

**Indian Queens Power Limited  
(formerly AES Indian Queens Power  
Limited)**

**Directors' report and financial  
statements**

Registered number 2928100

31 December 2006

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## **Directors and Advisors for the year ended 31 December 2006**

<b>Directors</b>	V Danks A McKay G Griffiths
<b>Secretary</b>	A Ramsay
<b>Registered Office</b>	Senator House 85 Queen Victoria Street London EC4V 4DP
<b>Bankers</b>	Barclays Bank PLC Barclays Capital Service Centre PO Box 46116 London EC4N 8WB
<b>Solicitors</b>	Clifford Chance 10 Upper Bank Street London E14 5JJ
<b>Auditors</b>	KPMG Audit Plc 8 Salisbury Square London EC4Y 8BB
<b>Registered number</b>	2928100

## **Directors' report**

The directors present their annual report and audited financial statements for the year ended 31 December 2006

### **Principal activities**

Indian Queens Power Limited (the 'company') was formed on 6 May 1994 to design, construct, finance, own and operate a power generation facility in Cornwall. Its principal trading activities are the supply of electricity to the National Grid and the provision of grid imbalance regulation.

### **Review of developments and future prospects**

The Company changed its name from AES Indian Queens Power Limited on the 25 September 2006, following the acquisition of 100% of the share capital of the company by International Power plc on the 17 September 2006.

The directors intend to continue to supply electricity to the National Grid in the future.

Details of significant events since the balance sheet date are contained in note 18 to the financial statements.

### **Financial risk management**

As shown in the Company's profit and loss account on page 8, the Company's operating profit increased 217% over the prior year. The major factor affecting this increase was a full year of normal operation. On 24<sup>th</sup> October 2004 Indian Queens Power Limited's 400KV transformer exploded and the plant did not return to commercial operations until 27<sup>th</sup> July 2005.

International Power plc acquired Indian Queens Power Limited on 17 September 2006 and the term loan was settled on the same day. On the 18 September Indian Queens Power terminated the finance lease which gave rise to a profit of £2,463,000 (see page 8 of the financial statements). The accounting profit on the finance lease was due to the finance lease assuming an inherent interest rate of 8% with the actual interest rate being below this rate for several years. The difference between the two rates was settled in cash but the gain was amortised over the remaining life of the finance lease.

### **Future developments**

In March 2007 International Power plc announced that it had signed an agreement with Mitsui & Co Ltd to sell a 25% holding of Indian Queens Power Limited. Completion of this transaction, which is conditional upon the approval by International Power plc's shareholders, is expected in June 2007. This transaction is not expected to have a material impact on Indian Queens Power Limited's performance and financial position.

There have been no other significant events since the balance sheet date which should be considered for a proper understanding of these financial statements.

### **Principal risks and uncertainties**

#### *Cash flow risk*

The company's activities expose it primarily to the financial risks of changes in fuel prices. Where appropriate, the company uses swap contracts for differences to hedge these exposures.

#### *Supplier payment policy*

The policy of the company is to settle the payment terms with suppliers when agreeing the terms of each transaction. All attempts are made to ensure the company's suppliers are aware of those terms and the company abides by the agreed terms of payment. At 31 December 2006, there were 26 days creditor days from suppliers outstanding (2005 102 days).

*Credit risk*

The company's principal financial assets are bank balances, cash, and trade and other receivables

The company credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net allowances for doubtful receivables.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The company has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

*Currency risk*

The Company's functional currency is UK pounds.

*Interest rate risk*

The Company has no outstanding loans as at 31 December 2006.

**Employees**

Indian Queens Power has no employees and contracts out the management and operating of the plant to another group company Indian Queens Operations Limited.

**Results and dividends**

The result for the year is set out in the profit and loss account on page 8. The directors have decided not to propose a dividend for the year ended 31 December 2006 (2005: nil).

**Directors and their interests**

The current directors are shown on page 1.

