

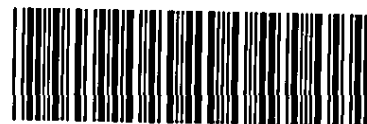
Grovehurst Energy Limited

**Directors' report and financial
statements**

Registered number 2197516

31 December 2006

TUESDAY



LX2VWU8D

LD7

30/10/2007

326

COMPANIES HOUSE

Contents

Directors' report	1
Statement of directors' responsibilities	3
Report of the independent auditors to the members of Grovehurst Energy Limited	4
Profit and loss account	5
Balance sheet	6
Cash flow statement	7
Notes	8

Directors' report

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

Principal activities

The principal activity of the company during the year comprised the management of the provision of power and steam and other site services

Business review

The loss for the year after taxation amounted to £8,000 (2005 £61,000 profit) The directors do not recommend the payment of a dividend (2005 £nil)

Sales increased by 11.8% to £ 55,023 during the year against sales of £ 49,218 in 2005. However, turnover and profit is not a driver for this jointly owned site services company. The purpose of the Company is to provide heat and power distribution from the on-site combined heat and power plant owned and operated under contract by Eon UK Limited, together with effluent treatment, water and waste disposal services to M-real New Thames Limited and St Regis Paper Company Limited on the Kemsley Mill site.

Costs are the main focus of attention for the Company and its shareholders, and during 2006 and 2007 the Company will be reviewing areas of its business to ensure their cost effective operation.

These included the implementation of processes to significantly improve the performance of sludge pressing following a significant capital investment in 2005, an assessment of the potential to outsource the effluent treatment plant facilities to a third party company, which was discounted in 2007, review of the structure of the Company operationally, which will result in additional resource being employed during 2008, and considering the options for the Combined Heat and Power Plant when that contract expires in 2010.

Pensions

On 5 April 2007, following a consultation period, the UK Paper Employee Benefit Scheme, defined benefit section, was closed to future accrual for all members, including Grovehurst Energy employees. All members of that section were encouraged to join the defined contribution section. The defined contribution section now provides life assurance benefits for its members at the Company's cost and the employer agreed to match contributions above the minimum level, to a maximum company cost of 11.25%. The Trustee of the Scheme agreed a schedule of annual payments with the Participating Employers in order to eliminate the final salary section deficit.

Key Performance Indicators

The Company does use KPIs to effectively measure environmental and operational performance in respect of inputs and outputs, but as a non-profit making shared services company does not issue key financial performance indicators. Performance is largely measured against budget, to ensure effective cost control measures.

Risks and Uncertainties

The company considers that environmental and health and safety risk management to be a top priority and resources are allocated accordingly. Each of the companies on the Kemsley site are operated under IPPC requirements as well as the legislative and regulatory frameworks. Part of the additional manning resources identified and will be employed in early 2008 are to strengthen further the management of environmental and health and safety risks.

A detailed Risk Assessment has been undertaken to identify critical areas and how best to minimise the risks and appropriate control measures are in place to mitigate the situation as far as practicable. Environmental breach and key asset failure are the two biggest risks faced by the Company and it is believed that there are adequate systems and controls now in place to minimise those risks to an acceptable level.

Subsequent Events

In October 2006, M-real announced that it was entering into consultation to close Sittingbourne Mill operations with effect from March 2007. Following that consultation process, it was agreed that the Mill would cease paper making operations with effect from 19 January 2007. The majority of the workforce was made redundant at the end of January 2007. Further details are disclosed in note 20 of the financial statements.

Directors and directors' interests

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

MJ Arnold	
CR Rosser	
AJ Kenward	Resigned 10 March 2006
KF White	Resigned 29 June 2007
HR Emmett	
AT Young	
MG Collins	Appointed 10 March 2006

GJ Fullagar was appointed as a director on the 29 June 2007.

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

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

Auditors

The shareholders have passed an elective resolution to dispense with the requirements to hold annual general meetings, to present the company's statutory accounts before the members in general meeting and to appoint auditors annually.

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.

By order of the board



D Scudder
Secretary

26 October 2007

Grovehurst Energy Limited
SITTINGBOURNE
Kent
ME10 3ET

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 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

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. Under applicable law the directors are also responsible for preparing a Director's Report that complies with that law



KPMG LLP

1 Forest Gate
Brighton Road
Crawley
West Sussex
RH11 9PT

Independent auditors report to the members of Grovehurst Energy Limited

We have audited the financial statements of Grovehurst Energy Limited for the year ended 31 December 2006 which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement 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 3.

