

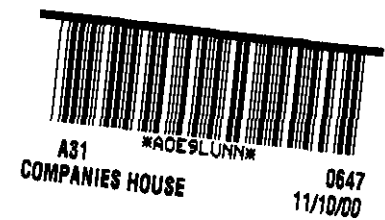
COTTAM DEVELOPMENT CENTRE

COTTAM DEVELOPMENT CENTRE LIMITED

REPORT

for the 12 Months ended 2 January 2000

Registered No: 3273552



COTTAM DEVELOPMENT CENTRE LIMITED

Report of the directors for the period ended 2 January 2000

The directors submit their report and audited financial statements of the Company for the 12 months ended 2 January 2000.

Review of activities and future developments

The principal activity of the company is currently the operation of a generator turbine testing and power generation facility.

The retained profit for the year ended 2 January 2000 was £595,000 (loss of £3,251,000 for the 9 months ended 3 January 1999).

The station was constructed to the budgeted cost and provisional take-over occurred on 22 September 1999, nearly 6 months later than the programme date of 1 April 1999. This resulted in a shortfall in revenue of £6.4 Million in the period. The impact of this on retained profit was however, consequentially mitigated by savings in operational and financing costs of £3.2 Million resulting from deferral of commercial operation.

The Board now believes a 2 year extension in the operational phase of the V94.3a(2) gas turbine most likely before eventual replacement with the WEGA machine. Such an extension would require re-negotiation of a number of project contracts, however it is not anticipated that this potential change to the phasing of future operating regimes will have a detrimental effect on the Company's future earnings

The testing of operational systems and review of financial systems for Year 2000 compliance has proved successful as no problems have been identified or experienced to date.

Dividends

The directors do not recommend the payment of a dividend.

Directors

The directors of the Company at 2 January 2000 and 3 January 1999 were N P Baldwin, P R Hughes, Dr F Ruess and H-J Schulz.

None of the directors had any interest in the share capital of the company.

COTTAM DEVELOPMENT CENTRE LIMITED

Auditors

On 30th June 1999 Deloitte & Touche were re-appointed as auditors of the company.

Statement of directors' responsibilities

The directors:

- acknowledge the legal requirement for the preparation of 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 and loss for that period;
- acknowledge their responsibility for keeping proper accounting records, for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities;
- confirm that suitable accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, have been used in the preparation of the financial statements;
- confirm that applicable accounting standards have been followed;
- confirm that the financial statements have been prepared on a going concern basis.

Signed on behalf of the Board of Directors



NP Baldwin

16 June 2000

COTTAM DEVELOPMENT CENTRE LIMITED

Report of the auditors to the members of Cottam Development Centre Limited

We have audited the financial statements on pages 5 to 16, which have been prepared under the accounting policies set out on pages 8 and 9.

Respective responsibilities of directors and auditors

As described on page 3, the Company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with 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 company's state of affairs as at 02 January 2000 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche

Deloitte & Touche
Chartered Accountants and Registered Auditors
1 Woodborough Road
Nottingham
Date: 23-06-00

COTTAM DEVELOPMENT CENTRE LIMITED

PROFIT AND LOSS ACCOUNT
FOR THE PERIOD ENDED 2 January 2000

		12 months ended 2 January 2000 £'000	9 months ended 3 January 1999 £'000
Turnover	2	20,968	-
Cost of Sales	3	<u>(11,475)</u>	-
Gross Margin		9,493	-
Operating costs	4	<u>(5,396)</u>	(2,767)
Operating profit : continuing activities		4,097	(2,767)
Interest payable	7	<u>(3,183)</u>	(484)
Profit on ordinary activities before taxation		<u>914</u>	(3,251)
Tax on profit on ordinary activities	8	<u>(319)</u>	-
Retained profit / (loss) for the financial year	15	595	(3,251)
Retained (loss) brought forward		(5,689)	(2,438)
Retained (loss) carried forward		<u><u>(5,094)</u></u>	<u><u>(5,689)</u></u>

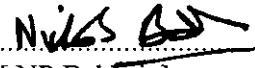
The Company has no recognised gains or losses during the period, other than the profit / (loss) above and therefore no separate statement of total recognised gains and losses is presented.

