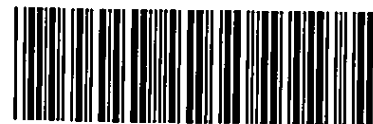


Centrica KPS Limited

Annual report  
For the year ended 31 December 2006

Registered Number: 5006144

TUESDAY



\*A4ZNAU8C\*

A78

30/10/2007

232

COMPANIES HOUSE

# **Centrica KPS Limited**

## **Annual report for the year ended 31 December 2006**

### **Contents**

Directors' report for the year ended 31 December 2006	1
Independent auditors' report to the members of Centrica KPS Limited	4
Profit and loss account for the year ended 31 December 2006	5
Balance sheet as at 31 December 2006	6
Notes to the financial statements for the year ended 31 December 2006	7

# **Centrica KPS Limited**

## **Directors' report for the year ended 31 December 2006**

The directors present their annual report and the audited financial statements of Centrica KPS Limited ("the Company") for the year ended 31 December 2006

### **Principal activities**

The principal activity of the Company is the operation of a 652MW generating station at Killingholme, North Lincs

### **Review of business and future developments**

During the year the Company continued the operation of Killingholme Power Station. There are no plans to change the nature of activities in the foreseeable future. The Company operates under a capacity tolling arrangement with British Gas Trading Limited who are responsible for energy procurement for the Centrica Group.

Trading for the year is in line with the directors' expectation and reflects reduced tolling revenues in the year as a consequence of a prolonged gas turbine outage. In the coming year a similar trading pattern to 2005 is expected without the impact of prolonged outage.

### **Financial results and dividends**

The profit for the financial year was £9,855,000 (2005 £11,904,000). The retained profit for the financial year of £9,855,000 (2005 £11,904,000) will be added to the reserves.

No dividends were paid for the year ended 31 December 2006 (2005 £nil).

### **Principal risks and uncertainties**

The management of the business and the execution of the company's strategy are subject to a number of risks.

The key business risks and uncertainties affecting the company are considered to relate to exposure to counterparty credit risk and liquidity risk. Further discussion of these risks and uncertainties, in the context of the group as a whole, is provided on pages 21-23 of the group's annual report which does not form part of this report.

### **Key performance indicators ("KPIs")**

Given the straightforward nature of the business, the company's directors are of the opinion that analysis using KPIs is not necessary for an understanding of the development, performance or position of the business.

### **Directors**

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

Alan Bennett

Jonathan Bradley

Michael Garstang

Simon Goodwin

Amanda King

Benedict Wright

(resigned 1 August 2006)

(appointed 14 August 2006)

### **Related party transactions**

The Company has taken advantage of the exemption under Financial Reporting Standard 8 "Related Party Transactions" not to disclose transactions with other Centrica group companies on the grounds that the voting rights of the company are wholly controlled within the group. There have been no other disclosable related party transactions during the year (2005 £nil).

# **Centrica KPS Limited**

## **Directors' report for the year ended 31 December 2006 (continued)**

### **Financial risk management**

The directors have established objectives and policies for managing financial risks to enable the Company to achieve its long-term shareholder value growth targets within a prudent risk management framework. These objectives and policies are regularly reviewed and are under central control.

Exposure to counterparty credit risk and liquidity risk arises in the normal course of the Company's business.

Counterparty credit exposures are monitored by individual counterparty and by category of credit rating, and are subject to approved limits. Credit risk is predominantly limited to exposures with other Centrica Group companies.

Cash forecasts identifying the liquidity requirements of the Company are produced frequently and reviewed regularly to ensure there is sufficient financial headroom for at least a 12 month period.

### **Political and charitable donations**

The Company made no political or charitable donations during the year (2005: £nil).

### **Directors' and officers' liability**

Directors' and officers' liability insurance has been purchased by the ultimate parent company, Centrica plc, and was in place throughout the year under review.

### **Statement of directors' responsibilities in respect of the Annual Report and the financial statements**

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to 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,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

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.

## **Centrica KPS Limited**

### **Directors' report for the year ended 31 December 2006 (continued)**

#### **Auditor information**

As far as the directors are aware, there is no relevant audit information of which the Company's auditors are unaware

The directors have taken all steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information

#### **Auditors**

In accordance with Section 386 of the Companies Act 1985, the Company has elected to dispense with the obligation to reappoint auditors annually, and PricewaterhouseCoopers LLP will therefore continue in office

This report was approved by the Board on 26 October 2007

  
For and on behalf of  
Centrica Secretaries Limited  
Company Secretary

Registered office  
Millstream  
Maidenhead Road  
Windsor  
Berkshire  
SL4 5GD

# Centrica KPS Limited

## Independent Auditors' report to the members of Centrica KPS Limited

We have audited the financial statements of Centrica KPS Limited for the year ended 31 December 2006 which comprise the Profit and Loss Account, the Balance Sheet, and the related notes. These financial statements have been prepared under the accounting policies set out therein.

### Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) 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 International Standards on Auditing (UK and Ireland). 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 into 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 whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we 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.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

### 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 31 December 2006 and of its profit for the year 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.

PricewaterhouseCoopers LLP  
Chartered Accountants and Registered Auditors  
Hull



30 October 2007

## Centrica KPS Limited

### Profit and loss account for the year ended 31 December 2006

	Note	2006 £'000	2005 £'000
<b>Turnover</b>	3	<b>38,665</b>	46,857
Cost of sales		(17,781)	(18,770)
<b>Gross Profit</b>		<b>20,884</b>	28,087
Distribution costs		(3,622)	(3,406)
Administration expenses		(7,243)	(6,952)
Other income		7,271	720
<b>Operating profit</b>	4	<b>17,290</b>	18,449
Interest payable and similar charges	7	(32)	(30)
<b>Profit on ordinary activities before taxation</b>		<b>17,258</b>	18,419
Tax on profit on ordinary activities	8	(7,403)	(6,515)
<b>Retained profit for the financial year</b>	16	<b>9,855</b>	11,904

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

There is no difference between the results disclosed in the profit and loss account above and the results on an unmodified historical cost basis

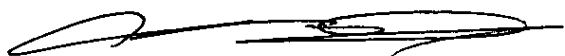
All results relate to continuing operations

# Centrica KPS Limited

## Balance sheet as at 31 December 2006

	Note	2006 £'000	2005 £'000
<b>Fixed assets</b>			
Tangible assets	9	138,131	128,705
<b>Current assets</b>			
Stock	10	4,033	3,090
Debtors	11	49,952	43,894
Cash at bank and in hand		-	260
		<u>53,985</u>	<u>47,244</u>
<b>Creditors – amounts falling due within one year</b>	12	(4,319)	(5,469)
<b>Net current assets</b>		<u>49,666</u>	<u>41,775</u>
<b>Total assets less current liabilities</b>		187,797	170,480
<b>Creditors – amounts falling due after more than one year</b>	13	(141,396)	(141,395)
<b>Provisions for liabilities and charges</b>	14	(15,866)	(8,405)
<b>Net Assets</b>		<u>30,535</u>	<u>20,680</u>
<b>Capital and reserves</b>			
Called up share capital	15	-	-
Profit and loss reserve	16	30,535	20,680
<b>Total shareholders' fund - equity interests</b>	17	<u>30,535</u>	<u>20,680</u>

The financial statements on pages 5 to 14 were approved and authorised for issue by the Board of Directors on 26 October 2007 and were signed on its behalf by



Director



# **Centrica KPS Limited**

## **Notes to the financial statements for the year ended 31 December 2006**

### **1 Statement of accounting policies**

#### **Basis of accounting**

The financial statements have been prepared on the going concern basis, under the historical cost convention and in accordance with the applicable United Kingdom Accounting Standards and the Companies Act 1985. The principal accounting policies are set out below.

#### **Turnover**

Turnover is recognised on an accruals basis and principally relates to the sale of power generation capacity to a fellow Group undertaking during the year in accordance with the capacity tolling arrangement.

#### **Tangible Fixed assets**

Tangible fixed assets are stated at cost less accumulated depreciation. Depreciation is charged on all fixed assets, other than freehold land and gas turbine components in the course of a major overhaul and assets in the course of construction. Depreciation is provided at rates calculated to write-off the cost of each asset on a straight line basis over its expected useful life as follows for these asset classes:

- Power Station assets	20 years
- Other plant and machinery	3-6 years

For gas turbine components depreciation is provided to write off the cost of the assets over their operating lives on an equivalent operating hours basis.

#### **Overhaul Costs**

Contract work involved in replacing gas turbine components are capitalised and depreciated over their expected economic life, typically over the period to the next overhaul. Repairs and other costs that are not of a capital nature are charged directly to the profit and loss account as incurred.

#### **Stocks**

Stocks are stated at the lower of cost incurred in bringing each item to its present location and condition and net realisable value. Provision is made where necessary for obsolete, slow moving and defective stocks.

#### **Deferred taxation**

Current tax, including UK corporation tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

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 that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements.

Deferred tax is measured at the tax rates that are expected to apply in the years in which the timing differences are expected to reverse, based on the tax rates and laws that have been enacted or substantively enacted at the balance sheet date. Deferred tax is measured on a non-discounted basis.

