Registered no: 3600574

CENTRAL NETWORKS WEST plc
(Aquila Networks plc)

ANNUAL REPORT & ACCOUNTS

FOR THE YEAR ENDED
31 DECEMBER 2003

Central Networks West plc
CONTENTS

Central Networks West plc
DIRECTORS' REPORT

The Directors submit their report and the audited accounts for Central Networks West plc for the year ended 31 December 2003.

On 5 April 2004 the company changed its name from Aquila Networks plc Limited to Central Networks West plc.

Principal activities

The principal activity of the Company during the year was the distribution of electricity to industrial, commercial and domestic customers.

Financial results and review of the business

The audited financial statements for the year ended 31 December 2003 are set out on pages 5 to 17. The profit for the year, after taxation and dividends, was £96.3m (year ended 31 December 2002: £63.4m).

Dividends

No dividend has been proposed for the year ended 31 December 2003 (year ended 31 December 2002: £30.0m).

Research and development

The Company subcontracts its research and development activity to a number of third party organisations.

Share capital

The authorised share capital of the Company, together with movements in shares issued, is shown in Note 14 to the accounts.

Directors

The following served as Directors during the year:

Mr G J Bartlett	(appointed 16 January 2004)
Mr P Golby	(appointed 16 January 2004)
Mr R Taylor	(appointed 16 January 2004)
Mr S A King	(resigned 31 January 2003)
Mr D G Bacon	(resigned 16 January 2004)
Mr S M Gatto	(appointed 26 March 2003, resigned 28 November 2003)
Mr I Elcock	(appointed 11 December 2003, resigned 16 January 2004)

No Director had any interest in the shares of the Company or any other affiliated UK company at 31 December 2003 other than as a non-beneficial nominee.

Central Networks West plc
DIRECTORS' REPORT (continued)

Regulatory accounts

Additional accounts are prepared for the Chairman of the Gas and Electricity Markets Authority as required by our Electricity Distribution Licence in respect of the fiscal year ending 31 March. Extracts from these regulatory accounts are available free from the Regulation Manager, Central Networks West plc, Toll End Road, Tipton, West Midlands, DY4 0HH.

Creditor payment policy

The Company's current policy concerning the payment of the majority of its trade creditors is to follow the CBI's Prompt Payers Code (copies available from the CBI, Centre Point, 103 New Oxford Street, London, WC1A 1DU). For other suppliers the Company's policy is to:
a) settle the terms of payment with those suppliers when agreeing the terms of each transaction;
b) ensure that those suppliers are made aware of the terms of payment by inclusion of the relevant terms in contracts; and
c) pay in accordance with its contractual and other legal obligations.

The payment policy applies to all payments to creditors for revenue and capital supplies of goods and services. The average trade creditor payment period for the Company was 40 days (for the year ended 31 December 2002: 34 days).

Future developments

The Company will continue to concentrate on the sound management of its electricity distribution business.

Auditors

Following the company's acquistion by Powergen on 15 January 2004, KPMG Audit plc will not seek reappointment at the forthcoming AGM. PwC will be appointed as auditors.

By Order of the Board of Directors

S.K. Pickerell

S K Pickerell
Company Secretary
16 April 2004

Registered Office
Central Networks West plc, Westwood Way,
Westwood Business Park,
Coventry, CV4 8LG

Central Networks West plc
STATEMENT OF DIRECTORS' RESPONSIBILITIES

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 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;
- 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 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.

Central Networks West plc
REPORT OF THE INDEPENDENT AUDITORS

to the members of Central Networks West plc

We have audited the financial statements on pages 5 to 17.

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 are responsible for preparing the directors' report and, as described on page 3, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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 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.

