

Centrica KPS Limited

Annual report  
For the year ended 31 December 2008

Registered Number: 5006144

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# **Centrica KPS Limited**

## **Annual report for the year ended 31 December 2008**

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# **Centrica KPS Limited**

## **Directors' report for the year ended 31 December 2008**

The directors present their report and the audited financial statements of Centrica KPS Limited ("the Company") for the year ended 31 December 2008.

### **Principal activities**

The Company's principal activity during the year was the operation of a 652MW generating station at Killingholme, North Lincs.

### **Business review**

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 which is responsible for energy procurement for the Centrica group.

Trading for the year was in line with directors' expectations.

### **Financial results**

The results of the Company are set out on page 6.

During the year the Company made a profit of £7,892,000 (2007: £8,843,000).

### **Dividends**

No dividends were paid on the ordinary shares for the year ended 31 December 2008 (2007: £nil).

### **Financial Position**

The financial position of the Company is presented in the balance sheet on page 7. Shareholders' funds at 31 December 2008 were £47,270,000 (2007: £39,378,000).

### **Principal risks and uncertainties and financial risk management**

The principal risks and uncertainties are integrated with the principal risks of the Centrica plc group ("the Group") and are not managed separately. The principal risks of the Group are set out on pages 31-34 of the annual report and accounts of Centrica plc which does not form part of this report.

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

Exposure to counterparty credit risk and liquidity risk arises in the normal course of the Company's business and is managed within parameters set by the directors.

Counterparty credit exposures are monitored by individual counterparty and by category of credit rating, and are subject to approved limits. Exposure to credit risk is limited predominantly to exposures with other Centrica group companies or exposure to credit risk arises in the normal course of operations as a result of the potential for a customer defaulting on their payable balance. In the case of business customers credit risk is managed by checking a company's creditworthiness and financial strength both before commencing to trade and during a business relationship. For residential customers, creditworthiness is ascertained normally before commencing to trade by reviewing an appropriate mix of internal and external information. An ageing of receivables is monitored and used to manage the exposure to credit risk.

# **Centrica KPS Limited**

## **Directors' report for the year ended 31 December 2008 (continued)**

### **Principal risks and uncertainties and financial risk management (continued)**

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.

### **Key performance indicators**

The directors of the Group use a number of key performance indicators to monitor progress against the Group's strategy. The development, performance and position of the Group, which includes the Company, are discussed on pages 12-13 of the annual report and accounts of the Group which does not form part of this report.

### **Future developments**

There are no plans to change the nature of activities in the foreseeable future. A similar trading profile to 2008 is expected in the coming year.

### **Directors**

The directors who held office at 31 December 2008 and since the year-end are given below:

Jonathan Bradley	(resigned 11 March 2008)
Michael Garstang	(resigned 30 June 2008)
Sarwjit Sambhi	(appointed 11 March 2008)
Graeme Collinson	(appointed 13 February 2009)
James Spence	
John Watts	

At no time during the year ended 31 December 2008 did any director have any interests in the shares of the Company or any other company within the Group, except for interests in and options over the shares of the ultimate parent company, Centrica plc.

There were no contracts of significance during or at the end of the financial year to which the company or any subsidiary and associated undertakings is a party and in which any director is or was materially interested.

### **Political and charitable donations**

The Company made charitable donations of £175 during the year (2007: £nil). The Company did not make any political donations during the year (2007: £nil).

### **Related party transactions**

The Company has taken advantage of the exemptions within financial reporting standard "No. 8 Related Party Disclosures" from disclosure of transactions with other Centrica group companies. There have been no other disclosable related party transactions during the year (2007: Nil).

# **Centrica KPS Limited**

## **Directors' report for the year ended 31 December 2008 (continued)**

### **Creditor payment policy**

It is the Company's policy to pay all of its creditors in accordance with the policies set out below. Special contractual terms apply for gas and electricity supplies. For all other trade creditors, it is the Company's policy to:

- i) agree the terms of payment in advance with the supplier;
- ii) ensure that suppliers are aware of the terms of payment; and
- iii) pay in accordance with contractual and other legal obligations.