COTTAM DEVELOPMENT CENTRE LIMITED

BALANCE SHEET
AS AT 2 January 2000

	Note	2 Jan 2000 £'000	3 Jan 1999 £'000
Tangible fixed assets	9	93,408	7,472
Current assets			
Debtors	10	4,217	132
Short term deposits		3,400	10
Cash at bank and in hand		13	100
		7,630	242
Creditors: amounts falling due within one year	11	(2,041)	(432)
		5,589	(190)
Net current assets / liabilities			
Total assets less current liabilities		98,997	7,282
Creditors: amounts falling due after more than one year	12	(82,525)	(10,513)
Provisions for liabilities and charges	13	(1,588)	-
		14,884	(3,231)
Net Assets / liabilities			
Capital and surplus			
Called up share capital	14	6,378	2,458
Shares to be issued	14	13,600	-
Profit and loss account		(5,094)	(5,689)
		14,884	(3,231)
Total Equity Shareholders' Funds	15	14,884	(3,231)

The accounts have been approved by the Board on 16 June 2000 and were signed on its behalf by:

 Director
[NP Baldwin]

COTTAM DEVELOPMENT CENTRE LIMITED

CASHFLOW STATEMENT
Period ended 2 January 2000

		12 months ended 2 January 2000 £'000	9 months ended 3 January 1999 £'000
Net cash inflow / (outflow) from continuing activities	Note Below	2,406	(3,215)
Returns on investment & servicing of finance:			
Interest received		143	36
Interest paid (SWAP)		(1,307)	0
Net cash (outflow) / inflow from returns on investment & servicing of finance:		<hr/> (1,164)	<hr/> 36
Capital Expenditure			
Purchase of tangible fixed assets		(85,539)	(3,757)
Net cash outflow from capital expenditure		<hr/> (85,539)	<hr/> (3,757)
Net cash outflow before management of liquid resources and financing		<hr/> (84,297)	<hr/> (6,936)
Management of liquid resources			
Movement in Cash placed on short term deposit		(3,390)	235
Financing			
Issue of ordinary equity	14	17,520	1,360
Receipts from loan drawdowns	16	70,080	5,440
		<hr/> 87,600	<hr/> 6,800
Net cash inflow from liquid resources & financing		<hr/> 84,210	<hr/> 7,035
(Decrease) / increase in cash in the period	16	<hr/> (87)	<hr/> 99
Reconciliation of operating profit / (loss) to net cash inflow / (outflow) from continuing operating activities			
Operating profit		4,097	(2,767)
Depreciation on tangible fixed assets		52	30
(Increase) / Decrease in debtors	10	(3,263)	22
Increase / (Decrease) in creditors	11	1,520	(500)
Net cash inflow / (outflow) from continuing operating activities		<hr/> 2,406	<hr/> (3,215)

COTTAM DEVELOPMENT CENTRE LIMITED

Notes to the financial statements for the period ended 2 January 2000

1 Accounting policies

(a) Basis of accounting

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

(b) Tangible fixed assets

Tangible fixed assets other than the main plant are stated at original cost less accumulated depreciation. In the case of the main plant, an appropriate valuation of the current configuration (including the V93.3a(2) gas turbine) has been made by the Directors on behalf of the Company, to reflect the transient generation assets at Site pending final installation of the contractual configuration (including the WEGA gas turbine) at full takeover of the plant. Related project management and commissioning costs are included in cost.

(c) Depreciation

Provision for depreciation is made so as to write off, on a straight-line basis, the cost of tangible fixed assets. Assets are depreciated over their estimated useful lives. Generation assets will be depreciated from January 2000 when in operation. The estimated useful lives for the principal categories of fixed assets are:

Asset	Life in years
Operating plant and buildings from Provisional Takeover	23
Office equipment and other short term assets	3

(d) Leases

Rents payable under operating leases are charged to the profit and loss account evenly over the term of the lease.