Basis of audit 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 at 31 December 2003 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London
16 April 2004

Central Networks West plc
PROFIT AND LOSS ACCOUNT
for the year ended 31 December 2003

	Note	Year ended 31 December 2003 £000	Year ended 31 December 2002 £000
Turnover – continuing operations	2	312,789	310,814
Cost of sales		(38,941)	(35,383)
Gross profit		273,848	275,431
Distribution costs		(115,732)	(115,964)
Administration expenses		(10,758)	(8,196)
Operating profit – continuing operations	3	147,358	151,271
Loss on sale of fixed assets		(932)	(1,932)
Income from fixed asset investments	4	-	293
Profit on ordinary activities before interest		146,426	149,632
Net interest payable	5	(32,166)	(34,214)
Profit on ordinary activities before taxation		114,260	115,418
Taxation on profit on ordinary activities	7	(17,995)	(22,064)
Profit for the financial period		96,265	93,354
Dividends	8	-	(30,000)
Retained profit for the financial period	15	96,265	63,354

The accompanying notes are an integral part of this profit and loss account.

There are no recognised gains and losses for either period other than those stated in the profit and loss account above.

Central Networks West plc
BALANCE SHEET
at 31 December 2003

	Note	2003 £000	2002 £000
Fixed assets			
Tangible fixed assets	9	1,001,072	939,010
		1,001,072	939,010
Current assets			
Debtors	10	30,355	28,666
Trade and unbilled debtors subject to non-recourse financing		22,357	22,166
Less: non-returnable amounts received		(10,001)	(16,476)
	10	12,356	5,690
		42,711	34,356
Creditors (amounts falling due within one year)	11	(294,209)	(306,055)
Net current liabilities		(251,498)	(271,699)
Total assets less current liabilities		749,574	667,311
Creditors (amounts falling due after one year)	11	(348,603)	(354,881)
Provisions for liabilities and charges	12	(5,734)	(13,213)
Deferred taxation	13	(119,359)	(119,604)
Net assets		275,878	179,613
Capital and reserves			
Share capital	14	50	50
Profit and loss account	15	275,828	179,563
Equity shareholders' funds		275,878	179,613

The accompanying notes are an integral part of this balance sheet.

The accounts on pages 5 to 17 were approved by the Board of Directors on 16 April 2003 and were signed on its behalf by:

G J Bartlett
Director

Central Networks West plc
NOTES TO THE ACCOUNTS

1 Principal accounting policies

A summary of the principal accounting policies, which have been applied consistently, is set out below:

Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with applicable Accounting Standards in the United Kingdom and the requirements of the Companies Act 1985. As the Company is a wholly owned subsidiary of Aquila Sterling Limited it is exempt under Financial Reporting Standard No. 1 (Revised 1996) from publishing a cash flow statement.

Related party transactions

As permitted by paragraph 3(c) of Financial Reporting Standard No. 8, the Company has taken advantage of the exemption for 90% subsidiaries not to disclose related party transactions with other group entities.

Turnover

Turnover represents the invoiced value of goods and services provided; exclusive of value added tax.

Computer software costs

Costs incurred on major computer software developments are charged to capital in the period in which they are incurred. Other computer software costs are written off to the profit and loss account in the period in which they are incurred.

Research and development

Expenditure on research and development is written off to the profit and loss account in the period in which it is incurred.

Investment income

Investment income is included in the accounts in the period in which it is receivable.

Tangible assets

Tangible fixed assets are stated at cost less depreciation which is calculated to write off assets over their useful economic lives. The cost of fixed assets is their purchase cost together with costs directly attributable to bringing them into working condition for their intended use. Where appropriate, cost includes own labour and associated overheads.

Depreciation

The charge for depreciation is based on the estimated useful lives of each major class of depreciable asset as follows:

	Years
Distribution assets	
Meters	Up to 28
Other distribution assets	Up to 50
Non-operational assets	
Buildings – freehold	Up to 60
– leasehold	Lower of lease period or 60 years
Major computer software developments	Up to 15

Freehold land is not depreciated. No allowance is made for residual values.

1 Principal accounting policies (continued)

Customers' contributions

Customers' contributions towards distribution assets, which include capital grants are credited to the profit and loss account over the life of the distribution network assets to which they relate. The unamortised amount of such contributions is shown as a deduction from fixed assets. This is a departure form the Companies Act 1985 requirements which require fixed assets to be included at their purchase price of production cost and hence the contribution would be presented as deferred income. However, contributions relate directly to the costs of fixed assets used in the distribution business and it is the opinion of the Directors that the treatment adopted is necessary to give a true and fair view.