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 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.

Independent auditors' report to the members of Grovehurst Energy 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 loss 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 LLP

29 October 2007

KPMG LLP
Chartered Accountants
Registered Auditor

Profit and loss account
for the year ended 31 December 2006

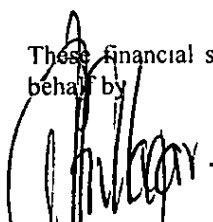
	<i>Note</i>	2006 £000	2005 £000
Turnover	2	55,023	49,218
Other operating income		38	25
Raw materials and consumables		(1,023)	(737)
Staff costs	5	(1,254)	(1,236)
Depreciation of tangible fixed assets	3	(1,134)	(995)
Other operating charges		(51,226)	(45,885)
		<hr/>	<hr/>
Operating profit		424	390
Interest payable and similar charges	6	(391)	(389)
Interest receivable and similar income		17	49
		<hr/>	<hr/>
Profit on ordinary activities before taxation	3	50	50
Tax on profit on ordinary activities	7	(58)	11
		<hr/>	<hr/>
Profit for the financial year		(8)	61
Retained losses brought forward		(232)	(293)
		<hr/>	<hr/>
Retained losses carried forward		(240)	(232)
		<hr/>	<hr/>

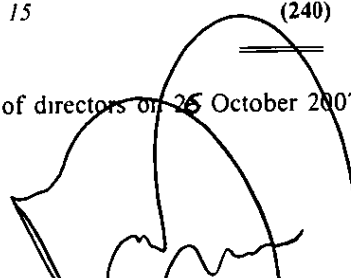
There were no recognised gains or losses other than those disclosed above. The results for 2006 and 2005 were wholly derived from continuing operations.

Balance sheet
at 31 December 2006

	Note	2006 £000	2005 £000
Fixed assets			
Tangible assets	8	7,376	8,219
Current assets			
Stocks	9	163	211
Debtors	10	9,921	3,537
		<u>10,084</u>	<u>3,748</u>
Creditors amounts falling due within one year	11	<u>(10,582)</u>	<u>(5,089)</u>
Net current liabilities		(498)	(1,341)
Total assets less current liabilities		6,878	6,878
Creditors amounts falling due after more than one year	12	(6,600)	(6,600)
Provisions for liabilities	13	(518)	(510)
Net liabilities		<u>(240)</u>	<u>(232)</u>
Capital and reserves			
Called up share capital	14	-	-
Profit and loss account		(240)	(232)
Equity shareholders' deficit	15	<u>(240)</u>	<u>(232)</u>

These financial statements were approved by the board of directors on 26 October 2007 and were signed on its behalf by


G J Fullagar
Director


M J Arnold
Director

Cash flow statement
for the year ended 31 December 2006

	<i>Note</i>	2006	2005
		£000	£000
Net cash inflow from operating activities	17	636	2,106
Return on investments and servicing of finance			
Interest received		17	49
Interest paid		(391)	(389)
		<hr/>	<hr/>
Net cash outflow from returns on investment and servicing of finance		(374)	(340)
Taxation		-	3
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(327)	(1,744)
		<hr/>	<hr/>
Net cash outflow from capital expenditure and financial investment		(327)	(1,744)
		<hr/>	<hr/>
Net cash inflow before management of liquid resources and financing		(65)	25
		<hr/>	<hr/>
(Decrease)/increase in cash in the year		(65)	25
		<hr/>	<hr/>
Reconciliation of net cash flow to movement in net debt			
Movement in net debt in the year		(65)	25
Net debt at the start of the year		(7,022)	(7,047)
		<hr/>	<hr/>
Net debt at the end of the year	18	(7,087)	(7,022)
		<hr/>	<hr/>

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 company's financial statements

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules. The financial statements have been prepared on a going concern basis notwithstanding the deficiency of net assets, on the basis that the company's shareholders have confirmed their intention to provide such funds as are necessary for the company to continue to trade for the foreseeable future.

Fixed assets and depreciation

Depreciation is provided by the company 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:

Buildings, plant, machinery and vehicles - 5 to 20 years

No depreciation is provided on freehold land and assets in the course of construction.

Leases

Where the company enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a 'finance lease'. The asset is recorded in the balance sheet as a tangible fixed asset and is depreciated over its estimated useful life or the term of the lease, whichever is shorter. Future instalments under such leases, net of finance charges, are included within creditors. Rentals payable are apportioned between the finance element, which is charged to the profit and loss account, and the capital element which reduces the outstanding obligation for future instalments.

