Fibrowatt Limited

Report and Financial Statements

31 March 2006

Ernst & Young

Registered No: 2595814

Directors

M S W Stanley	(resigned 20 February 2006)
I A Kay	(resigned 27 January 2006)
D W Owens	(appointed 20 February 2006)
E J Wilkinson	(appointed 27 January 2006)

Secretary
Eversecretary Limited

Auditors
Ernst & Young LLP
One Bridewell Street
Bristol
BS1 2AA

Bankers
Barclays Bank PLC
1 Churchill Place
Canary Wharf
London
E14 5HP

Registered Office
Level 31 Citypoint
1 Ropemaker Street
London
EC2Y 9HD

Directors' report

The directors submit their report and financial statements for the year ended 31 March 2006.

Results and dividends

The profit for the year after tax was £4,290,915 (2005 - profit £803,459). The directors do not recommend payment of a dividend (2005 - £Nil).

Principal activity and review of the business

The company's primary business is to provide management and administration services to its subsidiaries which operate three electricity power stations based on the combustion of poultry litter and other biomass fuels and market and sell the resulting ash as high quality fertiliser. Fibrowatt Limited's operating entities are as follows:

- Fibrothetford Limited owns and operates Thetford Power Station, a 38.5MW power station fuelled by poultry litter and other biomass near Thetford in Norfolk;
- Fibropower Limited owns and operates Eye Power Station, a 11.8MW power station fuelled by poultry litter and other biomass near Eye in Suffolk;
- Fibrogen Limited owns and operates Glanford Power Station, a 13.5MW power station fuelled by meat and bone meal at Flixborough in North Lincolnshire; and
- Fibrophos Limited treats, packages and sells the ash fertiliser product of power stations running on poultry litter and other biomass fuels within the Energy Power Resources Limited group.

Fibrowatt Limited's ultimate holding company, Energy Power Resources Limited refinanced the group on 30 September 2005. Coterminous with the refinancing, the individual operating entities repaid their individual finance facilities and these were replaced with shareholder loans.

As part of an initiative to reduce emissions of gasses and particulates the government previously introduced legislation (the Waste Incineration Directive, "WID") setting new emission limits, the deadline for compliance with WID was 28 December 2005. Fibrowatt Group's three plants fall within the remit of WID. Following a programme of work in 2005, Fibrogen Limited and Fibropower Limited have been fully WID compliant since 28 December 2005. During July and August 2005 Fibrothetford Limited undertook an extended annual outage of some 30 days implementing a number of changes and general maintenance in order achieve WID compliance and to improve the stations availability. Overall expenditure during the shut down was over £2m. Availability has improved since the shut down although the station has not demonstrated consistent WID compliance at full output, with particular difficulties balancing the CO and NO_x limits. Fibrothetford Limited has kept the Environment Agency fully informed as to the status of the plant and management's plan and timescale for resolving the issue. Further expenditure is planned for the 2006 annual shutdown in August and subsequent to this full WID compliance is anticipated.

Directors and their interests

The directors who serve during the year are shown on page 1.

No directors held any interest in the shares of the company during the year. None of the directors had any beneficial interest in the shares of any group company at, or since 31 March 2006.

Auditors

A resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting.

Directors' report

Directors' statement as to disclosure of information to Auditors

The directors who were members of the board at the time of approving the directors' report are listed on page 1. Having made enquiries of fellow directors and of the company's auditors, each of these directors confirms that:

- To the best of each director's knowledge and belief, there is no information relevant to the preparation of their report of which the company's auditors are unaware; and
- Each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the company's auditors are aware of that information.

By order of the board

Director

Date 9 JUNE 2006

Statement of directors' responsibilities in respect of the financial statements

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 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, 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 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 safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditor's report

to the shareholders of Fibrowatt Limited

We have audited the company's financial statements for the year ended 31 March 2006 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses and the related notes 1 to 17. 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

The directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) as set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view, are properly prepared in accordance with the Companies Act 1985 and that the information given in the Directors' Report is consistent with the financial statements.

We also 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.

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.

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Independent auditors' report

to the shareholders of Fibrowatt Limited (continued)

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 March 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.