### **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;
- state whether applicable UK 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, 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 2008 (continued)

### Statement of disclosure of information to auditors

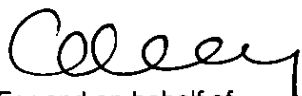
In accordance with Section 234ZA(2), in the case of each director in office at the date the directors' report is approved, that:

- (a) so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- (b) he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

### Auditors

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and PricewaterhouseCoopers LLP will therefore continue in office.

This report was approved by the Board on 21 May 2009.



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 2008 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 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 2008 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

21 May 2009

# Centrica KPS Limited

## Profit and loss account for the year ended 31 December 2008

	Note	2008 £'000	2007 £'000 (Restated)
<b>Turnover</b>	3	<b>43,564</b>	37,790
Cost of sales		(29,967)	(19,998)
<b>Gross profit</b>		<b>13,597</b>	17,792
Administration expenses		(5,346)	(8,649)
Other income		-	2,602
<b>Operating profit</b>	4	<b>8,251</b>	11,745
Interest payable and similar charges	7	(31)	(34)
<b>Profit on ordinary activities before taxation</b>		<b>8,220</b>	11,711
Tax on profit on ordinary activities	8	(328)	(2,868)
<b>Profit for the financial year</b>	16	<b>7,892</b>	8,843

The profit and loss account for 2007 has been restated in order to reflect a more appropriate apportionment of costs between cost of sales and administration expenses. The effect has been to move £469,000 from administration expenses and £1,272,000 from distribution expenses to cost of sales in the comparative figures above.

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 are no material differences between the profit on ordinary activities before taxation and the retained profit for the year stated above and their historical cost equivalents.

All results relate to continuing operations.



# Centrica KPS Limited

## Balance sheet as at 31 December 2008

	Note	2008 £'000	2007 £'000
<b>Fixed assets</b>			
Tangible assets	9	126,885	140,526
<b>Current assets</b>			
Stock	10	4,584	4,872
Debtors	11	91,179	61,939
Cash		181	-
		<u>95,944</u>	<u>66,811</u>
Creditors – amounts falling due within one year	12	(14,509)	(7,394)
<b>Net current assets</b>		<u>81,435</u>	<u>59,417</u>
Total assets less current liabilities		208,320	199,943
Creditors – amounts falling due after more than one year	13	(141,395)	(141,395)
Provisions for liabilities and charges	14	(19,655)	(19,170)
<b>Net Assets</b>		<u>47,270</u>	<u>39,378</u>
<b>Capital and reserves</b>			
Called up share capital	15	-	-
Profit and loss reserve	16	47,270	39,378
<b>Total shareholders' fund - equity interests</b>	17	<u>47,270</u>	<u>39,378</u>

The financial statements on pages 6 to 16 were approved by the board of directors on 21 May 2009 and were signed on its behalf by:



James Spence  
Director

# **Centrica KPS Limited**

## **Notes to the financial statements for the year ended 31 December 2008**

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

These financial statements are prepared on the going concern basis, under historical cost convention and in accordance with the Companies Act 1985 and the applicable United Kingdom accounting standards. 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 writeoff 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 2008 (continued)**

### **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.

#### **EU Emissions Trading Scheme**

Granted CO<sub>2</sub> emissions allowances received in a period are initially recognised at nominal value (nil value). A liability is recognised when the level of emissions exceed the level of allowances granted. As part of the tolling arrangement, the tollee must provide the company with sufficient allowances to meet any shortfall on the settlement date. The liability is measured at the cost of allowances purchased by the tollee, up to the level of purchased allowances physically held and then at the market price of allowances ruling at the balance sheet date. A matching receivable from the tollee is recognised at the same time.