The directors who held office during the year were as follows:

V Danks

N Hopkins (resigned 18 September 2006)

A McKay

G Griffiths (appointed 18 September 2006)

**Company Secretary**

A McKay (resigned 17 November 2006)

A Ramsay (appointed 17 November 2006)

## **Directors' Report** *(continued)*

### **Directors and their interests (continued)**

None of the directors who held office at the end of the financial year had any disclosable interests in the shares of the company

According to the register of director's interests, no rights to subscribe for shares in or debentures of the Company or any other group company were granted to any of the directors or their immediate families, or exercised by them, during the financial year

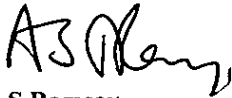
### **Disclosure of information to auditors**

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware, and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

### **Auditors**

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG Audit Plc as auditors of the Company is to be proposed at the forthcoming Annual General Meeting

By order of the board



**S Ramsay**  
*Secretary*

Senator House  
85 Queen Victoria Street  
London  
EC4V 4DP

 2007

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

The directors are responsible for preparing the Directors' 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 they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

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 these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments 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.

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 its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

ABCD

**KPMG Audit Plc**

8 Salisbury Square  
London  
EC4Y 8BB  
United Kingdom

**Independent auditors' report to the members of Indian Queens Power Limited (formerly AES Indian Queens Power Limited)**

We have audited the financial statements of Indian Queens Power Limited for the year ended 31 December 2006 which comprise the Profit and Loss Account, the Balance Sheet, the Reconciliation of Movements in Shareholder's Funds and the related notes. 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 auditor's 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' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 5.

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 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.



**Independent auditors' report to the members of Indian Queens Power Limited (formerly AES Indian Queens Power Limited) (continued)**

**Opinion**

In our opinion

- the financial statements give a true and fair view, in accordance with UK 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

*KPMG Audit Plc*

KPMG Audit Plc  
Chartered Accountants  
Registered Auditor

*20 June* 2007

**Profit and Loss Account**  
*for the year ended 31 December 2006*

	<i>Note</i>	<b>2006</b> <b>£000</b>	<b>2005</b> <b>£000</b>
<b>Turnover</b>	<i>1</i>	<b>13,913</b>	<b>6,172</b>
Cost of sales		<b>(8,908)</b>	<b>(5,297)</b>
<b>Gross profit</b>		<b>5,005</b>	<b>875</b>
Administrative expenses		<b>(3,143)</b>	<b>(2,752)</b>
Other operating income		<b>-</b>	<b>2,735</b>
<b>Operating profit</b>	<i>2</i>	<b>1,862</b>	<b>858</b>
Exceptional profit on termination of finance lease	<i>4</i>	<b>2,463</b>	<b>-</b>
Interest receivable and similar income	<i>5</i>	<b>792</b>	<b>1,172</b>
Interest payable and similar charges	<i>6</i>	<b>(2,329)</b>	<b>(2,774)</b>
<b>Profit/(loss) on ordinary activities before taxation</b>		<b>2,788</b>	<b>(744)</b>
Tax (charge)/credit on profit/(loss) on ordinary activities	<i>7</i>	<b>(1,981)</b>	<b>93</b>
<b>Retained profit/(loss) for the financial year</b>	<i>15</i>	<b>806</b>	<b>(651)</b>

There were no acquisitions or discontinued operations in the current or preceding financial year

There were no recognised gains or losses for the current or preceding financial year other than as stated in the profit and loss account. Accordingly, no separate statement of total recognised gains and losses is required.

A reconciliation of movements in shareholder's funds is given in note 16.

