

Report and Financial Statements
*Independent Power Networks
Limited*

Registered Number 4935008

30 June 2006

TUESDAY



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10/04/2007
COMPANIES HOUSE

Independent Power Networks Limited

Registered No 04935008

DIRECTORS

D Corney
R Murray

SECRETARY

C Mumford

AUDITORS

Ernst & Young
One Bridewell Street
Bristol
BS1 2AA

SECRETARY

The Royal Bank of Scotland plc
PO Box 412
62/63 Threadneedle Street
London
EC2R 8LA

REGISTERED OFFICE

Ocean Park House
East Tyndall Street
Cardiff
CF24 5GT

Independent Power Networks Limited

DIRECTORS' REPORT

for the 18 month period ended 30 June 2006

The directors present their report and financial statements for the 18 month period ended 30 June 2006

RESULTS AND DIVIDENDS

The loss for the period, after taxation, amounted to £23,260 (2004 – £nil) The directors do not recommend the payment of a dividend (2004 £nil)

PRINCIPAL ACTIVITY

The company owns and operates electric distribution networks in the UK

The company commenced trading on 30 June 2005

REVIEW OF RESULTS AND FUTURE PROSPECTS

The company performed in line with expectations during the period The directors are satisfied that the company is well placed to continue to perform satisfactorily during the coming year

SOCIAL, ENVIRONMENTAL AND ETHICAL POLICY

The company recognises that its business activities and practices, and those of its suppliers, may have an impact on society and the environment As such the company has developed its own Policies and Procedures to ensure compliance with these matters The company expects all suppliers to work to that Code, which as a minimum standard require compliance with any relevant international and national legal or regulatory framework In addition, the group is working towards registration of ISO 14001

DIRECTORS AND THEIR INTERESTS

The directors who served during the period were

| | |
|------------|--------------------------|
| D Houghton | (resigned 16 June 2006) |
| R Ward | (resigned 27 July 2006) |
| D Corney | (appointed 21 June 2006) |
| R Murray | (appointed 27 July 2006) |

No director held any interest in the issued share capital of the company during the period The interests of D Corney and R Ward in the issued share capital of the holding company, Inexus Group Limited are disclosed in its financial statements

DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and United Kingdom Generally Accepted Accounting Practice

Company law requires the directors to prepare financial statements for each financial period which 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 period In preparing those financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

Independent Power Networks Limited

DIRECTORS' REPORT

for the 18 month period ended 30 June 2006

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

GOING CONCERN

After making appropriate enquiries, at the time of approving the financial statements, the directors have a reasonable expectation that the company and the group have adequate resources to continue in business for the foreseeable future. For this reason, the going concern basis has been adopted in preparing the financial statements.

AUDITORS

Ernst & Young LLP were appointed as the company's auditor by the directors. A resolution to re-appoint Ernst & Young LLP as the company's auditor will be put to the forthcoming Annual General Meeting.

DIRECTORS' STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

The directors who were members of the board at the time of approving the directors' report are listed on page 1. Having made enquiries of fellow directors and of the company's auditors, each of these directors confirms that:

- To the best of each director's knowledge and belief, there is no information relevant to the preparation of their report of which the company's auditors are unaware, and
- Each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the company's auditors are aware of that information.

By order of the board



C Mumford

18 December 2006

Independent Power Networks Limited

INDEPENDENT AUDITORS REPORT

to the members of Independent Power Networks Limited

We have audited the company's financial statements for the 18 month period ended 30 June 2006 which comprise the Profit and Loss Account, Balance Sheet and the related notes 1 to 14. 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

The directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) as 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 International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view, are properly prepared in accordance with the Companies Act 1985 and whether the information given in the Directors' Report is consistent with the financial statements.

We also report to you if, in our opinion, 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 other transactions is not disclosed.

Basis of audit opinion

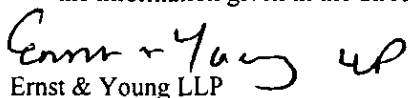
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 30 June 2006 and of its loss for the 18 month period then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the directors' report is consistent with the financial statements.