### **2 Cash flow statements and related party disclosures**

The Company is a wholly-owned subsidiary of Centrica Delta 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.

# Centrica KPS Limited

## Notes to the financial statements for the year ended 31 December 2008 (continued)

### 4 Operating profit

	2008 £'000	2007 £'000
<b>Operating profit is stated after charging/(crediting):</b>		
Depreciation of owned tangible fixed assets (note 9)	14,514	9,530
Operating lease charges	31	34
Services provided by the company's auditor:		
Fees payable for the audit	8	6
Other income: National Grid refund	-	(2,602)

Auditors' remuneration totalling £8,000 (2007: £8,000) relates to fees for the audit of the UK GAAP statutory accounts of Centrica KPS Limited and includes fees in relation to the audit of the IFRS group consolidation schedules, for the purpose of the Centrica Group audit, which also contribute to the audit of Centrica KPS Limited. Of the auditors' remuneration £nil (2007: £2,000) was borne by Centrica plc. Prior year audit fees have been restated to reflect the inclusion of an element of the Centrica Group fee.

### 5 Directors' emoluments

The directors received no emoluments as they are employed by other Centrica group companies (2007: £nil).

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

### 6 Employee information

The Company has no direct employees (2007: nil). However, costs amounting to £2,740,000 (2007: £2,229,000) were incurred during the year in respect of an average of 45 (2007: 43) staff providing services to Centrica KPS Limited under an employee services agreement with a Centrica group company.

### 7 Interest payable and similar charges

	2008 £'000	2007 £'000
Decommissioning provision notional interest	31	34

# Centrica KPS Limited

## Notes to the financial statements for the year ended 31 December 2008 (continued)

### 8 Tax on profit on ordinary activities

	2008 £'000	2007 £'000
<b>Current tax:</b>		
UK corporation tax on the profit for the year	-	-
<b>Deferred tax:</b>		
Change in tax rate - impact on deferred tax liabilities	-	(1,259)
Origination and reversal of timing differences	301	4,143
Adjustments in respect of prior years	27	(16)
<b>Tax on profit on ordinary activities</b>	<b>328</b>	<b>2,868</b>

The tax assessed for the year differs from that calculated at the standard rate of corporation tax in the UK (28.5%). The differences are explained below:

	2008 £'000	2007 £'000
<b>Profit on ordinary activities before tax</b>	<b>8,220</b>	<b>11,711</b>
Profit on ordinary activities multiplied by standard rate in the UK of 28.5% (2007: 30%)	2,343	3,513
Effects of :		
Expenses not deductible for tax purposes	60	1
Capital allowances in excess of depreciation	(338)	(4,437)
Other permanent differences	(75)	-
Other timing differences	32	33
Group relief surrendered for nil consideration	(816)	2,489
UK:UK transfer pricing	(1,206)	(1,599)
<b>Current tax charge for the year</b>	<b>-</b>	<b>-</b>

The standard rate of corporation tax in the UK changed from 30% to 28% with effect from 1 April 2008. Accordingly the Company's profits for this accounting period are taxed at an effective rate of 28.5% and will be taxed at 28% in the future.

# Centrica KPS Limited

## Notes to the financial statements for the year ended 31 December 2008 (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>				
At 1 January 2008	127,594	48,328	1,467	177,389
Additions	475	272	126	873
Transfers	8,568	(8,568)	-	-
<b>At 31 December 2008</b>	<b>136,637</b>	<b>40,032</b>	<b>1,593</b>	<b>178,262</b>
<b>Accumulated depreciation</b>				
At 1 January 2008	20,746	15,936	181	36,863
Charge for the year	6,963	7,468	83	14,514
Transfers	4,736	(4,736)	-	-
<b>At 31 December 2008</b>	<b>32,445</b>	<b>18,668</b>	<b>264</b>	<b>51,377</b>
<b>Net book amount</b>				
<b>At 31 December 2008</b>	<b>104,192</b>	<b>21,364</b>	<b>1,329</b>	<b>126,885</b>
At 31 December 2007	106,848	32,392	1,286	140,526

