

AES INDIAN QUEENS POWER LIMITED

Report and Financial Statements

31 December 2003

Deloitte & Touche LLP
London



REPORT AND FINANCIAL STATEMENTS 2003

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OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

V Danks
W Luraschi
A McKay
B Sharp

SECRETARY

A McKay

REGISTERED OFFICE*

Gaverigan
St Dennis
St Austell
Cornwall
PL26 8BY

BANKERS

Barclays Bank plc
Barclays Capital Service Centre
PO Box 46116
London
EC4N 8WB

SOLICITORS

Skadden, Arps, Slate, Meagher & Flom
1 Canada Square
Canary Wharf
London
E14 5DS

AUDITORS

Deloitte & Touche LLP
London

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 December 2003.

PRINCIPAL ACTIVITY

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

RESULTS AND DIVIDENDS

The result for the year is set out in the profit and loss account on page 5. The directors have decided not to propose a dividend for the year ended 31 December 2003 (2002: nil).

DIRECTORS AND THEIR INTERESTS

The current directors are shown on page 1. The following directors served throughout the year and to date:

V Danks
W Luraschi
A McKay
B Sharp
N Hopkins (resigned 31 December 2003)
M Armstrong (resigned 31 December 2003)

None of the directors had any interests in the shares of the company as defined in the Companies Act 1985, or any other group company at 31 December 2003 or at any time during the year.

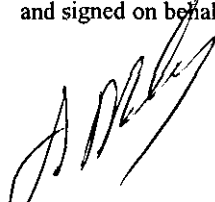
DONATIONS

The company made charitable donations of £nil (2002: £6,420) during the year.

AUDITORS

Deloitte & Touche LLP have expressed their willingness to remain in office as auditors of the company. A resolution to reappoint Deloitte & Touche LLP will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors
and signed on behalf of the Board



A McKay
Secretary

STATEMENT OF DIRECTORS' RESPONSIBILITIES

United Kingdom company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year 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; and
- prepare the financial statements on a 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 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 the system of internal control, safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF

AES INDIAN QUEENS POWER LIMITED

We have audited the financial statements of AES Indian Queens Power Limited for the year ended 31 December 2003 which comprise the profit and loss account, the balance sheet and the related notes 1 to 22. 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

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

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 if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the directors' report for the above year and consider the implications for our report if we become aware of any apparent misstatements.

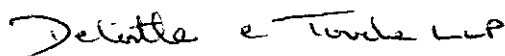
Basis of audit opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2003 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



DELOITTE & TOUCHE LLP

Chartered Accountants and Registered Auditors
London

30 September 2004

PROFIT AND LOSS ACCOUNT
Year ended 31 December 2003

	Note	2003 £'000	2002 £'000
TURNOVER	1	7,559	7,572
Cost of sales		(3,490)	(3,583)
GROSS PROFIT		4,069	3,989
Administrative expenses		(2,004)	(1,949)
OPERATING PROFIT	2	2,065	2,040
Loss on disposal of fixed assets	4	(254)	-
Interest receivable and similar income	5	891	1,092
Interest payable and similar charges	6	(2,951)	(3,171)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(249)	(39)
Tax credit/(charge) on loss on ordinary activities	7	89	(9)
RETAINED LOSS FOR THE FINANCIAL YEAR	19	(160)	(48)

All amounts derive from continuing operations.

There are no recognised gains or losses in either the current or previous financial year other than the gains and losses disclosed in the profit and loss account. Accordingly, no statement of total recognised gains and losses is required.

AES INDIAN QUEENS POWER LIMITED

BALANCE SHEET
At 31 December 2003

	Note	2003 £'000	2002 £'000
FIXED ASSETS			
Tangible fixed assets	8	27,026	27,780
CURRENT ASSETS			
Stocks	9	1,018	846
Debtors	10	1,203	1,399
Cash at bank and in hand	11	25,706	25,540
		<u>27,927</u>	<u>27,785</u>
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	12	(5,005)	(5,309)
NET CURRENT ASSETS		<u>22,922</u>	<u>22,476</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		49,948	50,256
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	13	(43,645)	(43,704)
PROVISIONS FOR LIABILITIES AND CHARGES	16	(555)	(644)
NET ASSETS		<u>5,748</u>	<u>5,908</u>
CAPITAL AND RESERVES			
Called up share capital	17	4,200	4,200
Profit and loss account	18	1,548	1,708
EQUITY SHAREHOLDERS' FUNDS	19	<u>5,748</u>	<u>5,908</u>

These financial statements were approved by the Board of Directors on

Signed on behalf of the Board of Directors


A McKay
Director

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2003

1. ACCOUNTING POLICIES

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

Turnover

Turnover for the sale of electricity and the provision 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 discounts.

Foreign currencies

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

Tangible fixed assets

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

Depreciation is provided on tangible fixed assets in order to write them down to their residual value over the course of their useful economic life which is estimated to be between three and thirty years.

