation of British Industry (CBI) Prompt Payment Code for all suppliers. Information about the code may be obtained from the CBI.

It is the group's policy to settle trade creditors weekly on 28 day terms.

Directors and their interests
The directors who held office during the year are given below:

John Mapplebeck	
David MacMillan	
Colin Campbell	Appointed 12 September 2003, resigned 1 July 2004
Allan Hawkins	Appointed 12 September 2003, resigned 1 July 2004
Stuart Jackson	Resigned 28 March 2003

Colin Campbell has the option to purchase 750 'B' Ordinary shares, and Allan Hawkins has the option to purchase 500 'B' Ordinary shares in Killingholme Power Group Limited.

Employees
The senior management team is committed to the continuous development of staff at all levels of the organisation, and the company has been accredited with 'Investors in People' (IiP) status. The process and practices that have been introduced to achieve the IiP standard are regularly reviewed and improved to allow the business and employees to gain the maximum benefit, and staff are encouraged to maintain personal development plans.

Equal opportunities
The company operates an Equal Opportunities Policy providing employees with the chance to share equally in opportunities for training, career development and promotion.

Charitable and political donations
The company made no charitable or political donations during the year (2003 £Nil).

Statement of directors' responsibilities
Company law requires the directors to prepare financial statements for each financial that give a true and fair view of the state of affairs of the company and of the group and of the profit or loss of the group for that period. The directors are required to prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company and group will continue in business.

The directors confirm that suitable accounting policies have been used and applied consistently. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 25 March 2004 and that applicable accounting standards have been followed.

Killingholme Power Group Limited

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and group 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.

Auditors
The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office, and a resolution concerning their reappointment will be proposed at the Annual General Meeting.

By order of the Board

Director

9/7/04

Auditors' report to the members of Killingholme Power Group Limited

We have audited the financial statements which comprise the profit and loss account, the balance sheets, the cash flow statement, the statement of total recognised gains and losses, the statement of accounting policies 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 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.

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 affairs of the company and the group at 25 March 2004 and of the profit and cash flows of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Hull

12 July 2004

Killingholme Power Group Limited

Consolidated profit and loss account for the year ended 25 March 2004

	Note	2004 £'000	2003 (2 months) £'000
Turnover	1	**164,043**	21,857
Cost of sales		**(132,588)**	(16,188)
Gross profit		**31,455**	5,669
Distribution expenses		**(6,450)**	(904)
Administrative expenses - normal		**(28,798)**	(3,816)
- exceptional		**(1,826)**	(73,995)
Operating (loss)	2	**(5,619)**	(73,046)
Profit on disposal of gas contract	8	**73,897**	-
Profit/(loss) before interest and taxation		**68,278**	(73,046)
Net interest payable	5	**(15,180)**	(2,423)
Profit/(loss) on ordinary activities before taxation		**53,098**	(75,469)
Taxation	6	**-**	(10,300)
Profit/(loss) for the year	18	**53,098**	(85,769)

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

All amounts relate to discontinued operations.

Killingholme Power Group Limited

Balance sheets as at 25 March 2004

	Note	Group 2004 £'000	Company 2004 £'000	Group 2003 £'000	Company 2003 £'000
Current assets					
Intangible assets	8	**5,195**	-	58,528	-
Tangible assets	9	**124,435**	-	122,061	-
Investments	10	-	-	-	-
Stocks	11	**3,595**	-	4,428	-
Debtors	12	**11,898**	-	11,648	-
Cash at bank and in hand		**153,680**	-	19,233	-
		298,803	-	215,898	
Creditors – amounts falling due within one year	13	**(331,474)**	-	(301,667)	-
Net current liabilities		**(32,671)**	-	(85,769)	-
Capital and reserves					
Called up share capital	17	-	-	-	-
Profit and loss account	18	**(32,671)**	-	(85,769)	-
Equity shareholders' funds	19	**(32,671)**	-	(85,769)	-

The financial statements on pages 5 to 24 were approved by the board of directors on and were signed on its behalf by:

J Mapplebeck
Director

9/7/04

Consolidated cash flow statement for the year ended 25 March 2004

	Note	2004 £'000	2004 £'000	2003 £'000	2003 £'000
Net cash inflow from operating activities	20		**21,514**		8,541
Returns on investment and servicing of finance					
Interest received		**542**		552	
Interest paid		**(31,626)**		(2,975)	
Net cash (outflow) from returns on investments and servicing of finance			**(31,084)**		(2,423)
Taxation			**(79)**		56
Capital expenditure and financial investment					
Purchase of tangible fixed assets		**(10,294)**		(5,039)	
Fixed asset disposals		**118,500**		-	
Net cash inflow/(outflow) from capital expenditure and financial investment			**108,206**		(5,039)
Acquisitions and disposals					
Net cash acquired with subsidiary		**-**		18,098	
Net cash inflow from acquisitions			**-**		18,098
Cash inflow before use of liquid resources and financing			**98,557**		19,233
Financing					
Issue of share capital		**-**		-	
New bank loans		**35,890**		-	
Net cash inflow from financing			**35,890**		-
Increase in net cash	21		**134,447**		19,233

Accounting policies

Basis of preparation of accounts
The accounts have been prepared under the historical cost convention and in accordance with applicable accounting standards.

No separate profit and loss account is presented for the company as permitted by Section 230 of the Companies Act 1985.

Basis of consolidation
The consolidated profit and loss account and balance sheet include the financial statements of the company and its subsidiary undertakings up to 25 March 2004. Intra group sales, profits and balances are eliminated on consolidation. The results of the subsidiary undertakings are consolidated from the date of acquisition.

Details of the principal subsidiary undertakings are shown in note 10 to the accounts.

Going concern
The company is owned by a consortium of banks that also provide a range of facilities to the group. These facilities were the subject of a refinancing during the year as summarised in note 14 and amount to £260,100,000 at the balance sheet date, comprising £190,000,000 of term debt and £70,100,000 of subordinated debt including accrued interest.

As described in more detail in note 25 the group has since the year end completed the disposal of substantially all of its trading assets including the generating assets and gas supply contracts for a total consideration of approximately £274,000,000 (including the gas sale recognised in these accounts), before disposal costs, associated tax liabilities and other costs associated with the disposal process.

As a result, the directors have commenced the process of winding up the company and its subsidiaries by way of a members voluntary liquidation and consequently these accounts have not been prepared on the going concern basis. No adjustments are required to reduce assets to their recoverable amounts, the proceeds of disposal being above net book value. Provision has been made for the estimated liabilities of the winding up process including certain liabilities connected with the asset disposals (note 25). Certain assets have been reclassified as current assets where they have been realised prior to the approval of these financial statements but they have not been written up to reflect realised values. All liabilities have been classified as falling due within one year.

Based on current financial projections the directors anticipate that the winding up process will result in the full repayment of all creditors including subordinated debt holders. Any shortfall in cash realisations will be borne by the subordinated debt holders.

Turnover
Turnover comprises primarily sales to the electricity trading market in England and Wales of electricity generated by the company, together with sales of the company's contract gas to the gas trading market.

Pension costs
Pension contributions are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives. The regular cost is attributed to individual years using the projected unit credit method. Variations in pension costs, which are identified as a result of actuarial valuations, are amortised over the average expected remaining working lives of employees. Differences between the amounts funded and the amounts charged to the profit and loss account are treated as either provisions or prepayments in the balance sheet.

Foreign currencies
Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the profit and loss account.

Derivative instruments
The company uses interest rate swaps to hedge its exposure to fluctuations in interest rates. Amounts payable or receivable in respect of interest rate derivatives are recognised on an accruals basis over the life of the instrument. Interest rate swaps are not revalued to fair value, or shown on the balance sheet at the year end.

Tangible fixed assets
Tangible fixed assets are stated at cost less accumulated depreciation. Assets in the course of construction are included in tangible fixed assets on the basis of expenditure incurred at the balance sheet date.

Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over its expected useful life, as follows:

Original generation plant	- 30 years
Non-operational buildings	- 30 years
Fixtures, fittings, tools and equipment	- 5 years
Computer equipment and software	- 3-5 years
Hot gas path turbine blades and vanes	- 5 years

Freehold land is not depreciated.

