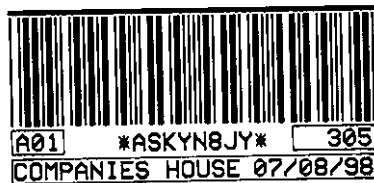


THE ENERGY SAVING TRUST LIMITED
Registered Number 2622374

DIRECTORS' REPORT AND ACCOUNTS

FOR THE YEAR ENDED 31 MARCH 1998



The Energy Saving Trust Limited

Chairman's Report For The Year Ended 31 March 1998

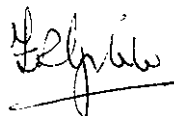
The past year has seen the Trust make good progress in developing and managing a wide range of energy efficiency schemes that provide economic, social and environmental benefits.

During this period, the profile of energy efficiency has risen considerably through the public commitments given by the Government to reduce the emissions of all greenhouse gases. The Government's support for the Trust's role in energy efficiency was emphasised through its announcement in January that funding from DETR for the Trust's programmes was to be continued at £19 million for 1998/99, reversing a proposed cut of £5.5 million.

In 1997/98, the Trust oversaw in excess of £44 million of energy efficiency programme investment through work funded by DETR and the electricity Standards of Performance initiative. Over 8 million measures will have been carried out as a direct result of the Trust and its partners' work.

The range and scope of the programmes undertaken by the Trust are considerable – from the high profile Energy Efficiency campaign to the Powershift clean fuel programme, on to initiatives aimed at local authorities, schools and low-income consumers. Regardless of their size or focus, all of the schemes are making a real difference. That so much has been achieved is a tribute to the considerable efforts of the Trust team. Without their dedication, and the support of members and other scheme partners, none of this could have been achieved.

The coming year will undoubtedly be challenging. There will be changes in the energy market which may impact on energy saving but, with the DTI review of Utility Regulation, there is also a real opportunity to put energy efficiency on a secure long-term footing. Always at the forefront is the Kyoto agreement which must be turned into a practical set of policies and measures to deliver the reductions required. Building on its record of past success, the Trust, together with its many partners, is well-placed to continue to deliver the varied benefits that result from energy efficiency.



Sir Frank Gibb
23 July 1998

The Energy Saving Trust Limited

Directors' Report For The Year Ended 31 March 1998

The directors present their report and financial statements for the year ended 31 March 1998.

Principal Activity

The Trust was established as part of the Government's action plan in response to the 1992 Earth Summit in Rio de Janeiro, which addressed world-wide concerns on environmental issues such as climate change and global warming. It is the UK's leading organisation working to deliver energy efficiency for domestic consumers. The Trust has been operational since 1993.

The Trust's role is to:

Raise awareness of the advantages of energy efficiency and encourage the take-up of energy efficiency measures; effectively manage the DETR-funded programmes to ensure that the energy markets work in the interest of the customers by providing energy efficient goods and services which are commercially sustainable in the long-term; and effectively develop, manage and evaluate the Electricity Standards of Performance (SoP) schemes to enable the Public Electricity Suppliers to provide cost effective energy efficient benefits for their customers money.

Review Of The Business

Programmes funded under the Standards of Performance

The Standard of Performance initiatives have proved a resounding success thanks to the commitment of the electricity companies, OFFER, the Trust, and the many partners involved. The original Standards provided a revenue allowance equivalent to £1 per year per franchise customer, set by OFFER, which lasted from 1994 to 1998. This is equivalent to £25 million a year over the four years, for the Public Electricity Suppliers to provide energy efficiency benefits to their franchise customers. Since there is likely to be some delay before full competition exists in the electricity market, the Standards of Performance will continue, in a modified form, until the year 2000 and possibly beyond.