Stock

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

Leases

Assets held under finance leases and hire purchase contracts are capitalised at their fair value on the inception of the leases and depreciated over the shorter of the period of the lease and the estimated useful economic lives of the assets. The finance charges are allocated over the period of the lease in proportion to the capital amount outstanding and are charged to the profit and loss account.

Operating lease rentals are charged to the profit and loss account on a straight-line basis over the period of the lease.

Deferred taxation

In accordance with FRS19, deferred tax is provided in full on timing differences which represent an asset or a liability at the balance sheet date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax is not provided on timing differences arising on unremitted earnings of subsidiaries and associates where there is no commitment to remit these earnings. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Cash flow statement

As a wholly owned subsidiary of a UK registered company, AES Indian Queens Power Limited, has taken advantage of the exemption in Financial Reporting Standard No. 1, from the requirement to produce a cash flow statement. A consolidated cash flow statement is included in AES UK Holdings Limited group accounts.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2003

2. OPERATING PROFIT

	2003	2002
	£'000	£'000
Operating profit is after charging:		
Depreciation of owned assets	689	582
Depreciation of assets held under finance leases	846	846
Rentals under operating leases - other operating leases	25	25
Auditors' remuneration - audit fee	23	20
Tax fee	15	-
	<u> </u>	<u> </u>

3. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

All the directors of AES Indian Queens Power Limited are also directors of AES Indian Queens Operations Limited. It is not practicable to allocate their remuneration between their services for AES Indian Queens Power Limited and AES Indian Queens Operations Limited. Their remuneration for the year ended 31 December 2003 is disclosed in the accounts for AES Indian Queens Operations Limited.

As the company has no employees, no wages or wage related costs were paid by the company during the year.

4. LOSS ON DISPOSAL OF FIXED ASSETS

The loss on disposal of fixed assets relates to the disposal of turbine blades. These were sold for scrap resulting in a loss on disposal of £254,000 in the year ended 31 December 2003. This exceptional loss has no impact on the tax charge for the year.

5. INTEREST RECEIVABLE AND SIMILAR INCOME

	2003	2002
	£'000	£'000
Interest from bank deposits	891	1,092
	<u> </u>	<u> </u>

6. INTEREST PAYABLE AND SIMILAR CHARGES

	2003	2002
	£'000	£'000
Interest payable to parent company	47	219
Bank interest payable	2,904	2,952
	<u> </u>	<u> </u>
	2,951	3,171
	<u> </u>	<u> </u>

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2003

7. TAX CREDIT/(CHARGE) ON LOSS ON ORDINARY ACTIVITIES	2003 £'000	2002 £'000
Corporation Tax		
Corporation tax charge for the year	-	-
Group relief	-	212
Deferred taxation		
Timing differences, origination and reversal	40	(9)
Adjustments in respect of prior years	49	(212)
Tax (charge)/credit on loss on ordinary activities	89	(9)

The standard rate of current tax for the year, based on the UK standard rate of corporation tax is 30% (2002: 30%). The current tax charge for the year differs from the standard rate for the reasons set out in the following reconciliation:

	2003 £'000	2002 £'000
Loss on ordinary activities before tax	(249)	(39)
	£'000	£'000
Tax on loss on ordinary activities at standard rate	75	12
Factors affecting the charge:		
Disallowable expenses	(13)	(21)
Capital allowances timing differences	(56)	33
Losses carried forward	-	148
Short-term timing differences not provided	(22)	(14)
Other deferred tax movements	16	54
Current tax charge for the year	-	212

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 TO THE FINANCIAL STATEMENTS
Year ended 31 December 2003

8. TANGIBLE FIXED ASSETS

	Plant £'000
Cost	
At 1 January 2003	35,063
Additions	1,034
Disposals	(310)
At 31 December 2003	<u>35,787</u>
Accumulated depreciation	
At 1 January 2003	7,283
Charge for year	1,535
Disposals	(57)
At 31 December 2003	<u>8,761</u>
Net book value	
At 31 December 2003	<u>27,026</u>
At 31 December 2002	<u>27,780</u>

The net book value of the company's plant includes £18,901,857 (2002: £19,747,857) in respect of assets held under a finance lease.

9. STOCKS

	2003 £'000	2002 £'000
Spare parts	648	539
Fuel	370	307
	<u>1,018</u>	<u>846</u>

10. DEBTORS

	2003 £'000	2002 £'000
Trade debtors	702	831
Amounts owed by group undertakings	107	126
Prepayments and other debtors	394	442
	<u>1,203</u>	<u>1,399</u>

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2003

11. CASH AT BANK AND IN HAND

Within the cash balance, £23,405,721 (2002: £23,397,926) is held in an escrow account. Barclays Bank plc, through BLAF (No. 3) Limited, has a charge on all sums outstanding regarding this account and all other rights and benefits accruing in connection therewith.

Barclays Bank plc also has a fixed and floating charge over the undertaking and all property and assets present and future.

12. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	2003	2002
	£'000	£'000
Bank loans and overdrafts (notes 14 & 15)	142	250
Obligations under finances leases and hire purchase contracts	1,758	1,689
Trade creditors	337	454
Amounts owed to group undertakings	34	1
Group relief payable	504	504
Other creditors	41	66
Taxation and social security	203	147
Accruals and deferred income	1,986	2,198
	<u>5,005</u>	<u>5,309</u>

13. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2003	2002
	£'000	£'000
Bank loans and overdrafts (note 14 & 15)	18,469	18,597
Obligations under finance leases and hire purchase contracts	25,007	24,383
Amounts owed to group undertakings	169	724
Other creditors	-	-
	<u>43,645</u>	<u>43,704</u>

The term facility loan is repayable in 17 years and accrues interest at LIBOR plus 1.0625%. The interest rate increased in May 2003 to LIBOR plus 1.3625% and then again in May 2005 to LIBOR plus 1.7125%.

The facility loan is secured on a pari-passu basis by the assets of AES Indian Queens Power Limited. These assets consist of shares in AES Indian Queens Power Limited, material project agreements, all insurance and the proceeds thereof, charge upon the lease, all moveable property and receivables and all monies and investments in the project held by Barclays Bank plc. The finance lease is repayable over 25 years from 28 May 1997.

Amounts owed to the group undertakings are repayable by instalments with the last instalment due in 2009. The interest rate is fixed at 9.2% per annum.

The finance lease is linked to the escrow deposit account and earns interest at LIBOR less a margin renewable every six months and repayable over 25 years. It is secured by the assets to which it relates.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2003

14. BORROWINGS	2003 £'000	2002 £'000
Bank loans	18,611	18,847
Parent company loan	170	724
	<u>18,781</u>	<u>19,571</u>
Obligations under finance leases and hire purchase contracts	26,764	26,073
	<u>45,545</u>	<u>45,644</u>
	£'000	£'000
Due within one year	1,900	1,939
Due after more than one year	43,645	43,705
	<u>45,545</u>	<u>45,644</u>

An analysis of the maturity profile of the company's financial liabilities is given in note 15.

15. MATURITY PROFILE OF FINANCIAL LIABILITIES

	2003 Bank borrowings £'000	2003 Other £'000	2003 Total £'000	2002 Bank borrowings £'000	2002 Other £'000	2002 Total £'000
Within one year or less or on demand	142	1,758	1,900	250	1,689	1,939
More than one year but not more than two years	807	1,828	2,635	142	1,927	2,069
More than two years but not more than five years	5,271	5,934	11,205	4,131	5,706	9,837
More than five years	12,391	17,414	29,805	14,324	17,475	31,799
	<u>18,611</u>	<u>26,934</u>	<u>45,545</u>	<u>18,847</u>	<u>26,797</u>	<u>45,644</u>

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2003

16. PROVISION FOR LIABILITIES AND CHARGES

	2003	2002
	£'000	£'000
Deferred taxation		
At 1 January 2003	644	423
Profit and loss (credit)/charge	(89)	221
At 31 December 2003	555	644

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

	£'000	£'000
Capital allowances in excess of depreciation	516	571
Other	39	73
	555	644

17. CALLED UP SHARE CAPITAL

	2003	2002
	£'000	£'000
Authorised share capital		
50,000,000 ordinary shares of £1 each	50,000	50,000
	£'000	£'000
Called up, allotted and fully paid		
4,200,000 Ordinary shares of £1 each	4,200	4,200

18. MOVEMENTS ON RESERVES

	Profit and loss account £'000
At 1 January 2003	1,708
Retained loss for the year	(160)
At 31 December 2003	1,548

19. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2003	2002
	£'000	£'000
Opening shareholders' funds	5,908	5,956
Loss for the financial year	(160)	(48)
Closing shareholders' funds	5,748	5,908

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2003

20. OTHER FINANCIAL COMMITMENTS

Operating lease commitments

As at 31 December 2003 the company was committed to making the following payments during the next year in respect of operating leases.

	Land and buildings £'000
Leases which expire - in more than five years	<u>25</u>

Letters of credit

At 31 December 2003, the company had letters of credit with Barclays Bank plc in favour of Elexon Clear Limited in the amount of £200,000. There was no amount outstanding at 31 December 2003.

21. RELATED PARTY TRANSACTIONS

The company is a wholly owned subsidiary and has accordingly taken advantage of the exemption available under FRS8 from disclosing transactions with group entities.

22. ULTIMATE PARENT COMPANY AND CONTROLLING PARTY

The immediate parent company is AES Indian Queens Holdings Limited, a company registered in England and Wales.

The ultimate parent company and controlling party is The AES Corporation, a company incorporated in the State of Delaware, USA. Copies of the ultimate parent company's financial statements can be obtained from the Securities and Exchange Commission, 450 5th Street NW, Washington DC 20549, USA.

The largest and smallest group of which the company is a member and for which group accounts are drawn up is that of, AES UK Holdings Limited registered in England and Wales. Copies of the report and accounts are available from 18 Parkshot, Richmond, Surrey, TW9 2RG.