Gas Contracts
Gas contracts are recorded on acquisition at cost. The gas supply contracts are amortised over the life of the contracts in line with forecast annual gas volumes.

Goodwill
Goodwill arising on the acquisition of subsidiaries and other purchased goodwill is capitalised at cost and amortised on a straight line basis over its estimated useful economic life. The estimated useful economic life is calculated having regard to the period over which the group expects to derive economic benefits from the assets.

Investments
Investments are shown at historic cost less any provision for impairment in value.

Stocks
Operating stocks of consumables and stores are valued at the lower of cost and net realisable value. These are included as current assets. The company maintains a provision for obsolete stock.

Taxation
Provision is made for deferred taxation, using the liability method, on all material timing differences which are expected to reverse in the future. Deferred tax assets that arise as a result of timing differences are recognised when their future recovery is assessed as being more likely than not. Provision is made at the rate of tax which is expected to be applied when the liability or asset is expected to crystallise. Deferred tax assets and liabilities are not subject to discounting.

Notes to the financial statements for the year ended 25 March 2004

1 Analysis of turnover and loss before taxation

All turnover relates to the principal activity of the group within the United Kingdom.

2 Operating (loss)

	Group 2004 £'000	Group 2003 (2 months) £'000
Operating (loss) is stated after charging/(crediting):		
Depreciation		
- owned assets	7,920	808
Amortisation of gas supply contracts	8,687	1,472
Auditors' remuneration – audit fees and expenses:		
- parent company	5	5
- Group	67	25
Auditors' remuneration – non audit fees - Group	130	9
Exceptional Items:		
Goodwill impairment	-	53,220
Employee bonuses and other professional costs of asset disposals (note 25)	-	18,900
Estimated restructuring and winding up costs	1,826	1,875

3 Directors' emoluments

Parent company directors	2004 £'000	2003 (2 months) £'000
Directors' emoluments	595	147
Compensation for loss of office	-	20
Pension contributions	12	2
	607	169
Highest paid director		
Aggregate emoluments	241	88

Aggregate emoluments of the highest paid director include £Nil (2003:£2,100) in respect of pension contributions.

Retirement benefits are accruing to no directors under the defined benefit scheme.

4 Employee information

Average number employed by the group including executive directors	Group 2004 £'000	Group (2 months) 2003 £'000
Operations	**19**	19
Maintenance	**20**	20
Business services	**24**	25
	63	64

	Group 2004 £'000	Group 2003 (2 months) £'000
Wages and salaries	**3,259**	406
Social security costs	**321**	58
Other pension costs	**405**	50
	3,985	514

5 Interest payable and similar charges

	Group 2004 £'000	Group 2003 £'000
Interest payable and similar charges		
Interest rate swap fees	**4,164**	(1,099)
Bank loans	**(15,802)**	(1,806)
Amortisation of finance costs	**(4,084)**	(70)
	(15,722)	(2,975)
Interest receivable		
Bank interest	**542**	552
Net interest payable	**(15,180)**	(2,423)

Bank loan interest including interest accrued on subordinated debt of £4,114,000.

6 Taxation

	2004 £'000	2003 £'000
Taxation on the profit for the year		
Corporation tax	-	10,300
Adjustments in respect of prior periods:		
Corporation tax	-	-
	-	10,300
Factors affecting tax charge for the year		
Profit /loss on ordinary activities before tax	**53,098**	(75,469)
Profit/ loss on ordinary activities before tax at 30%	**15,929**	(22,641)
Adjustment to reflect the tax liability on disposal of operations	**(15,929)**	32,941
Current year corporation tax charge	-	10,300

The entire amount of taxation which the group is anticipated to incur up to the MVL process has been reflected in the financial statements for the previous accounting period ended 25 March 2003. This included tax arising on sale proceeds received not reflected within those accounts.

7 Company result for the year

As permitted by section 230 of the Companies Act 1985, the company's profit and loss account has not been included in these financial statements. The company did not trade and consequently made neither a profit nor a loss during the year.