**Balance Sheet**  
*at 31 December 2006*

	<i>Note</i>	<b>2006</b>	<b>2005</b>
		<b>£000</b>	<b>£000</b>
<b>Fixed assets</b>			
Tangible fixed assets	8	24,969	24,983
<b>Current assets</b>			
Stocks	9	1,289	1,071
Debtors	10	2,119	2,358
Cash at bank and in hand		1,215	25,634
		<u>4,623</u>	<u>29,063</u>
<b>Creditors</b> amounts falling due within one year	11	<u>(1,982)</u>	<u>(8,104)</u>
<b>Net current assets</b>		<u>2,641</u>	<u>20,959</u>
<b>Total assets less current liabilities</b>		<u>27,610</u>	<u>45,942</u>
<b>Creditors:</b> amounts falling due after more than one year	12	(19,574)	(41,197)
<b>Provisions for liabilities and charges</b>	13	(2,564)	(79)
<b>Net assets</b>		<u>5,472</u>	<u>4,666</u>
<b>Capital and reserves</b>			
Called up share capital	14	4,200	4,200
Profit and loss account	15	1,272	466
<b>Shareholder's funds</b>	16	<u>5,472</u>	<u>4,666</u>

These financial statements were approved by the board of directors on 20<sup>th</sup> June 2007 and were signed on its behalf by



**G Griffiths**  
*Director*

## Notes

*(forming part of the financial statements)*

### 1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements, except as noted below

In these financial statements the following new standards have been adopted for the first time

- Financial Reporting Standard ("FRS") 21 'Events after the balance sheet date',
- the presentation requirements of FRS 25 'Financial instruments presentation and disclosure', and
- FRS 28 'Corresponding amounts'

The accounting policies under these new standards are set out below together with an indication of the effects of their adoption. FRS 28 'Corresponding amounts' has had no material effect as it imposes the same requirements for comparatives as hitherto required by the Companies Act 1985

FRS 21 'Events after the balance sheet date' and the presentation requirements of FRS 25 'Financial instruments presentation and disclosure' had no material impact on these financial statements

#### ***Basis of preparation***

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

Under FRS 1 the Company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the Company in its own published consolidated financial statements

As the Company is a wholly owned subsidiary of International Power IQ Limited, 100% of the Company's voting rights are controlled within the group headed by International Power plc, the Company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the group (or investees of the group qualifying as related parties). The consolidated financial statements of International Power plc, within which this Company is included, can be obtained from the address given in note 20

#### ***Fixed assets and depreciation***

Tangible fixed assets relate to power generation facility which was completed in December 1996

Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows

Plant and machinery	-	3 to 30 years
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#### ***Turnover***

Turnover for the sale of electricity and the provisions of ancillary services are recorded based upon output or product delivered as specified under contract, all of which arises in the United Kingdom and is stated net of applicable value added tax and sales discount

#### ***Foreign currencies***

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the contracted rate or the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account

## Notes (continued)

### Stocks

Stocks are valued at the lower of cost and net realisable value

### Leases

Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors. Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

### Taxation

The charge for taxation is based on the profit/(loss) for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

## 2 Operating profit

	2006 £000	2005 £000
<i>Profit on ordinary activities before taxation is stated after charging/(crediting )</i>		
Depreciation and other amounts written off tangible fixed assets		
Owned	1,754	700
Leased	-	796
Hire of plant and machinery - rentals payable under operating leases	25	25
Insurance proceeds	-	(2,358)
	<hr/>	<hr/>
<i>Auditors' remuneration</i>		
	2006 £000	2005 £000
Audit of these financial statements	24	23
Audit of financial statements of fellow subsidiaries	4	4
	<hr/>	<hr/>

Amounts receivable by the Company's auditor in respect of services to the Company and its associates, other than the audit of the Company's financial statements, have not been disclosed as the information is required instead to be disclosed on a consolidated basis in the consolidated financial statements of the Company's parent, International Power plc.

## 3 Information regarding directors and employees

G Griffiths and S Ramsay are employees of International Power plc. It is not practical to allocate their remuneration between their services as directors of Indian Queens Power Limited and as employees and directors of other companies. The remuneration of V Danks and A McKay for the year ended 31 December 2006 is borne by, and disclosed within the accounts of, Indian Queens Operation Limited.