COTTAM DEVELOPMENT CENTRE LIMITED

1 Accounting policies (continued)

(e) Deferred taxation

Deferred taxation arises in respect of items where there is a timing difference between their treatment for accounting purposes and their treatment for taxation purposes. Provision for deferred taxation using the liability method, is made to the extent that it is probable that a liability or asset will crystallise in the foreseeable future.

2 Turnover

Turnover relates to continuing activities and principally derives from the sale of power generation capacity to PowerGen UK plc in parallel with making the plant available to Siemens AG for the testing and development of related technology for which a testing fee is charged.

Turnover relating to continuing activities constitutes the following:

	2 Jan 2000 £'000
Pool Income*	11,475
Capacity Fees	8,293
Testing Fees	1,200
	<hr/> 20,968 <hr/>

* Pool income is assigned to PowerGen UK plc

3 Cost of Sales

Cost of sales of £11,475,338 refers to Gas deemed to have been used, the value of which is always equal, but opposite to the Pool income assigned to PowerGen UK plc.

4 Operating costs

Operating costs relate to continuing activities and are made up as follows:

	2 Jan 2000 £'000	3 Jan 1999 £'000
Operational expenses	4,797	2,226
Administration expenses	599	541
	<hr/> 5,396 <hr/>	<hr/> 2,767 <hr/>

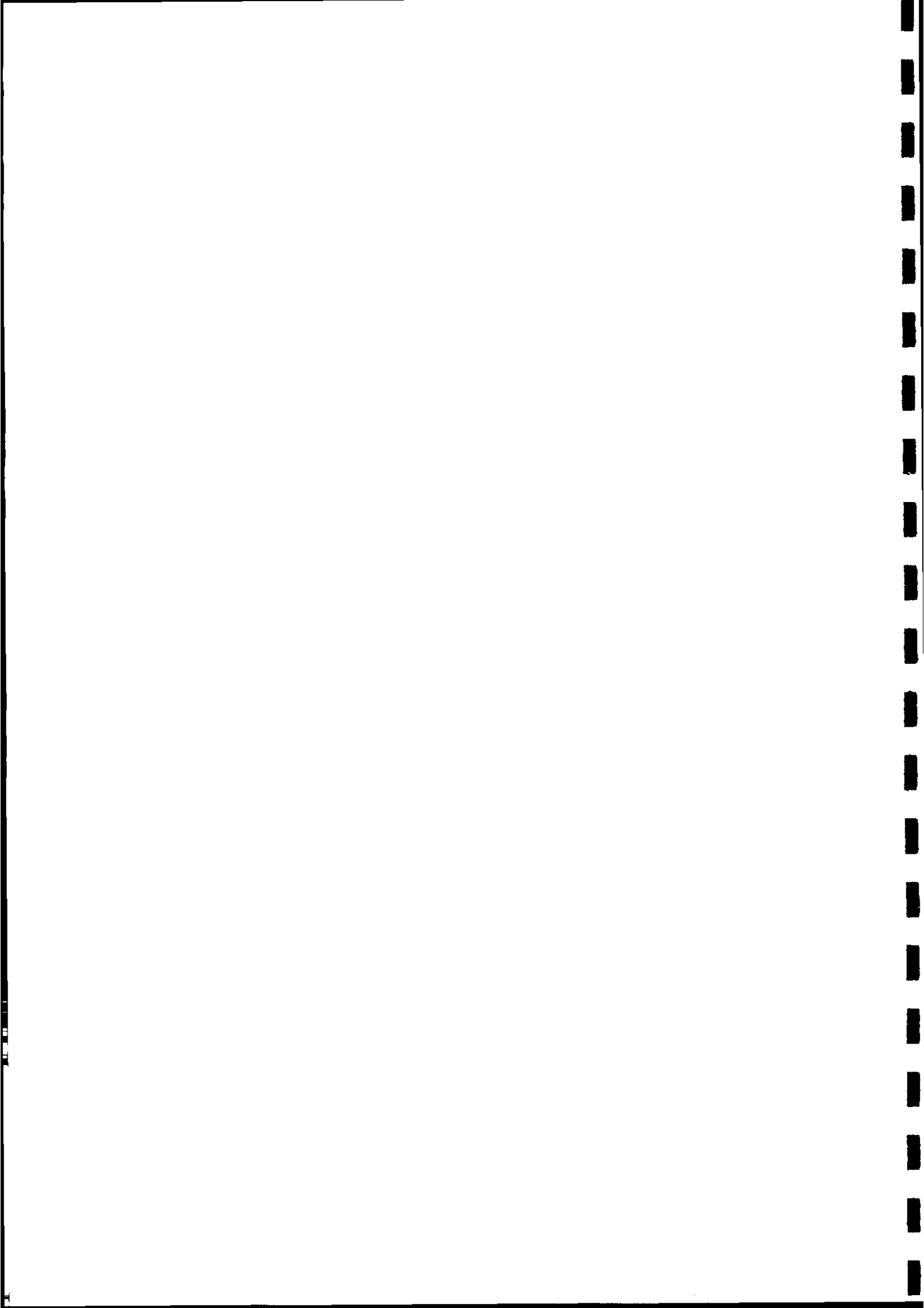
Operational expenses include an accrual of £892,000 (1998 - £0) for business rates commencing with trading on provisional takeover, but for which the rating assessment remains outstanding.