Ernst & Young LLP
Registered Auditor
Bristol
Date 16 June 2006

Profit and loss account

at 31 March 2006

	Notes	2006 £	2005 £
Turnover	2	2,110,122	2,271,272
Cost of sales		-	(109,218)
Gross profit		2,110,122	2,162,054
Administrative costs		(1,747,732)	(1,366,456)
Operating profit	3	362,390	795,598
Profit on disposal of Fixed Asset Investment		-	338,233
Dividends received from subsidiary		4,162,600	-
Interest receivable		19,722	89,648
Interest payable	5	(22,392)	(38,351)
Profit for the year before taxation		4,522,320	1,185,128
Tax on profit on ordinary activities	6	(231,405)	(381,669)
Retained profit for the financial year	14	4,290,915	803,459

Statement of total recognised gains and losses

for the year ended 31 March 2006

There were no recognised gains or losses attributable to the shareholders of the company other than the profit of £4,290,915 for the year ended 31 March 2006 and the profit of £803,459 for the year ended 31 March 2005.

Balance sheet

at 31 March 2006

	Notes	2006 £	2005 £
Fixed assets			
Tangible assets	7	-	28,738
Investments	8	3,321,718	3,664,136
		3,321,718	3,692,874
Current assets			
Debtors: amounts falling due within one year	9	4,258,765	4,790,354
Debtors: amounts falling due after more than one year	9	598,687	598,687
Deferred tax assets	6	573,874	788,018
Cash at bank		99,622	617,979
		5,530,948	6,795,038
Creditors: amounts falling due within one year	10	(772,306)	(5,118,468)
Net current assets		4,758,642	1,676,570
Total assets less current liabilities		8,080,360	5,369,444
Creditors: amounts falling due after more than one year	11	(3,923,850)	(5,503,849)
		4,156,510	(134,405)
Capital and reserves			
Called up share capital	13	130	130
Share premium account	14	3,274,316	3,274,316
Profit and loss account	14	882,064	(3,408,851)
Equity Shareholders' funds	14	4,156,510	(134,405)

Director

Date 9 JUNE 2006

Notes to the financial statements

at 31 March 2006

1. Accounting policies

Basis of preparation

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

The directors believe the company can meet its liabilities as and when they fall due and the going concern basis is appropriate.

Tangible fixed assets

All fixed assets are initially recorded at cost.

The cost of fixed assets is depreciated over the expected economic lives of the assets as follows:

Other equipment - 20% per annum straight line

Investments

The company's investments in subsidiary undertakings are stated at cost less and where applicable, amounts written off to reflect the value of the underlying net assets of the investment at the balance sheet date.

Capital instruments

Shares are included in shareholders' funds. Other capital instruments are classified as liabilities if they contain an obligation to transfer economic benefits and if not they are included in the shareholders' funds. The finance cost recognised in the profit and loss account in respect of capital instruments other than equity shares is allocated to periods over the term of the instrument at a constant rate on the carrying amount.

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction or at the contracted rate if the transaction is covered by a forward foreign currency contract. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date or if appropriate at the forward contract rate. All differences are taken to the profit and loss account.

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the following exceptions:

- Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantially enacted at the balance sheet date.

Pensions

The company operates a defined contribution personal pension scheme for certain qualifying employees. Employee contributions of varying amounts together with employer contributions up to 7.5% are paid monthly to the scheme providers.

Notes to the financial statements

at 31 March 2006

1. Accounting policies (continued)

Cash flow statement

The directors have taken advantage of the exemption in Financial Reporting Standard No. 1 (revised) from including a cash flow statement in the financial statements on the grounds that the company is wholly owned and its parent publishes a consolidated cash flow statement.

Group accounts

The company is exempt from preparing group accounts by virtue of S228 of the Companies Act 1985. These financial statements therefore only provide information about the company, not of its group.