## 4 Exceptional profit on disposal of fixed assets

The profit on the termination of the finance lease has occurred due to the variable movements in interest rates from the assumed finance lease fixed interest rate of 8%. The benefit of the refunded interest was spread over the remaining life of the finance lease.

**Notes (continued)**

**5 Interest receivable and similar income**

	2006 £000	2005 £000
Interest from bank deposits	792	1,172

**6 Interest payable and similar charges**

	2006 £000	2005 £000
Bank interest payable	1,409	1,416
Finance charges in respect of finance leases	920	1,358
	<u>2,329</u>	<u>2,774</u>

**7 Tax charge/(credit) on profit/(loss) on ordinary activities**

	2006 £000	2005 £000
<b>Current taxation</b>		
Adjustment in respect of prior years	(504)	-
Total current taxation	(504)	-
<b>Deferred taxation</b>		
Timing differences, origination and reversal	2,485	(93)
Tax charge/(credit) on loss on ordinary activities	<u>1,981</u>	<u>(93)</u>

*Factors affecting the tax charge for the current period*

The current tax charge for the period is lower (2005 higher) than the standard rate of corporation tax in the UK (30%, 2005 30%). The differences are explained below

	2006 £000	2005 £000
<b>Current tax reconciliation</b>		
Profit/(loss) on ordinary activities before tax	2,788	(744)
Current tax at 30% (2005 30%)	836	(223)
<b>Factors affecting the charge</b>		
Expenses not deductible for tax purposes	(3,809)	44
Capital allowances for period in excess of depreciation	(111)	(131)
Losses carried forward	3,084	317
Other deferred tax movements	-	(7)
Adjustment in respect of prior years	(504)	-
Total current tax (credit)/charge (see above)	<u>(504)</u>	<u>-</u>

The company is not aware of any factors which might materially affect the future tax charge. No deferred tax asset is recognised for corporation tax losses, as such losses are surrendered to other group companies.

## Notes (continued)

### 8 Tangible fixed assets

	Plant £000
<b>Costs</b>	
At 1 January 2006	35,465
Additions	1,740
Disposals	(599)
	<hr/>
At 31 December 2006	36,606
	<hr/>
<b>Accumulated depreciation</b>	
At 1 January 2006	10,482
Charge for the year	1,754
Disposals	(599)
	<hr/>
At 31 December 2006	11,637
	<hr/>
<b>Net book value</b>	
At 31 December 2006	24,969
	<hr/>
At 31 December 2005	24,983
	<hr/>

Included in the total net book value of plant is £nil (2005 £17,865,000) in respect of assets held under a finance lease. Depreciation for the year on these assets was £nil (2005 £796,000)

### 9 Stocks

	2006 £000	2005 £000
Spare parts	607	632
Fuel	682	439
	<hr/>	<hr/>
	1,289	1,071
	<hr/>	<hr/>

### 10 Debtors

	2006 £000	2005 £000
Trade debtors	462	412
Amounts owed by group undertakings	115	-
Other debtors	94	69
Prepayments and accrued income	1,448	1,877
	<hr/>	<hr/>
	2,119	2,358
	<hr/>	<hr/>

## Notes (continued)

### 11 Creditors amounts falling due within one year

	2006 £000	2005 £000
Bank loans and overdrafts (see note 12)	-	2,999
Obligations under finances leases and hire purchase contracts (see note 12)	-	1,901
Trade creditors	670	1,524
Amounts owed to group undertakings	130	7
Group relief payable	-	504
Other taxation and social security	296	321
Other creditors	450	220
Accruals and deferred income	436	628
	<u>1,982</u>	<u>8,104</u>

### 12 Creditors: amounts falling due after more than one year

	2006 £000	2005 £000
Bank loans and overdrafts (see below)	-	14,691
Obligations under finances leases and hire purchase contracts (see below)	-	26,506
Amounts owed to group undertakings	19,574	-
	<u>19,574</u>	<u>41,197</u>

Analysis of debt	2006 £000	2005 £000
Debt can be analysed as falling due		
In one year or less, or on demand	-	2,999
Between one and two years	-	1,757
Between two and five years	-	12,934
	<u>-</u>	<u>17,690</u>

The bank loan was secured by way of a fixed and floating charge over the company and its assets. Interest accrues at LIBOR less a margin to be agreed from time to time.