SoP 1 ran from 1994 and finished at the end of March 1998. During this period OFFER and the Trust approved over 500 Standards of Performance projects, giving a total lifetime energy saving of 8.3 TWh, around 10% greater than the target savings, and leading to a reduction of over 8.3 million tonnes of carbon dioxide emissions. £102 million has been invested in these energy efficiency projects by the PESs. Other parties, including customers and local authorities, have committed a further £40 million. Customers have benefited by £4.60 for every £1 of programme investment, in reduced energy costs. The programme has directly stimulated the equivalent of 400 jobs per year over the four years.

The Energy Saving Trust Limited

Directors' Report For The Year Ended 31 March 1998 (Continued)

Review Of The Business (Continued)

Programmes funded by the Department of the Environment

In January 1998 the new Government announced that it would provide the Trust with funding of £19 million for 1998/99 – an increase of £5.5 million on the previous planned total.

The Trust's DETR – funded activities in 1997/98 focused on five key areas:

- The Energy Efficiency marketing initiative;
- Providing energy efficiency advice through Energy Efficiency Advice Centres (EEACs);
- Stimulating energy efficiency markets;
- Devising and implementing innovative delivery mechanisms; and
- Powershift, the Trust's clean-fuelled vehicles programme

The 1997 Energy Efficiency campaign, a long-term national marketing programme to promote energy efficiency as a modern and socially acceptable way to save money, successfully achieved 29% awareness of the Energy Efficiency logo and a 52% recognition of the advertising amongst the public. The 1998/99 programme will include a national TV and media campaign, targeted at retail outlets and also provide a package for local authorities to encourage participation in Energy Efficiency.

1997/98 saw the continued expansion of the EEAC network in line with the Trust's aim to establish a network of approximately 70 EEACs over the next three years. Designed to provide individual and impartial advice to consumers in the domestic and small business sectors, 167,000 customers received energy advice over the past year resulting in an average expenditure of £390 on energy efficiency per customer.

Through HECAAction, a competition to encourage local authorities to meet their Home Energy Conservation Act obligations, the Trust awarded £2.5 million to 31 schemes, which in turn encouraged a further estimated £20 million of private sector investment. Four priority areas were specified – fuel poverty and health; employment; the private rented sector; and energy services.

Energy Services Companies (ESCO's) offer customers packages of energy saving measures linked to the supply of fuel. In November 1997, the Trust received Government approval for a new two-year £2 million strategy to stimulate the further development of innovative pilot ESCO developments.

The Trust's Powershift programme saw the first batch of tenders for the supply of 323 alternative fuelled vehicles issued during summer 1997. Targeted primarily at depot based fleet operators, for which the refuelling structure can be most economically provided, the programme has received considerable political support and will continue to gain momentum in 1998/99.

Overall, the aims of the Trust's 1998/99 DETR funded programme are:

- To provide synergy with the Trust's other activities, especially under the electricity Standard of Performance (SoP);
- To complement other Government funded programmes; and
- To progress towards the Trust's longer term aim of responding to the evolving opportunities for energy efficiency, through market stimulation, development of innovative delivery mechanisms and piloting programmes in key areas leading to widescale replication.

The Energy Saving Trust Limited

Directors' Report For The Year Ended 31 March 1998 (Continued)

Results And Dividends

The profit and loss account is set out on page 8.

As a company limited by guarantee, the company is prohibited from declaring or paying dividends to its members.

The loss for the period of £401,794 (1997: £377,142 loss) has been transferred from reserves.

Directors And Their Interests

The directors who have served during the year are as follows:

Sir F Gibb	(Chairman)
Dr EW Lees	(Chief Executive)
MG Faulkner	(Resigned 26 March 1998)
JG Potter	
U Prashar	(Resigned 26 March 1998)
MR Alexander	
J Kent	
E Hyams	
Sir J Harman	

None of the Directors held any beneficial interests in the shares of the company at the beginning (or date of appointment if later) or at the end of the year.

Dr EW Lees is the sole executive director.