Stocks

Stocks are valued at the lower of cost and net realisable value. The valuation of work in progress is based on the cost of labour plus appropriate overheads and the cost of materials. Progress invoices are deducted in arriving at the amounts stated.

Taxation

Current tax, including UK corporation tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

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 that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the group's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a discounted basis to reflect the time value of money over the period between the balance sheet date and the dates on which it is estimated that the underlying timing differences will reverse. The discount rates used reflect the post-tax yields to maturity that can be obtained on government bonds with similar maturity dates and currencies to those of the deferred tax assets or liabilities.

Pension costs

Contributions to defined benefit pension schemes are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives within the Company.

Differences between the amounts charged in the profit and loss account and payments made to the schemes are treated as assets or liabilities in the balance sheet.

The pension cost is assessed in accordance with the advice of qualified actuaries.

Securitisation programme

The company operates a securitisation programme involving the sale of eligible billed and future electricity debtors to a bank. The element of this programme that is secured against debtors is deducted from those debtor balances to which they relate. The balance, which is secured on future electricity trade debtors is included within creditors, amounts falling due within one year.

2 Segmental analysis

Geographical analysis

Turnover is derived from operations within the UK.

By class of business

The turnover, profit before taxation and net assets all derive from the businesses sole activity of the regulated distribution business.

3 Operating profit

	Year ended 31 December 2003 £000	Year ended 31 December 2002 £000
Operating profit is stated after charging:		
Depreciation	38,791	38,301

Auditors remuneration is borne by the Company's immediate parent undertaking.

4 Income from fixed asset investments

	Year ended 31 December 2003 £000	Year ended 31 December 2002 £000
Final dividend on liquidation of investment	-	1,087,293
Net book value of investment	-	(1,087,000)
Income from fixed asset investment	-	293

5 Net interest payable

	Year ended 31 December 2003 £000	Year ended 31 December 2002 £000
Interest receivable:		
Other loans	(11)	(47)
	(11)	(47)
Interest payable on:		
Bank loans and overdrafts	14,940	7,628
Intercompany loans	16,765	25,683
Other loans	472	950
	32,177	34,261
Net interest payable	32,166	34,214

6 Directors and employees

Employment costs

The aggregate remuneration of all employees comprised:

	Year ended 31 December 2003 £000	Year ended 31 December 2002 £000
Wages and salaries	454	1,596
Social security costs	39	153
Other pension costs	46	96
	539	1,845
Less charged as capital expenditure	-	(74)
	539	1,771

Average number of employees

The average monthly number of employees, excluding directors, during the period was:

	Year ended 31 December 2003 £000	Year ended 31 December 2002 £000
Managerial	2	2
Non-industrial	62	53
Industrial	6	7
	70	62

Directors' emoluments

The following shows the Directors who received remuneration from the Company during the year (year ended 31 December 2002: £nil).

Director	Remuneration £
Mr S M Gatto	202,800
Mr D G Bacon	224,054
Mr S A King	69,900

7 Taxation on profit on ordinary activities

Analysis of charge in the period	Year ended 31 December 2003 £000	Year ended 31 December 2002 £000
UK corporation tax at 30% (year ended 31 December 2002: 30%):		
Current tax	18,850	19,648
Adjustments in respect of prior years	(610)	895
Total current tax	18,240	20,543
Deferred taxation:		
Accelerated capital allowances	15,180	15,483
Short term timing differences	548	(398)
Adjustments in respect of prior years	1,351	(10,143)
Increase in discount	(17,324)	(3,421)
Total deferred tax (see note 13)	(245)	1,521
Tax on profit on ordinary activities	17,995	22,064

Factors affecting the tax charge for the period

	Year ended 31 December 2003 £000	Year ended 31 December 2002 £000
Profit on ordinary activities before taxation	114,260	115,418
Profit on ordinary activities multiplied by standard rate of corporation tax of 30% (2001: 30%)	34,278	34,625
Effects of:		
Accelerated capital allowances	(15,180)	(15,483)
Expenses not allowable for tax purposes	300	196
Non-taxable income	-	(88)
Other timing differences	(548)	398
Adjustments in respect of prior years	(610)	895
Current taxation charge for the period	18,240	20,543

The effective tax rate is below 30% because the deferred tax liability has been discounted as permitted under FRS 19.