8 Intangible assets - Group

Group	Goodwill	Gas Contracts	Total
	£'000	£'000	£'000
Cost			
At 25 March 2003	53,220	60,000	113,220
Disposal	-	(51,168)	(51,168)
At 25 March 2004	**53,220**	**8,832**	**62,052**
Depreciation			
At 25 March 2003	53,220	1,472	54,692
Charge for the year	-	8,687	8,687
Appropriated on disposal	-	(6,522)	(6,522)
At 25 March 2004	**53,220**	**3,637**	**56,857**
Net book amount			
At 25 March 2004	-	**5,195**	**5,195**
At 25 March 2003	-	58,528	58,258

On 25 March 2004 Killingholme Power Limited disposed of one of its gas contracts for total consideration of £118,000,000. Subsequent to the year end the remaining gas contract was disposed of for an amount in excess of its book value (note 25).

9 Tangible assets - Group

Group	Freehold land and buildings	Generation Plant and Machinery	Capitalised Blades and Vanes	Blades and Vanes not in Machines	Assets under Construction	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Cost						
At 25 March 2003	21,496	92,261	3,167	1,648	4,297	122,869
Additions	-	448	-	2,971	10,015	13,434
Transfers	-	63	14,227	(3,140)	(14,290)	(3,140)
At 25 March 2004	**21,496**	**92,772**	**17,394**	**1,479**	**22**	**133,163**
Depreciation						
At 25 March 2003	157	549	102	-	-	808
Charge for the year	1,048	4,776	2,096	-	-	7,920
At 25 March 2004	**1,205**	**5,325**	**2,198**	-	-	**8,728**
Net book amount						
At 25 March 2004	**20,291**	**87,447**	**15,196**	**1,479**	**22**	**124,435**
At 25 March 2003	21,339	91,712	3,065	1,648	4,297	122,061

Freehold land, at a cost of £17,000 has not been depreciated.

The category generation plant and machinery includes fixtures and fittings, tools and equipment, computer equipment and software, which are separately not material.

The directors have evaluated the need to provide for future de-commissioning costs that may be necessary at the end of the plant's useful economic life but do not consider that any provision should be recognised at the current time as any amount would be immaterial. In addition the depreciation on the plant assumes no residual value.

Subsequent to the year end the power station assets were sold for an amount in excess of book value (note 25).

10 Investments - company

	Subsidiary undertakings £'000
Cost	
At 25 March 2003	-
Additions	-
At 25 March 2004	-

The following companies are the principal subsidiaries of Killingholme Power Group Limited, which directly or indirectly owns all of their issued ordinary share capital.

	Country of incorporation	Nature of business
Killingholme Generation Limited (indirectly held)	England	Investment holding and financing company
Killingholme Holdings Limited	England	Investment holding and financing company
Killingholme Power Limited (indirectly held)	England	Generation and sale of electricity
Killingholme Pensions Limited	England	Pension trustee company
Sterling Luxembourg No.3 S.A.R.L.	Luxembourg	Financing company

In the opinion of the directors the value of the investment in subsidiary undertakings is not less than the aggregate amount at which it is stated in the balance sheet.

11 Stocks

	Group 2004 £'000	Group 2003 £'000
Plant spares	3,534	4,380
Consumable spares	61	48
	3,595	4,428

12 Debtors – amounts falling due within one year

	Group 2004 £'000	Group 2003 (£'000
Trade debtors	9,947	6,004
Prepayments and accrued income	1,951	5,644
	11,898	11,648

13 Creditors – amounts falling due within one year

	Group 2004 £'000	Group 2003 £'000
Bank loans (secured)	**260,611**	220,640
Trade creditors	**10,377**	8,697
Corporation tax	**10,250**	10,329
Other tax and social security	**20,586**	1,171
Other creditors	3	60
Accruals and deferred income	**29,047**	60,170
Pension liability (note 24)	**600**	600
	331,474	301,667

As described in note 25 these accounts are not prepared on the going concern basis and as a consequence all creditors are classified as falling due within one year.