Included within bank loans and overdraft is a term facility of £nil (2005 £17,690,000). The term facility loan was fully repaid on the 18 September 2006.

Included within obligations under finance leases is an amount of £nil (2005 £28,407,000) relating to the power station plant. The finance lease was fully repaid on the 19 September 2006.



## Notes (continued)

### 12 Creditors, amounts falling due after more than one year (continued)

The maturity of obligations under finance leases is as follows

	2006 £000	2005 £000
Within one year	-	1,901
In the second to fifth years	-	8,395
Over five years	-	18,111
	<hr/> -	<hr/> 28,407
	<hr/> <hr/>	<hr/> <hr/>

### 13 Provision for liabilities and charges

	2006 £000	2005 £000
<b>Deferred taxation</b>		
At 1 January 2006	79	172
Profit and loss credit	2,485	(93)
	<hr/>	<hr/>
<b>At 31 December 2006</b>	<b>2,564</b>	<b>79</b>
	<hr/> <hr/>	<hr/> <hr/>

The amounts of deferred taxation provided in the accounts are as follows

	£000	£000
Capital allowances in excess of depreciation	5,648	773
Losses	(3,084)	(694)
	<hr/>	<hr/>
<b>At 31 December 2006</b>	<b>2,564</b>	<b>79</b>
	<hr/> <hr/>	<hr/> <hr/>

### 14 Called up share capital

	2006 £000	2005 £000
<b>Authorised share capital</b>		
50,000,000 ordinary shares of £1 each	50,000	50,000
	<hr/>	<hr/>
<b>Called up, allotted, and fully paid</b>		
4,200,000 Ordinary shares of £1	4,200	4,200
	<hr/> <hr/>	<hr/> <hr/>

## Notes (continued)

### 15 Movements on reserves

	Profit and loss account £000
At 1 January 2006	466
Retained profit for the financial year	2,627
	<hr/>
At 31 December 2006	3,093
	<hr/>

### 16 Reconciliation of movements in shareholders' funds

	2006 £000	2005 £000
Profit/(loss) for the financial year	2,627	(651)
Opening shareholders' funds	4,666	5,317
	<hr/>	<hr/>
Closing shareholders' funds	7,293	4,666
	<hr/>	<hr/>

### 17 Other financial commitments

#### Operating financial commitments

At 31 December 2006 the company was committed to making the following payments during the next year in respect of operating leases

	Land and buildings 2006 £000	Land and buildings 2005 £000
Leases which expires in more than five years	25	25
	<hr/>	<hr/>

### 18 Subsequent events

In March 2007 International Power plc announced that it had signed an agreement with Mitsui & Co Ltd to sell a 25% holding of Indian Queens Power. Completion of this transaction, which is conditional upon the approval by International Power plc's shareholders, is expected in June 2007. This transaction is not expected to have a material impact on Indian Queens Power performance and financial position.

### 19 Fair value of assets and liabilities

The Company has derivative financial instruments that it has not recognised at fair value as follows

- Indian Queens Power hedges a proportion of its fuel against price risk movement. At the year end these fuel trades were out of market in favour of the other counterparty by £334,000 (2005 £nil).
- There were two types of derivatives in use at the year end, a straight forward monthly contract for differences £311,000 (2005 £nil) and a cap and collar £23,000 (2005 £nil). In 2005 there was a cap in operation until March 2006 with a £nil carrying value.

**20 Ultimate parent company**

The immediate parent company is International Power Indian Queens Limited, a company registered in England and Wales at Senator House, 85 Queen Victoria Street, London, EC4V 4DP

The ultimate parent company and controlling party is International Power plc, registered in England and Wales at Senator House, 85 Queen Victoria Street, London, EC4V 4DP