# Centrica KPS Limited

## Notes to the financial statements for the year ended 31 December 2006

### 1 Statement of accounting policies (continued)

#### Deferred taxation (continued)

Current tax, including UK corporation tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date

#### Decommissioning provision

Provision is made for the net present value of the estimated cost of decommissioning the power station at the end of its useful life, based on price levels and technology at the balance sheet date

Changes in these estimates and changes to the discount rates are dealt with prospectively. When this provision gives access to future economic benefits, a decommissioning asset is recognised and amortised on a straight-line basis over the useful life of the facility. The unwinding of the discount on the provision is included in the Profit and Loss Account within interest expense.

#### Operating leases

Rentals under operating leases are charged to the profit and loss account on a straight line basis over the lease term.

### 2 Cash flow statements and related party disclosures

The Company is a wholly-owned subsidiary of GB Gas Holdings Limited and is included in the consolidated financial statements of Centrica 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 "Cash Flow Statements". The Company is also exempt under the terms of Financial Reporting Standard 8 "Related Party Disclosures" from disclosure of transactions with other companies that are part of the Centrica plc group.

### 3 Segmental reporting

All turnover relates to the principal activity of the business and occurs wholly in the United Kingdom.

### 4 Operating profit

	2006 £'000	2005 £'000
Operating profit is stated after charging/(crediting):		
Depreciation of owned tangible fixed assets (note 9)	11,752	11,665
Operating lease rentals	25	24
Services provided by the company's auditor		
- fees payable for the audit	9	20
Other income – carbon emission credits	(7,271)	(720)

### 5 Directors' emoluments

The directors received no emoluments as they are employed by other Centrica group companies (2005: £nil).

All of the directors are members of the ultimate parent company's defined benefit pension scheme.

# Centrica KPS Limited

## Notes to the financial statements for the year ended 31 December 2006 (continued)

### 6 Employee information

The Company has no direct employees (2005 nil) However, costs amounting to £2,019,000 (2005 £2,580,000) were incurred during the year in respect of an average of 48 (2005 52) staff providing services to Centrica KPS Limited under an employee services agreement with a Centrica group company

### 7 Interest payable and similar charges

	2006 £'000	2005 £'000
Other interest payable	32	30

### 8 Tax on profit on ordinary activities

	2006 £'000	2005 £'000
<b>Current tax</b>		
UK corporation tax on the profit for the year	-	-
<b>Deferred tax</b>		
Origination and reversal of timing differences	4,680	6,501
Adjustments in respect of prior years	2,723	14
<b>Tax on profit on ordinary activities</b>	<b>7,403</b>	<b>6,515</b>

The tax assessed for the year differs from that calculated at the standard rate of corporation tax in the UK (30%) The differences are explained below

	2006 £'000	2005 £'000
<b>Profit on ordinary activities before tax</b>	<b>17,258</b>	<b>18,419</b>
Profit on ordinary activities multiplied by standard rate in the UK of 30% (2005 30%)	5,177	5,525
Effects of		
Expenses not deductible for tax purposes	3	-
Capital allowances in excess of depreciation	(4,680)	(6,501)
Other timing differences	17	17
Group relief surrendered for nil consideration	1,158	2,622
UK UK transfer pricing	(1,675)	(1,663)
<b>Current tax charge for the year</b>	<b>-</b>	<b>-</b>

# Centrica KPS Limited

## Notes to the financial statements for the year ended 31 December 2006 (continued)

### 9 Tangible fixed assets

	Power station assets £'000	Turbine Components, other plant and machinery £'000	Decommissioning asset £'000	Total £'000
<b>Cost or valuation</b>				
As at 1 January 2006	123,008	20,973	1,038	145,019
Additions	1,410	24,274	27	25,711
Disposals	-	(5,255)	-	(5,255)
<b>As at 31 December 2006</b>	<b>124,418</b>	<b>39,992</b>	<b>1,065</b>	<b>165,475</b>
<b>Accumulated depreciation</b>				
At 1 January 2006	7,973	8,289	52	16,314
Charge for the year	6,675	5,024	53	11,752
Disposals	-	(722)	-	(722)
<b>At 31 December 2006</b>	<b>14,648</b>	<b>12,591</b>	<b>105</b>	<b>27,344</b>
<b>Net book value</b>				
<b>At 31 December 2006</b>	<b>109,770</b>	<b>27,401</b>	<b>960</b>	<b>138,131</b>
At 31 December 2005	115,035	12,684	986	128,705

### 10 Stocks

	2006 £'000	2005 £'000
Consumables	4,033	3,090

### 11 Debtors

	2006 £'000	2005 £'000
Amounts owed by fellow group undertakings	48,716	39,289
Other debtors	360	356
Prepayments and accrued income	876	4,249
	<b>49,952</b>	<b>43,894</b>