Ernst & Young LLP

Registered Auditor

Bristol

20 December 2006

Independent Power Networks Limited

PROFIT AND LOSS ACCOUNT

for the 18 month period ended 30 June 2006

| | | <i>18 months to 30 June 2006</i> | <i>14 months to 31 December 2004</i> |
|--|--------------|--|--|
| | <i>Notes</i> | <i>£</i> | <i>£</i> |
| TURNOVER | <i>2</i> | 30,725 | - |
| Cost of sales | | (63,676) | - |
| GROSS LOSS | | <u>(32,951)</u> | <u>-</u> |
| Administrative expenses | | (918) | - |
| OPERATING LOSS | <i>3</i> | <u>(33,869)</u> | <u>-</u> |
| Interest receivable and similar income | | 640 | - |
| LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION | | <u>(33,229)</u> | <u>-</u> |
| Tax on loss on ordinary activities | <i>4</i> | 9,969 | - |
| LOSS FOR THE PERIOD | <i>9</i> | <u>(23,260)</u> | <u>-</u> |

Turnover and operating loss are wholly derived from continuing operations

The company has no recognised gains or losses in the period other than the loss stated above

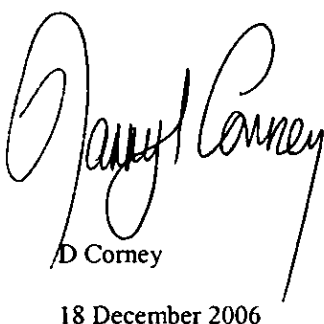
The notes on pages 7 to 11 form part of these financial statements

Independent Power Networks Limited

BALANCE SHEET

at 30 June 2006

| | | 30 June 2006 £ | 31 December 2004 £ |
|---|-------|----------------------|--------------------------|
| | Notes | | |
| FIXED ASSETS | | | |
| Tangible assets | 5 | 123,835 | - |
| CURRENT ASSETS | | | |
| Debtors | 6 | 69,280 | 1 |
| Cash at bank and in hand | | 100 | - |
| | | 69,380 | 1 |
| CREDITORS: amounts falling due within one year | 7 | (191,474) | - |
| NET CURRENT LIABILITIES | | (122,094) | 1 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 1,741 | 1 |
| NET ASSETS | | 1,741 | 1 |
| CAPITAL AND RESERVES | | | |
| Called up share capital | 8 | 25,001 | 1 |
| Profit and loss account | 9 | (23,260) | - |
| EQUITY SHAREHOLDERS' FUNDS | 9 | 1,741 | 1 |



D Corney

18 December 2006

The notes on pages 7 to 11 form part of these financial statements

Independent Power Networks Limited

NOTES TO THE FINANCIAL STATEMENTS at 30 June 2006

1. ACCOUNTING POLICIES

Accounting convention

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards

The company is dependent on continuing finance being made available by its immediate parent undertaking to enable it to continue operating and to meet its liabilities as they fall due

Cash flow statement

The company has taken advantage of the exemption from preparing a cash flow statement conferred by Financial Reporting Standard No 1 (revised 1996) on the grounds that it is a wholly owned subsidiary

Fixed Assets

Fixed assets represent the purchase cost of electric infrastructure assets

Depreciation

Electric infrastructure costs are amortised on a straight line basis over the estimated useful lives detailed below. This is done on a project by project basis, with amortisation commencing when the company starts receiving transportation income from that project. The estimated useful lives are as follows:

| | | |
|-------------------------|---|----------|
| Electric infrastructure | – | 40 years |
|-------------------------|---|----------|

The carrying value of tangible fixed assets is reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the following exception:

- Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

2. TURNOVER

Turnover represents the amount receivable from the supply of goods and services during the period, net of Value Added Tax.

All turnover and loss before taxation, by origin and destination, was attributable to the UK.

Independent Power Networks Limited

NOTES TO THE FINANCIAL STATEMENTS at 30 June 2006

3 OPERATING LOSS

Operating loss is stated after charging

| | 2006 £ | 2004 £ |
|---|-----------|-----------|
| Depreciation of owned fixed assets (note 5) | 917 | - |

The company has not borne any audit costs in the period. Auditors remuneration has been included in the financial statements of a fellow subsidiary undertaking for the period and amounted to £70,200 (2004 - £44,000). Fees payable to auditors for non-audit services amounted to £nil (2004 - £nil).

There were no directors' emoluments or staff costs arising in the period with all administrative tasks undertaken by employees of a fellow subsidiary.