14 Loans and other borrowings

	Group 2004 £'000	Group 2003 £'000
Bank Loans		
Gross balance outstanding	**260,110**	224,720
Arrangement fees	**(4,853)**	(4,853)
Amortisation of finance costs	**4,853**	773
	260,110	220,640
Maturity of debt		
Within one year	**260,110**	224,720
	260,110	224,720
The analysis of the cost of arranging the loan facility is as follows:		
Costs of arranging loan facility	**4,853**	4,853
Less: Amortisation of costs of arranging loan facility	**(4,853)**	(773)
Net costs of arranging loan facility	-	4,080
The amortisation period of the costs of arranging the facility is as		
Within one year	-	4,080
Net costs of arranging loan facility	-	4,080

On 26 March 2003 the directors of Killingholme Power Group Limited completed negotiations with the syndicate of banks to refinance the borrowings of the new group. The principal terms of the refinancing were that £33,720,000 of bank loans in Sterlux together with accrued interest (which amounted to £7,375,000), were novated to KHL. Existing interest rate swaps entered into by KGL were terminated at a cost of £24,995,000 which was financed by new borrowings in KHL. The aggregate debt arising in KHL as a consequence of these transactions has been designated as subordinated debt.

This new subordinated debt in KHL of £65,996,000 plus accrued interest is repayable in 2019 in certain circumstances and is unsecured. The loan is interest free until 1 January 2006 and thereafter interest is rolled up at a rate of LIBOR+4% payable on the final maturity date. Interest has been accrued so as to spread the total interest charge over the period of the loan to its final maturity date. The subordinated debt ranks behind all other creditors in the event of a winding up.

The other bank loan comprises a secured loan amounting to £190,000,000 bearing interest at LIBOR +1.39% and repayable at various dates between 2001 and 2019. The loan is secured on the assets of KPL. Loan arrangement fees of £4,853,000 have been deducted from the carrying value of the instalment loan and were being amortised over the term of the loan in accordance with FRS 4 - "Capital Instruments". As indicated in note 25 a significant portion of the bank debt has been repaid since the year end and consequently, the arrangement fees have been fully amortised in these accounts.

Short term bank loans consist of a loan of £500,000 bearing interest floating with LIBOR. The loan is repayable in full within one year. The shares in KPL are held as security against this bank loan

15 Provisions for liabilities and charges

	Group Deferred taxation £'000
At 25 March 2003	-
Profit and loss account	-
At 25 March 2004	-

16 Deferred taxation

	Group 2004 Provision made £'000	**Group 2004 Full potential liability £'000**	Group 2003 Provision made £'000	Group 2003 Full potential liability £'000
Accelerated capital allowances	-	-	-	-

No deferred tax has been provided for, as the accounts are prepared on a break up basis and include full provision for all estimated tax liabilities including those related to future asset disposals (note 25).

17 Called up share capital

	Company and Group 2004 £'000
Authorised	
8750 'A' Ordinary shares of £0.01 each	-
1250 'B' Ordinary shares of £0.01 each	-
Allotted and fully paid	
8737 'A' ordinary shares of £0.01 each	-

On 29 July 2002 1 ordinary share of £1 was issued at par on incorporation. On 31 January 2003 38 further ordinary shares of £1 each were issued at par. All issued ordinary shares were sub divided and converted into 'A' ordinary shares of £0.01 each, by written resolution on 26 March 2003.

'A' ordinary shares

The 'A' ordinary shares shall confer on the holders one vote for every share held.

'B' ordinary shares

The 'B' ordinary shares shall not confer on the holders the right to attend, speak or vote at any General Meeting of the company. In the event of a winding up, the holders of the "B" ordinary shares shall be entitled to participate equally with the holders of the "A" ordinary shares in the residue, if any, of the surplus assets of the company. The 'B' ordinary shares confer the same dividend rights as the 'A' ordinary shares.

18 Reserves

	Profit and loss	
	Group £'000	**Company £'000**
At 25 March 2003	(85,769)	-
Profit for the year	53,098	-
At 25 March 2004	**(32,671)**	-

19 Reconciliation of movements in shareholders' funds

	Group 2004 £'000	Company 2004 £'000	Group 2003 £'000	Company 2003 £'000
Opening shareholders' funds	**(85,769)**	-	-	-
Profit / (loss) for the financial period	**53,098**	-	(85,769)	-
Closing shareholders' funds	**(32,671)**	-	(85,769)	-