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9 Tangible fixed assets

	Plant and Buildings	Other Short term Assets	Total
	£'000	£'000	£'000
Cost			
At 3 Jan 1999	7,371	143	7,514
Additions	85,839	149	85,988
At 2 January 2000	93,210	292	93,502
Accumulated depreciation			
At 3 Jan 1999	-	(42)	(42)
Charge for the period	-	(52)	(52)
At 2 January 2000	-	(94)	(94)
Net book value			
At 2 January 2000	93,210	198	93,408
At 3 January 1999	7,371	101	7,472

Of the additions during the period to operating plant and buildings, £446,722 is a provision representing the discounted cost of decommissioning of operational plant and buildings at the end of it's useful life. The remainder in respect of tangible fixed assets is based on cost.



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10 Debtors

	2 Jan 2000 £'000	3 Jan 1999 £'000
Due within one year		
Capacity & monitoring fees (trade debtors)	3,344	99
Consortium tax relief	822	-
Other debtors	51	33
	4,217	132

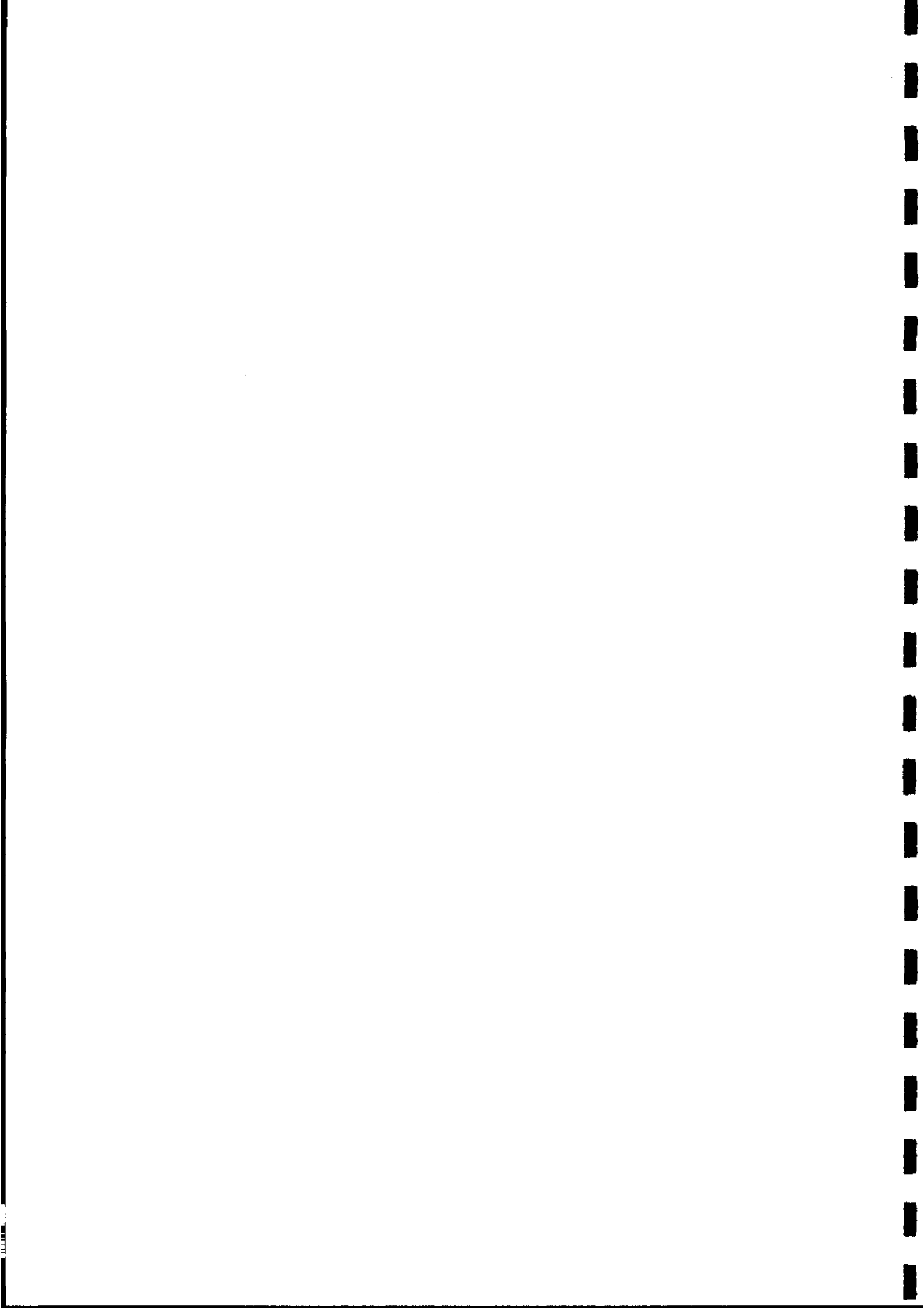
11 Creditors: amounts falling due within one year

	2 Jan 2000 £'000	3 Jan 1999 £'000
Trade creditors	170	27
Amounts owed to parent undertakings	440	33
Other taxation and social security	517	-
Accruals and deferred income	914	372
	2,041	432

12 Creditors: amounts falling due after more than one year

	2 Jan 2000 £'000	3 Jan 1999 £'000
Amounts owed to ultimate parent undertakings	82,525	10,513

The amounts owed to parent undertakings are split equally between PowerGen UK plc and Siemens AG and represent draw-downs and rolled up interest on an unsecured loan repayable in June 2002. The ultimate parent undertakings are obliged to provide or procure funding for a further 5 years as contained in the Finance Plan under the same terms and conditions as defined in the current loan agreements. Interest is payable on the loan at rates which approximate to 7%. The Company has elected to roll-up the interest into the principal. No event related contractual payments to Siemens plc are overdue or due within the next 12 months.



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13 Provisions for liabilities and charges

	2 Jan 2000 £'000	3 Jan 1999 £'000
Deferred taxation	1,141	-
Decommissioning Provision	447	-
	1,588	-

The decommissioning provision reflects the total discounted cost of decommissioning the plant at the end of the stations' useful life in 2023.