4 TAX

(a) Tax on loss on ordinary activities

The tax credit is made up as follows

| | 2006 £ | 2004 £ |
|--|-----------|-----------|
| Current tax | | |
| Group relief credit in respect of the current period (note 4(b)) | (9,694) | - |
| Deferred tax | | |
| Origination and reversal of timing differences (note 6) | (275) | - |
| Tax on loss on ordinary activities | (9,969) | - |

(b) Factors affecting current tax credit

The tax assessed on the loss on ordinary activities for the period is lower than the standard rate of corporation tax in the UK of 30%. The differences are reconciled below.

| | 2006 £ | 2004 £ |
|---|-----------|-----------|
| Loss on ordinary activities before tax | (33,229) | - |
| Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% | (9,969) | - |
| Decelerated capital allowances | 275 | - |
| Total current tax charge (note 4(a)) | (9,694) | - |

Independent Power Networks Limited

NOTES TO THE FINANCIAL STATEMENTS at 30 June 2006

5. TANGIBLE FIXED ASSETS

| | <i>Electric Infrastructure £</i> |
|----------------------------|--|
| Cost | |
| At 1 January 2005 | - |
| Additions | 124,752 |
| At 30 June 2006 | 124,752 |
| Depreciation | |
| At 1 January 2005 | - |
| Provided during the period | 917 |
| At 30 June 2006 | 917 |
| Net book value | |
| At 30 June 2006 | 123,835 |
| At 31 December 2004 | - |

6. DEBTORS

| | <i>2006 £</i> | <i>2004 £</i> |
|--|-------------------|-------------------|
| Amounts owed by immediate parent undertaking | 25,667 | 1 |
| Amounts owed by fellow subsidiary undertakings | 9,694 | - |
| Prepayments | 2,880 | - |
| Deferred tax asset | 275 | - |
| Accrued income | 30,764 | - |
| | 69,280 | 1 |

Amounts owed by the immediate parent undertaking and the fellow subsidiary undertaking are unsecured and repayable on demand. Interest charged is variable, at LIBOR plus 3%, and calculated monthly.

Independent Power Networks Limited

NOTES TO THE FINANCIAL STATEMENTS at 30 June 2006

6 DEBTORS continued

The deferred tax included in the balance sheet is as follows

| | 2006 £ | 2004 £ |
|---|-----------|-----------|
| Decelerated capital allowances | 275 | - |
| Deferred tax asset | 275 | - |
| | £ | |
| At 1 January 2005 | - | |
| Deferred tax credit in profit and loss account (note 4) | 275 | |
| At 30 June 2006 | 275 | |

7. CREDITORS: amounts falling due within one year

| | 2006 £ | 2004 £ |
|---|-----------|-----------|
| Accruals | 48,095 | - |
| Amounts due to fellow subsidiary undertakings | 143,379 | - |
| | 191,474 | - |

Amounts due to the fellow subsidiary undertakings are unsecured and repayable on demand. Interest charged is variable, at LIBOR plus 3%, and calculated monthly.

8 SHARE CAPITAL

| | Authorised 2006 No | 2004 No | Allotted, issued and fully paid 2006 £ | 2004 £ |
|----------------------------|--------------------------|------------|--|-----------|
| Ordinary shares of £1 each | 30,000 | 100 | 25,001 | 1 |

The company issued 25,000 shares at par, to its immediate parent company in the period in order to fund operations.

Independent Power Networks Limited

NOTES TO THE FINANCIAL STATEMENTS at 30 June 2006

9 RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENTS ON RESERVES

| | | | <i>Total Shareholders'</i> | <i>Total Shareholders'</i> |
|--------------------------|--------------------------|------------------------------------|--------------------------------|--------------------------------|
| | <i>Share Capital</i> | <i>Profit and loss account</i> | <i>Funds 2006</i> | <i>Funds 2004</i> |
| | £ | £ | £ | £ |
| At 1 January 2005 | 1 | - | 1 | - |
| Issued during the period | 25,000 | - | 25,000 | 1 |
| Loss for the period | - | (23,260) | (23,260) | - |
| At 30 June 2006 | 25,001 | (23,260) | 1,741 | 1 |

10. CAPITAL COMMITMENTS

At 30 June 2006 amounts contracted but not provided in the financial statements amounted to £4 0 million (2004 – £nil)

11. CONTINGENT LIABILITIES

At 30 June 2006, the company has no contingent liabilities

12. POST BALANCE SHEET EVENTS

No events have arisen since the balance sheet date, which would require adjustments to, or disclosure in, the financial statements

13. RELATED PARTIES

The company has taken advantage of the exemption in paragraph 3(c) of FRS 8 from disclosing transactions with related parties that are part of the Inexus Group Limited group

14. ULTIMATE PARENT UNDERTAKING

The company's ultimate parent undertaking is Inexus Group Limited a company registered in England and Wales

Copies of the financial statements of Inexus Group Limited can be obtained from Ocean Park House, East Tyndall Street, Cardiff, CF24 5GT

In the view of the directors the ultimate controlling party is Challenger Infrastructure Fund, a company quoted on the Australian Stock Exchange. Copies of the company's financial statements can be obtained from Level 41, Aurora Place, 88 Phillip Street, Sydney, NSW 2000 Australia