### 10 Stock

	2008 £'000	2007 £'000
Consumables	4,584	4,872

### 11 Debtors

	2008 £'000	2007 £'000
Amounts owed by fellow group undertakings	90,704	58,897
Other debtors	240	2,819
Prepayments and accrued income	235	223
	<b>91,179</b>	<b>61,939</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 2008 (continued)

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

	2008 £'000	2007 £'000
Bank overdrafts	-	184
Trade creditors	892	4,795
Amounts owed to group undertakings	-	214
Emissions obligation	12,118	-
Other creditors	1,499	2,161
Accruals and deferred income	-	40
	<b>14,509</b>	<b>7,394</b>

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

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

	2008 £'000	2007 £'000
Amounts owed to group undertakings	<b>141,395</b>	141,395

Amounts owed to group undertakings are unsecured, interest-free. 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 2008 (continued)

### 14 Provisions for liabilities and charges

	Deferred taxation £'000	Decommissioning provision £'000	Total £'000
At 1 January 2008 -	17,607	1,563	19,170
Revisions and additions		126	126
Charged to the profit and loss account	328	31	359
<b>At 31 December 2008</b>	<b>17,935</b>	<b>1,720</b>	<b>19,655</b>

#### Deferred taxation

	As at 1 January 2008 £'000	Profit and loss charge/(credit) £'000	As at 31 December 2008 £'000
Deferred corporation tax			
- accelerated capital allowances	17,685	360	18,045
- other timing differences	(78)	(32)	(110)
	<b>17,607</b>	<b>328</b>	<b>17,935</b>

Deferred corporation tax provision at 28%(2007: 28%) is analysed as follows:

	Provided		Unprovided	
	This Period £'000	Last Period £'000	This Period £'000	Last Period £'000
Deferred corporation tax				
- accelerated capital allowances	18,045	17,685	-	-
- other timing differences	(110)	(78)	-	-
	<b>17,935</b>	<b>17,607</b>	<b>-</b>	<b>-</b>

The proposed reduction in the rate of UK corporation tax from 30% to 28% as per the 2007 budget was substantively enacted on 26 June 2007. As a result deferred tax reversing after 1 April 2008 is calculated at the rate of 28%.



# Centrica KPS Limited

## Notes to the financial statements for the year ended 31 December 2008 (continued)

### 15 Called up Share Capital

	2008 £	2007 £
<b>Authorised</b>		
1,000 ordinary shares of £1 each	1,000	1000
<b>Allotted and fully paid</b>		
2 ordinary shares of £1 each	2	2

### 16 Profit and loss reserve

	2008 £'000
At 1 January 2008	39,378
Retained profit for the year	7,892
<b>At 31 December 2008</b>	<b>47,270</b>

### 17 Reconciliation of movements in shareholders' funds

	2008 £'000	2007 £'000
Profit for the financial year	7,892	8,843
Opening shareholders' funds	39,378	30,535
<b>Closing shareholders' funds</b>	<b>47,270</b>	<b>39,378</b>

### 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 £199,000 (2007: £181,000).

### 19 Financial commitments

At 31 December 2008 the company had annual commitments under non-cancellable operating leases expiring as follows:

	2008 £'000	2007 £'000
Within one year	1	-
Within two to five years	20	31
After five years	5	5

## **Centrica KPS Limited**

### **Notes to the financial statements for the year ended 31 December 2008 (continued)**

#### **20 Capital and other commitments**

Contracted future capital expenditure as at 31 December 2008 was £111,000 (2007: £nil).

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

The immediate parent undertaking is Centrica Delta Limited.

The ultimate parent undertaking and controlling party is Centrica plc, which is the parent undertaking of the smallest and largest group to consolidate these financial statements. 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.