Employment Policies

It is the policy of the Trust that there should be no unfair discrimination in considering applications for employment, including those from disabled persons. Should any employee become disabled every practical effort is made to provide continued employment.

The directors are committed to maintain and develop communication and consultation procedures with employees, who in turn are encouraged to become aware of and involve themselves in the performance of their own company.

The Energy Saving Trust Limited

Directors' Report For The Year Ended 31 March 1998 (Continued)

Statement Of Directors' Responsibilities

Company law requires the directors to prepare financial statements for each financial period 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 (see below).

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.

Going Concern Basis

The directors have sought advice and considered recently issued guidance on the adoption of the going concern basis for the preparation of the Trust's financial statements for the year ended 31 March 1998.

In approving the adoption of the going concern basis, the directors assessed the cash flow projections prepared for the financial year 1998/99 and such projections as were available for the following financial year, allowing them to assess whether the Trust would continue to operate for a period of at least 12 months from the date of approval of the financial statements.

Having considered these projections and their knowledge of the current situation in connection with the Government and other contributors to the Trust's activities, they formed the opinion that there are reasonable grounds for drawing up the financial statements on a going concern basis.

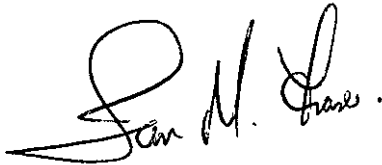
The Energy Saving Trust Limited

Directors' Report For The Year Ended 31 March 1998 (Continued)

Auditors

The auditors, Price Waterhouse, have indicated their willingness to continue in office and a resolution concerning their re-appointment will be proposed at the Annual General Meeting.

By Order of the Board

A handwritten signature in dark ink, appearing to read 'I M Fraser', is written over the typed name.

I M Fraser
Secretary

23 July 1998

Registered Office:

21 Dartmouth Street
London SW1H 9BP

Price Waterhouse



Auditors' Report To The Members' Of The Energy Saving Trust Limited

We have audited the financial statements on pages 8 to 15 which have been prepared under the historical cost convention and the accounting policies set out on pages 11.

Respective responsibilities of directors and auditors

As described on page 5 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 state of the company's affairs as at 31 March 1998 and of its loss and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Price Waterhouse

Price Waterhouse
Chartered Accountants
and Registered Auditors
London

23 July 1998

The Energy Saving Trust Limited

Profit And Loss Account For The Year Ended 31 March 1998

	<i>Note</i>	1998 £	1997 £
Turnover	1 (1)	1,649,441	1,779,724
Administration expenses		(2,287,493)	(2,280,910)
Operating Loss	2	(638,052)	(501,186)
Interest receivable and similar income		220,192	124,044
Loss On Ordinary Activities Before And After Taxation		(417,860)	(377,142)
Retained Loss Brought Forward		(2,138,574)	(1,761,432)
Retained Loss Carried Forward		(2,556,434)	(2,138,574)

The company has no recognised gains and losses other than those included above, and therefore no separate statement of total recognised gains and losses has been presented.

The results shown above are stated under the historical cost convention and therefore represent the historical cost loss without the need for any adjustment.

All amounts relate to continuing activities.

The notes on pages 11 to 15 form part of these financial statements.

The Energy Saving Trust Limited

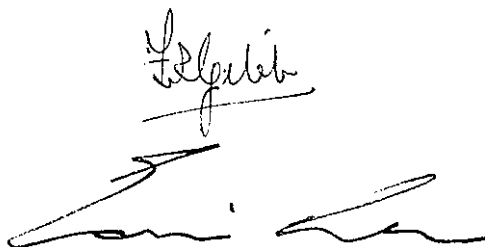
Balance Sheet - 31 March 1998

	Note	1998 £	1997 £
Fixed Assets			
Tangible assets	6	79,780	93,656
Current Assets			
Debtors	7	641,035	914,479
Cash at bank and in hand		1,225,030	579,734
		1,866,065	1,494,213
Creditors - Amounts Falling Due Within One Year			
Trade creditors		(132,909)	(363,472)
Accruals and deferred income		(392,382)	(148,762)
Taxation and social security		(30,205)	(62,426)
		(555,496)	(574,660)
Net Current Assets		1,310,569	919,553
Total Assets Less Current Liabilities		1,390,349	1,013,209
Reserves			
Members' capital	8	3,946,783	3,151,783
Profit and loss account		(2,556,434)	(2,138,574)
Total Members' Funds	11	1,390,349	1,013,209