20 Reconciliation of operating profit to net cash inflow from operating activities

	2004 £'000	2003 £'000
Operating (loss)	**(5,619)**	(73,046)
Depreciation charge	**7,920**	808
Amortisation of goodwill and intangible assets	**8,687**	54,692
Decrease/(increase) in stocks	**833**	(86)
(Increase)/decrease in debtors	**(250)**	(1,173)
Increase in creditors	**9,943**	27,346
Net cash inflow from operating activities	**21,514**	8,541

21 Reconciliation of net cash flow to movement in net debt

	2003 £'000
Increase in cash	**134,447**
Cash (outflow) from increase in debt	**(35,890)**
Movement in net debt in the year	**98,557**
Net debt at 25 March 2003	**(205,487)**
Net debt at 25 March 2004	**(106,930)**

22 Analysis of net debt

	At 25 March 2003	Cash Flows	**At 25 March 2004**
	£'000	£'000	**£'000**
Cash at bank and in hand	19,233	134,447	**153,680**
Debt due after 1 year	(224,720)	(35,890)	**(260,610)**
	(224,720)	(35,890)	**(260,610)**
Total	(205,487)	98,557	**(106,930)**

The debt analysed above excludes the costs incurred in arranging the loan facility.

23 Capital commitments

Lease and capital commitments
At 25 March 2004 the group had capital commitments of £425,000.

At 25 March 2004 the company had annual commitments under non-cancellable operating leases expiring within:

	2004		2003	
	Land and buildings £	**Other £**	Land and buildings £	Other £
One year	**12,787**	**-**	-	-
Two to five years	**-**	**13,199**	-	13,199
	12,787	**13,199**	-	13,199

Other contractual commitments
At 25 March 2004, the estimated annual minimum commitment for the supply of gas was £14.1 million for a contract expiring in 2005.

24 Pensions

The group operates a pension scheme through its principal operating subsidiary, Killingholme Power Limited. The Killingholme Power Pension Plan (the Plan) is a funded pension scheme providing benefits primarily based on final pensionable salary. The Plan is contracted-out of the State Earnings Related Pension Scheme and is open to new entrants. The assets of the Scheme are held separately from those of the company, in a trustee administered fund. Employees are required to contribute to the Scheme (the standard employee contribution rate is 6% of pensionable salary).

The Plan was established on 31 March 2001 and a formal actuarial valuation was been undertaken as at 31 December 2001. The pension cost in respect of defined benefit obligations is assessed in accordance with the advice of a qualified actuary. The most recent actuarial calculation of the pension cost for the Scheme was at 31 December 2001, this was updated to 30 January 2003 for the purposes of acquisition accounting.

At 31 December 2001, the market value of the assets was approximately £1.6 million and the actuarial value of those assets represented 102% of the value of benefits that had accrued to members including allowance for future salary increases.

These calculations were based on Projected Unit Credit Method of calculation. The assumptions which have the most significant effect on the results are those relating to the return on investments and the rates of increase in salaries and pensions. It was assumed that the investment return would be 8% per annum, that salary increases would be 4% per annum, and that increases of 2.5% per annum would apply to the pensions in deferment and 2.25% per annum on pensions in payment (except on Guaranteed Minimum Pensions).

The company is currently contributing 15% of pensionable salaries to meet the expected costs of accruing benefits.

The total pension cost for the company over the period was £405,000 (2003 3 months £49,000). At the year end the balance sheet included a pension liability of £600,000 in respect of the estimated deficit in the scheme at the date of acquisition.

FRS17 Retirement Benefits disclosures

The valuation of the group scheme used for FRS17 disclosures has been based on the most recent actuarial valuation at 31 December 2001 updated on an interim basis to 25 March 2004 to take account of the requirements of FRS17 in order to assess the liabilities of the group scheme at 25 March 2004. Scheme assets are stated at their market value at 25 March 2004.