Future tax charges may be impacted by changes in regulations.

8 Dividends

	Year ended 31 December 2003 £000	Year ended 31 December 2002 £000
Interim dividend paid of nil (period ended 31 December 2002: £600) per ordinary share	-	30,000

On 24 December 2002, Ofgem issued a consent under standard licence condition 47 of the Electricity Distribution Licence. The consent places restrictions on Central Networks West's ability to make transfers, including paying dividends, to other group companies. A copy of the full text of the consent has been placed on the public register of Ofgem.

9 Tangible fixed assets

	Distribution £000	Customers' Contributions £000	Total £000
Cost			
At 1 January 2003	1,843,281	(339,867)	1,503,414
Additions	136,706	(34,207)	102,499
Disposals	(8,328)	-	(8,328)
At 31 December 2003	1,971,659	(374,074)	1,597,585
Depreciation			
At 1 January 2003	672,868	(108,464)	564,404
Charge for the period	46,865	(8,074)	38,791
Disposals	(6,682)	-	(6,682)
At 31 December 2003	713,051	(116,538)	596,513
Net book value			
At 31 December 2003	1,258,608	(257,536)	1,001,072
At 31 December 2002	1,170,413	(231,403)	939,010

Included in fixed assets are assets in the course of construction at 31 December 2003 amounting to £7.6m (31 December 2002: £7.6m) and land with a cost of £4.4m (31 December 2002: £4.4m) which is not depreciated.

10 Debtors

	2003 £000	2002 £000
Amounts falling due within one year:		
Unbilled consumption	23,584	22,252
Amounts due from group companies	332	-
Prepayments and accrued income	6,439	6,414
	30,355	28,666
Gross debtors subject to non-recourse financing	22,357	22,166
Less: non-returnable amounts received	(10,001)	(16,476)
	12,356	5,690
	42,711	34,356

The securitisation programme of £100m involves the sale of eligible billed and future electricity trade debtors to a bank. Of the £100m (31 December 2002: £100m), £10,001,000 (31 December 2002: £16,476,000) has been deducted from debtors above. The balance of £89,999,000 (31 December 2002: £83,524,000) has been included in short term borrowings.

The terms of the agreement are such that yield and programme costs are charged on the securitisation. Central Networks West plc is not obliged to support any losses suffered by the bank as a result of the securitisation, nor does it intend to do so. Furthermore, the bank has agreed in writing that it will seek recovery of sums advanced to Central Networks West plc together with funding costs only to the extent that sufficient funds are generated from the assets to which the securitisation applies.

The charges relating to the programme are as follows (the charges in 2002 relate to the previous programme):

	Year ended 31 December 2003 £000	Year ended 31 December 2002 £000
Yield and programme costs	3,737	3,035
Other fees	300	196
	4,037	3,231

11 Creditors

	2003 £000	2002 £000
Amounts falling due within one year		
Short term borrowings repayable within three months	144,068	129,524
Payments received on account	11,284	17,540
Trade creditors	39	-
Other creditors	138	149
Accruals & deferred income	4,908	2,543
Amounts due to parent undertaking	91,193	102,122
Amounts due to group undertakings	35,221	47,337
Other loans	7,358	6,840
	294,209	306,055
Amounts falling due after more than one year		
Accruals & deferred income	1,000	-
Other loans	197,911	205,269
Amounts due to parent undertaking	149,692	149,612
	348,603	354,881

Short term borrowings includes £89,999,000 (31 December 2002: £83,524,000) relating to debtor securitisation. This programme involves the sale of both billed and future debtors to a third party for which £100m (31 December 2002: £100m) was received. See note 10.

Other loans comprise £15,268,500 (31 December 2002: £22,108,500) of an unsecured ten-year amortising loan from the European Investment Bank at an interest rate of 7.4% per annum and £190,000,000 (31 December 2002: £190,000,000) of five year committed bank loans at an interest rate of LIBOR plus 0.65%.