2. Turnover

Turnover represents the amounts receivable for goods and services sold during the year exclusive of VAT. The contributions of the company's activities to turnover are set out below:

	2006	*2005*
	£	*£*
By activity:		
Management fees	1,904,889	1,894,828
Other fees and receipts	205,233	376,444
	2,110,122	2,271,272
By geographical market:		
United Kingdom	2,110,122	2,162,054
USA	-	109,218
	2,110,122	2,271,272

3. Operating profit

This is stated after charging/(crediting) the following:

	2006	*2005*
	£	*£*
Auditors' remuneration – for audit services	16,486	15,000
Depreciation of owned tangible assets	28,738	38,951
Impairment of investments	305,018	-

Notes to the financial statements

at 31 March 2006

4. Staff costs

	2006 £	2005 £
Employee costs (including directors):		
Wages and salaries	598,146	590,359
Social security costs	74,549	57,878
Other pension costs	17,360	23,830
	690,055	672,067

Pension costs represent contributions made by the group to employees' and directors' personal pension schemes.

	2006 £	2005 £
Directors' remuneration:		
Directors' emoluments	-	285,316
Company contributions to money purchase schemes in relation to nil (2005 - two) directors' pensions	-	14,750
	-	300,066

Directors' emoluments disclosed above include the following amounts in respect of the highest paid director:

	2006 £	2005 £
Emoluments	-	197,989
Company contributions to money purchase pension scheme	-	9,000
	-	206,989

	2006 No.	2005 No.
Average number of persons employed (including directors)		
Administration and project development	15	15

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Notes to the financial statements
at 31 March 2006

5. Interest payable and similar charges

	2006	2005
	£	£
Group interest	22,392	159,421
Loan interest	-	(121,248)
Other interest	-	178
	22,392	38,351

During the previous year, an agreement was reached on the settlement of a loan resulting in a net write back of accrued interest of £121,248.

6. Taxation

a) Analysis of charge in year

	2006	2005
	£	£
Current tax:		
Group relief payable	5,917	101,470
Adjustments in respect of previous periods	11,344	-
Total current tax charge (note 6 (b))	17,261	101,470
Origination and reversal of timing differences	214,144	280,199
Tax on profit on ordinary activities	231,405	381,669

b) Factors affecting current tax charge for period

The tax assessed for the period is lower than the standard rate of corporation tax in the UK of 30% (2005 - 30%). The differences are reconciled below:

	2006	2005
	£	£
Profit on ordinary activities before tax	4,522,320	1,185,128
Profit on ordinary activities multiplied by the standard rate of corporation tax of 30% (2005 - 30%)	1,356,696	355,538
Effects of:		
Expenses not deductible for tax purposes	111,755	26,130
Depreciation in excess of capital allowances	3,263	4,537
Tax losses utilised	(217,017)	(284,737)
Adjustment in respect of previous periods	11,344	-
Non taxable income	(1,248,780)	-
Current tax charge for period (note 6 (a))	17,261	101,470

Notes to the financial statements

at 31 March 2006

6. Taxation (continued)

c) Deferred tax

	2006 £	*2005* £
Depreciation in excess of capital allowances	(16,080)	(12,819)
Tax losses carried forward	(557,794)	(775,199)
	(573,874)	(788,018)
Brought forward at 1 April 2005	(788,018)	(1,068,217)
Deferred tax charge in profit and loss account for year (note 6 (a))	214,144	280,199
Carried forward at 31 March 2006	(573,874)	(788,018)

The deferred tax asset is considered recoverable as the directors believe that increased management fees and reduced overhead costs will enable the company to generate taxable profits in the foreseeable future. Of the total deferred tax asset, £420,000 is expected to be recovered in a period in excess of one year.

7. Tangible fixed assets

	Other equipment £
Cost:	
At 1 April 2005 and 31 March 2006	384,584
Depreciation:	
At 1 April 2005	355,846
Charge for year	28,738
At 31 March 2006	384,584
Net book value:	
At 31 March 2006	-
At 31 March 2005	28,738

Notes to the financial statements

at 31 March 2006

8. Investments

	£
Cost:	
At 1 April 2005 and 31 March 2006	3,664,136
Amounts provided:	
At 1 April 2005	-
Provisions for the year	305,018
At 31 March 2006	305,018
Net book value:	
At 31 March 2006	3,321,718
At 31 March 2005	3,664,136

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The principal subsidiary undertakings, their country of registration or incorporation, the proportion of ordinary shares held at the year end and their principal activities are set out below:

Name	*%*	*Country*	*Principal activities*
Fibropower Limited	100	England	Operation of electricity power station
Fibrogen Limited	100	England	Operation of electricity power station
Fibrothetford Limited	100	England	Operation of electricity power station
Fibrophos Limited	100	England	Selling ash fertiliser product
Fibromass Limited	100	England	Dormant

All companies have a 31 March year end.