The financial assumptions used to calculate the scheme liabilities under FRS17 are:

		2004	2003
Valuation method		**Projected unit credit cost**	**Projected unit credit cost**
Inflation rate		2.9% per annum	2.5% per annum
Salary growth		4% per annum	4% per annum
Pensions in payment increase	- pre 1988	0% per annum	0% per annum
	- post 1988	2.8% per annum	2.5% per annum
	- other	2.8% per annum	2.5% per annum
Deferred pensions increase		2.8% per annum	2.5% per annum
Discount rate		5.5% per annum	5.5% per annum

The assets in the scheme and the expected rate of return are shown below:

	Long term rate of return		Value as at	
	2004	**2003**	**25 March 2004**	**25 March 2003**
			£'000	**£'000**
Bonds	4.7% per annum	4.6% per annum	**210**	190
Equities	7.7% per annum	7.6% per annum	**1,940**	1,280
Other	4.2% per annum	4.1% per annum	**30**	30
Present value of scheme liabilities			**(3,860)**	(2,980)
Deficit in the scheme			**(1,680)**	(1,480)
Related deferred tax asset			**504**	444
Net pension liability			**(1,176)**	(1,036)

The recognition of a deferred tax asset in respect of the pension deficit would be unlikely in the light of existing trading losses within the group.

	25 March 2004	25 March 2003
Net liabilities excluding pension liability	**(32,671)**	(85,769)
Pension liability already recognised (note 13)	**600**	600
Net pension liability	**(1,176)**	(1,036)
Net liabilities including pension liability	**(33,247)**	(86,205)
Profit and loss reserve excluding pension liability	**(32,671)**	(85,769)
Pension liability already recognised (note 13)	**600**	600
Net pension liability	**(1,176)**	(1,036)
Profit and loss reserve including pension liability	**(33,247)**	(86,205)

Killingholme Power Group Limited

The following amounts would have been recognised in the performance statements in the year to 25 March 2004 under the requirements of FRS 17:

	2004 £'000
Operating profit:	
Current service cost	(270)
Past service cost	-
Total operating charge	(270)
Other finance income:	
Expected return on scheme assets	120
Interest on liabilities	(170)
Net return	(50)
Statement of recognised gains and losses (STRGL):	
Actual return less expected return on scheme assets	310
Experience gains and losses arising on the liabilities	80
Changes in assumptions underlying the present value of liabilities	(670)
Actuarial (loss) / gain recognised in STRGL	(280)
Movement in surplus for the year / period:	
Surplus in scheme at beginning of the year	(1,480)
Movement in period:	
Current service cost	(270)
Past service costs	-
Contributions	400
Other finance income	(50)
Actuarial gain	(280)
Surplus in scheme at end of the year	(1,680)

	2004 £'000
Details of experience gains and losses for the year:	
Difference between the expected and actual return on scheme assets:	
Amount (£'000)	310
Percentage of scheme assets at year end	14%
Experience gains and losses on liabilities:	
Amount (£'000)	80
Percentage of scheme assets at year end	2%
Total amount recognised in statement of total recognised gains and	
Amount (£'000)	(280)
Percentage of scheme assets at year end	(7%)

25 Events since the balance sheet date

On 31 March 2004 £105,000,000 of the proceeds of the gas sale were used to repay some of the bank debt in Sterlux.

On 7 June 2004 KPL unconditionally exchanged contracts to sell its generating assets for £142,000,000 and its remaining gas contract and trading book for £14,000,000. This contract completed on 1 July 2004.

The asset sales on 25 March 2004 and 7 June 2004 have crystallised a tax liability of approximately £10,300,000 together with employee bonuses and other professional fees of approximately £19,000,000.

Following these transactions the group ceased to carry on any trading activities and the directors have commenced the process of winding up the group by way of a Members Voluntary Liquidation, consequently these accounts are not prepared on the going concern basis. The financial statements for the previous accounting period ended 25 March 2003 made full provision for all liabilities arising from the decision to wind up the group including all estimated tax liabilities, employee bonuses and other professional expenses referred to above. In addition the costs of winding up the group, which are estimated to be £2,000,000, were fully provided for. Assets have not been written up to reflect values realised subsequent to the year end. Based on current financial projections the directors anticipate that the winding up process will result in the full repayment of all creditors including subordinated debt providers. However, if there was any shortfall in cash realisations this would be borne by the subordinated debt holders. The total subordinated debt at the date of approval of these accounts was £65,996,000.

26 Related Party Transactions

The company is owned by the syndicate of banks that also act as lenders to the business in their normal course of business. The notes to the accounts disclose details of the transactions in relation to the loans from these parties.