All other leases are accounted for as 'operating leases' and the rental charges are charged to the profit and loss account as incurred.

Pension costs

The Company participates in a pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the Company. The Company is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by FRS 17 'Retirement benefits', accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period.

Stocks

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

Taxation

The charge for taxation is based on the result for the year.

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 Financial Reporting Standard 19.

Notes (continued)

2 Turnover

Turnover represents the amounts (excluding value added tax) derived from site services rendered during the year to St Regis and M-real and other companies within their respective groups. All turnover arose in the UK.

3 Profit on ordinary activities before taxation

	2006 £000	2005 £000
<i>Profit on ordinary activities before taxation is stated after charging</i>		
Auditors' remuneration		
Audit of these financial statements	15	12
Other services	1	-
Depreciation and other amounts written off tangible fixed assets		
Owned	1,134	995
Rentals under operating leases - hire of plant and machinery	95	49
	<hr/>	<hr/>

4 Remuneration of directors

The directors were not paid any emoluments by the company during the year (2005 £nil)

5 Staff numbers and costs

The average number of persons employed by the company (including directors) during the year, analysed by category, was as follows

	Number of employees	
	2006	2005
Management and administration	18	18
Production	9	9
	<hr/>	<hr/>
	27	27
	<hr/>	<hr/>

The aggregate payroll costs of these persons were as follows

	2006 £000	2005 £000
Wages and salaries	842	832
Social security costs	71	69
Other pension costs (see note 16)	341	335
	<hr/>	<hr/>
	1,254	1,236
	<hr/>	<hr/>

Notes (continued)

6 Interest payable and similar charges

	2006 £000	2005 £000
Amounts payable to related companies	372	373
On bank loans and overdrafts	19	16
	<u>391</u>	<u>389</u>

7 Taxation

Analysis of charge/(credit) in year

	2006 £000	2005 £000
<i>UK corporation tax</i>		
Current tax on income for the year	-	-
Adjustment in respect of previous years	-	(3)
Deferred tax (see note 13)	15	(8)
Deferred tax in respect of previous years	43	(8)
	<u>58</u>	<u>(11)</u>
Tax charge/(credit) on profit on ordinary activities	<u>58</u>	<u>(11)</u>

Factors affecting the tax charge for the current year

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

	2006 £000	2005 £000
<i>Current tax reconciliation</i>		
Profit on ordinary activities before tax	50	50
	<u>15</u>	<u>15</u>
Current tax at 30% (2005 30%)	15	15
<i>Effects of</i>		
Expenses not deductible for tax purposes	2	1
Depreciation for the period in excess of capital allowances for period	9	(102)
Losses carried forward/utilised	(26)	86
	<u>-</u>	<u>-</u>
Current tax charge (see above)	<u>-</u>	<u>-</u>

Notes (continued)

8 Tangible fixed assets

	Land and buildings	Plant, machinery and vehicles		Assets in course of construction	Total
	£000	Owned £000	Leased £000	£000	£000
Cost					
At beginning of year	3,511	20,449	743	1,475	26,178
Additions	-	327	-	-	327
Disposals	-	(463)	-	-	(463)
Transfers between categories	-	1,420	-	(1,420)	-
At end of year	3,511	21,733	743	55	26,042
Depreciation					
At beginning of year	1,906	15,310	743	-	17,959
Charge for year	-	1,134	-	-	1,134
Disposals	-	(427)	-	-	(427)
At end of year	1,906	16,017	743	-	18,666
Net book value					
At 31 December 2006	1,605	5,716	-	55	7,376
At 31 December 2005	1,605	5,139	-	1,475	8,219

The net book value of land and buildings comprises

	2006 £000	2005 £000
Freehold land	1,605	1,605

9 Stocks

	2006 £000	2005 £000
Raw materials and consumables	163	211

Notes (continued)

10 Debtors

	2006 £000	2005 £000
Trade debtors	80	56
Amounts owed by related companies	9,644	3,291
Prepayments and accrued income	197	190
	<u>9,921</u>	<u>3,537</u>

11 Creditors' amounts falling due within one year

	2006 £000	2005 £000
Bank loans and overdrafts	487	422
Trade creditors	5,116	299
Other creditors	67	65
Accruals and deferred income	4,912	4,303
	<u>10,582</u>	<u>5,089</u>