	£'000
Deferred Taxation	-
At 4 January 1999	-
Current year charge	1,141
	1,141
At 2 January 2000	1,141

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

	Provided 2 Jan 2000 £'000	Provided 3 Jan 1999 £'000	Unprovided 2 Jan 2000 £'000	Unprovided 3 Jan 1999 £'000
Capital allowances in excess of depreciation	1,549	-	-	-
Other timing differences	(408)	-	-	-
	1,141	-	-	-

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14. Called up share capital

The share capital of the company comprises:

	2 Jan 2000 £'000	3 Jan 1999 £'000
Authorised		
10,000,000 ordinary shares of £1 each	10,000	10,000
Allotted, called up and fully paid at 3 January 1999	2,458	1,098
Additions	3,920	1,360
At 2 January 2000	6,378	2,458

During the year, 3,920,000 ordinary shares were issued for cash at a nominal value of £1 each. Additional equity of £13,600,000 was received in equal part from both shareholders for which no share certificates were allotted within the period. These share certificates were issued on 22nd February 2000.

15 Reconciliation of movements in shareholders' deficit

	2 Jan 2000 £'000	3 Jan 1999 £'000
Opening shareholders' deficit	(3,231)	(1,340)
Profit for the year	595	(3,251)
Equity issued in year	3,920	1,360
Shares to be issued	13,600	-
Closing shareholders' funds	14,884	(3,231)

COTTAM DEVELOPMENT CENTRE LIMITED

16 Reconciliation of net cashflow to movement in net debt

	2 Jan 2000	3 Jan 1999
	£'000	£'000
Opening net debt	(10,403)	(4,318)
(Decrease) / Increase in cash in the period	(87)	99
Cash inflow from increase in debt	(70,080)	(5,440)
Cash outflow / (inflow) from increase / decrease in liquid resources	3,390	(235)
Change in net debt from cashflows	(66,777)	(5,576)
Rolled up interest	(1,932)	(509)
Movement in net debt	(68,709)	(6,085)
 Closing net debt	 (79,112)	 (10,403)

17 Analysis of net debt

	3 January 1999	Cashflow	Non cash items	2 January 2000
	£'000	£000	£000	£'000
Cash in hand at bank	100	(87)	-	13
Short Term Deposits	10	3,390	-	3,400
Loans due < 5 years	(10,513)	(70,080)	(1,932)	(82,525)
 Net debt	 (10,403)	 (66,777)	 (1,932)	 (79,112)

18 Capital commitments

At 2 January 2000, the Company had commitments of £80,315,000 (1998 - £164,486,000) for capital expenditure under the Plant Development Agreement, all of which relates to expenditure to be incurred after one year.

19 Ultimate parent undertaking

The Company is a wholly owned joint venture undertaking between Siemens Project Ventures GmbH, a wholly owned subsidiary of Siemens AG (a Company registered in Berlin and Munich, Germany) and PowerGen UK plc (a Company registered in England and Wales)

20 Related party transactions

The Company has a significant number of transactions with the shareholders the majority of which are all defined within individual contracts between the Company and PowerGen UK plc, and the Company and members of the Siemens AG Group.

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20 Related party transactions (continued)

During the year, the Company had operational transactions totalling £19,225,962 (1998 - £5,962,000) from PowerGen plc. £11,475,338 (1998 - £0) of this was for Gas deemed to have been supplied. The balance primarily comprised contributions to the construction of the Gas Pipeline, contractual obligations for operations and maintenance staff and project management. All charges are based on arms length terms. Of these costs, £349,142 (1998 - £88,000) was outstanding, but not overdue at the 2 January 2000.

During the year, the Company had operational transactions totalling £80,492,314 (1998 - £67,000) from companies within the Siemens AG group mainly for capital payments under the Plant Development Agreement. Other charges relate to staff secondment. A total of £25,000 (1998- £20,000) was outstanding, but not overdue at the 2 January 2000.