The investment in Fibrophos Limited was fully impaired in the year.

9. Debtors

	2006	*2005*
	£	£
Due within one year:		
Trade debtors	-	14,366
Amounts due from group undertakings	4,258,380	4,773,325
Other debtors	385	436
Prepayments and accrued income	-	2,277
	4,258,765	4,790,354
Due after one year:		
Amounts due from group undertakings	598,687	598,687
Total debtors	4,857,452	5,389,041

Notes to the financial statements

at 31 March 2006

9. Debtors (continued)

Included in amounts due from group undertakings is £3,320,835 (2005 - £3,087,119) due from Fibrothetford Limited. This is unlikely to be repaid within five years of the balance sheet date.

10. Creditors: amounts falling due within one year

	2006	*2005*
	£	*£*
Loans (note 12)	300,000	300,000
Trade creditors	17,148	24,034
Amounts due to group undertakings	*156,354*	*4,618,664*
Other taxes and social security costs	79,103	6,306
Other creditors	28,275	25,884
Accruals	191,426	143,579
	772,306	5,118,468

11. Creditors: amounts falling due after more than one year

	2006	*2005*
	£	*£*
Loan from immediate holding company (note 12)	3,923,850	5,503,849

12. Loans

	2006	*2005*
	£	*£*
Loan from shareholders' and former shareholders of immediate holding company (i)	300,000	300,000
Due within one year of the balance sheet date	300,000	300,000
Due after more than one year of the balance sheet date (ii)	3,923,850	5,503,849
	4,223,850	5,803,849

(i) Shareholders and former shareholders of the immediate holding company provided finance of £1,000,000 to the company. Interest is charged at 2% above base rate. Of this, £700,000 has been repaid. The balance is repayable on demand.

(ii) Prior to 31 March 2000, Fibrowatt Group Limited provided funds to the company totalling £5,503,849. These funds are provided interest free. During the year £1,580,000 was repaid. Fibrowatt Group Limited has undertaken not to seek further repayment before 31 March 2007.

Notes to the financial statements

at 31 March 2006

13. Share capital

		Authorised
	2006	*2005*
	£	*£*
Ordinary shares of 1p each	200	200

		Allotted, called up and fully paid		
		2006		*2005*
	No.	*£*	*No.*	*£*
Ordinary shares of 1p each	13,000	130	13,000	130

14. Reconciliation of shareholders' funds and movement on reserves

	Share capital	*Share premium*	*Profit and loss account*	*Total shareholders' funds*
	£	*£*	*£*	*£*
At 31 March 2004	130	3,274,316	(4,212,310)	(937,864)
Profit for the year	-	-	803,459	803,459
At 31 March 2005	130	3,274,316	(3,408,851)	(134,405)
Profit for the year	-	-	4,290,915	4,290,915
At 31 March 2006	130	3,274,316	882,064	4,156,510

15. Related party transactions

As a 100% owned subsidiary of Energy Power Resources Limited, the company has taken advantage of the exemption granted by FRS8 not to disclose transactions with related entities that are part of the group.

16. Pension costs

The company contributes to its employees' personal pension schemes. The cost for the year is shown in note 4. There were no outstanding contributions at 31 March 2006 and 31 March 2005.

17. Parent undertakings

Fibrowatt Group Limited is the immediate parent company and Macquarie European Infrastructure Fund Limited Partnership (a UK registered partnership domiciled in Guernsey) is the ultimate parent company.

Fibrowatt Group Limited is the holding company of the smallest group of undertakings for which group accounts are drawn up and MEIF Renewable Energy (Holdings) Limited is the holding company of the largest group of undertakings for which group accounts are drawn up.

Copies of the group accounts may be obtained from Companies House.