12 Creditors, amounts falling due after more than one year

	2006 £000	2005 £000
Amounts owed to related companies	6,600	6,600
	<u>6,600</u>	<u>6,600</u>

	2006 £000	2005 £000
Debt can be analysed as falling due		
In one year or less, or on demand	487	422
In five years or more	6,600	6,600
	<u>7,087</u>	<u>7,022</u>

Notes (continued)

13 Provisions for liabilities

	Taxation including deferred taxation	Contract Termination cost	Total
	£000	£000	£000
At beginning of year	310	200	510
Charges to the profit and loss for the year	58	-	58
Utilised during the year	-	(50)	(50)
At end of year	368	150	518

The elements of deferred taxation are as follows

	2006 £000	2005 £000
Difference between accumulated depreciation and capital allowances	568	579
Tax Losses	(200)	(269)
Provision	368	310

14 Called up share capital

	2006 £	2005 £
<i>Authorised, allotted, called up and fully paid</i>		
Ordinary shares of £1 each	100	100

15 Reconciliation of movements in shareholders' deficit

	2006 £000	2005 £000
Opening shareholders' deficit	(232)	(293)
(Loss)/profit for the financial year	(8)	61
Closing shareholders' deficit	(240)	(232)

Notes (continued)

16 Pension scheme

The Company is a member of a larger multi-employer defined benefits pension scheme providing benefits based on final pensionable pay. Because the Company is unable to identify its share of the scheme assets and liabilities on a consistent and reasonable basis, as permitted by FRS 17 'Retirement benefits', the scheme has been accounted for, in these financial statements as if the scheme was a defined contribution scheme. The latest full actuarial valuation was carried out at 5 April 2004 by a qualified independent actuary and the actuarial assumptions used were

- Pre retirement investment return will be 6.4% per annum,
- Post retirement investment returns will be 5.2% per annum,
- Increase in average earnings of 4.2% per annum,
- Increase in pension payments (in excess of Guaranteed Minimum Pension) of 3.0% per annum, and
- Price inflation will be 3.0% per annum

At the date of the latest actuarial valuation the market value of the assets of the main scheme was £110.7 million and the funding level was 80%.

For the year ended 31 December 2006, there was a charge of £340,666 (2005: £335,000). The charge in 2006 comprises mainly of an additional lump sum payment of £275,845 (2005: £275,845) to the Final Salary section of the Scheme in order to reduce the deficit in the scheme.

17 Reconciliation of operating profit to net cash flow from operating activities

	2006 £000	2005 £000
Operating profit	424	390
Depreciation charge	1,134	995
Decrease/(increase) in stocks	48	(54)
(Increase)/decrease in debtors	(6,384)	174
Increase in creditors	5,428	651
(Decrease) in provisions	(50)	(50)
Loss on tangible fixed assets disposal	36	-
Net cash inflow from operating activities	636	2,106

18 Analysis of changes in net debt

	At 1 January 2006 £000	Cash flows £000	At 31 December 2006 £000
Overdrafts	(422)	(65)	(487)
Debt due after one year	(6,600)	-	(6,600)
Total	(7,022)	(65)	(7,087)

Notes (continued)

19 Related party transactions

St Regis Paper Company Limited ('St Regis') and M-real UK Holdings Limited ('M-real') each own 50% of the equity share capital of the company. The shareholders jointly control both the financial and operating policies of the company.

The company's principal activity is the provision of site services to St Regis and M-real and other companies within their respective groups. All such parties are charged on the basis of usage and costs incurred by the company.

During the year sales to the above related parties were as follows

	2006 £000	2005 £000
Sales of services		
St Regis	28,647	25,864
M-real	26,376	23,354

As at 31 December amounts receivable from, and amounts payable to, related parties were as follows

	2006 £000	2005 £000
Amounts receivable		
St Regis	2,766	1,899
M-real	2,436	1,392
Amounts payable after more than one year		
St Regis	3,300	3,300
M-real	3,300	3,300

20 Subsequent Events

On 18 October 2006 M-Real announced the closure of its Sittingbourne Mill. As a result, Grovehurst sold a number of assets specifically related to the Sittingbourne Mill at their book value of £194k to M-Real in 2007.

21 Parent undertaking support

M-Real UK Holdings Limited and St Regis Paper Company Limited have jointly undertaken to provide financial support to the company to enable it to meet its liabilities as they fall due, for at least twelve months from the date of signing these financial statements.