Approved By The Board
On 23 July 1998

Sir Frank Gibb
Dr EW Lees

Directors



The notes on pages 11 to 15 form part of these financial statements.

The Energy Saving Trust Limited

Cash Flow Statement For The Year Ended 31 March 1998

	<i>Note</i>	1998 £	1997 £
Net Cash Outflow From Operating Activities	12(1)	(251,380)	(841,699)
Returns On Investments And Servicing On Finance			
Interest received		220,192	124,044
Capital Expenditure			
Payments to acquire tangible fixed assets		(59,316)	(88,551)
Sale of tangible fixed assets		800	-
Net cash outflow for capital expenditure		(58,516)	(88,551)
Financing			
Members' capital introduced		735,000	795,003
Increase/(Decrease) in net cash	12(2)	645,296	(11,203)
Reconciliation Of Net Cash Flow To Movement In Net Debt (Note 13(2))		1998 £	1997 £
Increase/(decrease) in net cash		645,296	(11,203)
Net cash at 1 April		579,734	590,937
Net cash at 31 March		1,225,030	579,734

The notes on pages 11 to 15 form part of these financial statements.

The Energy Saving Trust Limited

Notes To The Financial Statements - 31 March 1998

1 Accounting Policies

The accounts have been prepared under the historical cost convention and in accordance with applicable accounting standards. The following accounting policies have been applied in dealing with all items which are considered material in relation to these accounts.

1) Turnover

Turnover is recognised when invoiced by the Trust and represents reimbursable sums in respect of services provided by the Trust, and consultancy fees in respect of various Energy Efficiency Initiatives, sponsored by British Gas, the Regional Electricity Companies (REC's), the Department of the Environment Transport and the Regions (DETR) and other parties. All turnover arises in the United Kingdom.

2) Fixed assets and depreciation

Fixed assets are shown in the financial statements at cost less attributable depreciation. The rates of depreciation applied are estimated to reduce the cost of the asset to its residual value over its useful economic life and are as follows:

Computer equipment	-	40% per annum straight line
Fixtures and fittings	-	20% per annum straight line

3) Deferred taxation

Deferred taxation arising from excess capital allowances, unrelieved losses and other timing differences, is provided for to the extent that it is probable that an asset or liability will arise.

4) Pensions

The Trust operates a defined contribution scheme, whereby the company makes contributions, at rates which vary according to the age of the employee, directly to the providers of the employee's personal pension. Contributions are charged in the profit and loss account in the year in which they are paid.

5) Operating leases

Amounts payable in respect of operating leases are charged in the profit and loss account as they fall due for payment.

6) Schemes

The Trust acts as an agent in receiving grants under Energy Efficiency Initiative schemes, sponsored by British Gas, the REC's, the DETR and other parties. The Trust in turn disburses these grants to the managing agents of the various schemes. The income and expenditure of the schemes is not reflected within the accounts of the Trust as it is acting as an agent on behalf of the sponsors.

The Energy Saving Trust Limited

Notes To The Financial Statements - 31 March 1998 (Continued)

2 Loss On Ordinary Activities Before And After Taxation

This is stated after charging the following amounts:

	1998 £	1997 £
Auditors' remuneration - audit services	10,300	10,300
- non audit services	31,200	27,496
Depreciation	73,192	65,290
Rentals payable under property leases	144,057	96,085

During the year the company incurred exceptional costs amounting to £260,000 in relation to its move of premises. This amount included additional rental costs of £44,000.