Amounts owed by group undertakings are unsecured, interest free and repayable on demand

## **Centrica KPS Limited**

### **Notes to the financial statements for the year ended 31 December 2006 (continued)**

#### **12 Creditors - amounts falling due within one year**

	<b>2006</b>	<b>2005</b>
	<b>£'000</b>	<b>£'000</b>
Bank overdrafts	<b>81</b>	<b>-</b>
Trade creditors	<b>1,566</b>	<b>39</b>
Amounts owed to group undertakings	<b>-</b>	<b>408</b>
Other creditors	<b>2,524</b>	<b>4,953</b>
Accruals and deferred income	<b>148</b>	<b>69</b>
	<b>4,319</b>	<b>5,469</b>

Amounts owed to group undertakings are unsecured, interest free and repayable on demand

#### **13 Creditors - amounts falling due after more than one year**

	<b>2006</b>	<b>2005</b>
	<b>£'000</b>	<b>£'000</b>
Amounts owed to group undertakings	<b>141,396</b>	<b>141,395</b>

Amounts owed to group undertakings are unsecured, interest free and repayable on demand. The group undertaking concerned has indicated that it will not seek repayment within 12 months of the balance sheet date.

# Centrica KPS Limited

## Notes to the financial statements for the year ended 31 December 2006 (continued)

### 14 Provisions for liabilities and charges

	Deferred taxation £'000	Decommissioning provision £'000	Total £'000
As at 1 January 2006	7,336	1,069	8,405
Charged to the profit and loss account	7,403	58	7,461
<b>As at 31 December 2006</b>	<b>14,739</b>	<b>1,127</b>	<b>15,866</b>

Deferred tax is provided at 30% (2005 30%) Full provision has been made for deferred taxation arising from accelerated capital allowances

A number of changes to the UK Corporation tax system were announced in the March 2007 Budget Statement and have been enacted in the 2007 Finance Act or are expected to be enacted in the 2008 Finance Act The changes had not been substantively enacted at the balance sheet date and, therefore, are not included in these financial statements The effect of the changes to be enacted in the Finance Act 2007 would be to reduce the deferred tax liability provided at 31 December 2006 by £1,103,000 and would increase profits for the year by the same amount This decrease in deferred tax is due to the reduction in the corporation tax rate from 30 per cent to 28 per cent with effect from 1 April 2008 The other changes to be enacted would have no further effects on the deferred tax provided at 31 December 2006

The decommissioning provision represents the future expected costs of decommissioning the station at the end of its useful economic life, discounted to its present value (note 1)

### 15 Called up Share Capital

	2006 £'000	2005 £'000
<b>Authorised</b>		
1000 ordinary shares of £1 each (2005 1,000 ordinary shares of £1 each)	1	1
<b>Allotted and fully paid</b>		
2 ordinary shares of £1 each (2005 2 ordinary shares of £1 each)	-	-

### 16 Profit and loss reserve

	2006 £'000
At 1 January 2006	20,680
Retained profit for the year	9,855
<b>At 31 December 2006</b>	<b>30,535</b>

## Centrica KPS Limited

### Notes to the financial statements for the year ended 31 December 2006 (continued)

#### 17 Reconciliation of movements in shareholders' funds

	2006 £'000	2005 £'000
Profit for the financial year	9,855	11,904
Opening shareholders' funds	20,680	8,776
Closing shareholders' funds	<u>30,535</u>	<u>20,680</u>

#### 18 Pension commitments

The charge to the profit and loss account represents the amount of contributions payable to defined contribution pension schemes in respect of the accounting period for the employees that are recharged to the Company. Differences between contributions payable and contributions actually paid in the period are shown as either accruals or prepayments in the balance sheet. The total cost recharged to the Company for pension costs under the service level agreement with another group company was £286,498 (2005 £162,899).

#### 19 Operating lease commitments

At 31 December 2006 the Company had annual commitments under non-cancellable operating leases expiring as follows

	Other 2006 £'000	2005 £'000
Within one year	34	-
Within two to five years	63	19
After five years	47	13

#### 20 Commitments and contingent liabilities

##### Capital expenditure

Contracted future capital expenditure as at 31 December 2006 was £2,848,000 (2005 £11,827,000)

## **Centrica KPS Limited**

### **Notes to the financial statements for the year ended 31 December 2006 (continued)**

#### **21 Ultimate parent undertaking**

The immediate parent undertaking is *GB Gas Holdings Limited*

The ultimate parent undertaking and controlling party is Centrica plc, a company registered in England and Wales. Copies of the Centrica plc consolidated financial statements can be obtained from the Company Secretary at Centrica plc, Millstream, Maidenhead Road, Windsor, Berkshire, SL4 5GD