£7,357,500 of the European Investment Bank loan is repayable within one year (31 December 2002: £6,840,000), £7,911,000 (31 December 2002: £7,357,500) between one and two years and nil (31 December 2002: £7,911,000) is repayable between two and five years. There is no balance repayable after more than 5 years.

Amounts due to parent undertaking is funding from the Company's immediate parent company. The amount due within one year is at an interest rate of HSBC base plus 0.4%. The amount due after more than one year mirrors the 7.375% Eurobonds due November 2007, issued by Central Networks plc , with interest charged at a rate to mirror the bond interest paid. The Eurobond payments are guaranteed by Central Networks West plc.

12 Provisions for liabilities and charges

	2003 £000	2002 £000
Opening balance	13,213	11,441
Amount (credited)/charged to profit and loss account	(7,479)	1,772
Closing balance	5,734	13,213

The provision relates to wayleave liabilities and is assessed on the basis of best estimate of the settlement value of outstanding claims at the balance sheet date.

13 Deferred taxation

	2003 £000	2002 £000
Opening balance	119,604	118,083
Movement for the period (note 7)	(245)	1,521
Closing balance	119,359	119,604

	2003 £000	2002 £000
Deferred tax computed at the corporation tax rate of 30% (31 December 2002: 30%) is computed as follows:		
Accelerated capital allowances	214,763	199,555
Other timing differences	(2,354)	(4,078)
Undiscounted provision for deferred tax	212,409	195,477
Discount	(93,050)	(75,873)
	119,359	119,604

No deferred tax asset has been recognised for tax losses which are not expected to be utilised in the foreseeable future. The total amount unprovided in respect of these losses is £190.1m (31 December 2002: £190.1m).

14 Called up share capital

	2003 £000	2002 £000
Authorised		
Ordinary shares of £1 each	50	50
Allotted, called up and fully paid		
Ordinary shares of £1 each	50	50

15 Reserves and reconciliation of movements in equity shareholders' funds

	2003 Share Capital £000	2003 Profit and Loss account £000	2003 Total £000	2002 Total £000
Opening shareholders' funds	50	179,563	179,613	116,259
Profit for financial period	-	96,265	96,265	63,354
	50	275,828	275,878	179,613

16 Pension commitments

The company participates in the group funded defined benefit and defined contribution pension arrangements of Central Networks plc .

The company's pension cost is based on pension contributions payable, as assessed across the group as a whole in accordance with actuarial advice. The latest full independent actuarial assessment was carried out at 31 March 2001 and particulars of that assessment are contained in the accounts of Aquila Sterling Limited for the period ending 31 December 2003.

The total pension cost to the company for the year was 46,000 (year to 31 December 2002: £96,000).

There are no post retirement benefits other than the pensions referred to above.

17 Capital commitments

	2003 £000	2002 £000
Capital expenditure contracted but not provided	18,578	6,365

18 Ultimate parent company

At 31 December 2003 the Company's intermediate holding company was Aquila Sterling Limited. Copies of the intermediate holding company's consolidated financial statements (in which this company's financial statements are consolidated) may be obtained from The Secretary, Aquila Sterling Limited, Westwood Way, Westwood Business Park, Coventry, CV4 8LG.

The Directors regard Aquila, Inc. and FirstEnergy Corp. both incorporated in the USA, as the ultimate holding companies and controlling parties by virtue that each has a 50% voting interest in Aquila Sterling Limited. Copies of Aquila, Inc's consolidated financial statements may be obtained from The Secretary, Aquila, Inc., 20 West Ninth Street, Kansas City, Missouri 64105, USA and copies of FirstEnergy Corp's consolidated financial statements may be obtained from The Secretary, FirstEnergy Corp., 76 South Main Street, Akron, Ohio 44308, USA.

On 15 January 2004 Aquila Inc. and FirstEnergy Corp. sold their interests in Aquila Sterling Limited to E.ON AG. The Directors therefore regard E.ON AG, incorporated in Germany, as the ultimate controlling party from that date.