3 Staff Costs (Excluding Directors)

	1998 £	1997 £
Wages and salaries	808,441	722,412
Social security costs	90,024	71,999
Pension costs	69,566	55,853
	968,031	850,264

The average number of employees, excluding directors, in the period was 29 (1997 : 23).

4 Directors' Emoluments

	1998 £	1997 £
Aggregate emoluments	140,218	142,684
Company contributions to money purchase pension schemes	10,404	10,000

Retirement benefits under money purchase pension schemes are accruing to one director (1997: one).

Those directors representing British Gas and the Public Electricity Suppliers receive no emoluments as directors.

The Energy Saving Trust Limited

Notes To The Financial Statements - 31 March 1998 (Continued)

5 Taxation

No tax liability has been provided due to the availability of loss relief.

6 Tangible Fixed Assets

	Computer equipment £	Fixtures And Fittings £	Total £
Cost			
At 1 April 1997	162,576	73,673	236,249
Additions	54,115	5,201	59,316
Disposals	(20,561)	-	(20,561)
At 31 March 1998	196,130	78,874	275,004
Depreciation			
At 1 April 1997	118,598	23,995	142,593
Charge for the period	57,837	15,355	73,192
Disposals	(20,561)	-	(20,561)
At 31 March 1998	155,874	39,350	195,224
Net book amount			
At 31 March 1998	40,256	39,524	79,780
At 31 March 1997	43,978	49,678	93,656

7 Debtors

	1998 £	1997 £
Trade debtors	545,422	758,957
Other debtors	40,530	147,686
Prepayments	55,083	7,836
	641,035	914,479

The Energy Saving Trust Limited

Notes To The Financial Statements - 31 March 1998 (Continued)

8 Members' Capital

	1998 £	1997 £
Members' capital introduced	3,946,783	3,151,783

Each member of the trust undertakes to contribute to the arrears of the company in the event of the company being wound up to a maximum of £1 per member. At 31 March 1998 there were 26 members (1997 : 23).

The increase in members' capital of £795,000 represents amounts called up by the Trust during the year. Members' capital is recognised in the accounts if it has been received before the balance sheet date or if it has been called upon by the Trust at the balance sheet date and is received within three months thereafter.

9 Financial Commitments

	1998 £	1997 £
Annual commitments in respect of operating leases on office premises which expire:		
Between one and five years	123,815	96,085

10 Deferred Taxation

There is no deferred taxation provision owing to the availability of tax losses (see note 5).

11 Reconciliation Of Movement In Members' Funds

	1998 £	1997 £
Loss for the period attributable to members	(417,860)	(377,142)
Introduction of members' capital	795,000	795,003
Net addition to members funds	377,140	417,861
Opening members' funds	1,013,209	595,348
Closing members' funds	1,390,349	1,013,209

The Energy Saving Trust Limited

Notes To The Financial Statements - 31 March 1998 (Continued)

12 Notes To The Cash Flow Statement

1) Reconciliation Of Operating Loss To Net Cash Outflow From Operating Activities

	1998 £	1997 £
Operating loss	(638,052)	(501,186)
Depreciation charges (net of recovery on disposals)	72,392	65,290
Decrease/(increase) in debtors	333,444	(815,784)
(Decrease)/increase in creditors	(19,164)	409,981
Net cash outflow from operating activities	(251,380)	(841,699)

2) Analysis Of Changes In Net Debt

	At 1 April 1997 £	Cashflows £	At 31 March 1998 £
Cash in hand, at bank	579,734	645,296	1,225,030
Total	579,734	645,296	1,225,030

13 Going Concern Basis

The directors have considered and approved the adoption of the going concern basis in the preparation of these financial statements. The adoption of this basis is dealt with in the directors report.