

MIDLANDS POWER (TPL) LIMITED

Annual report and financial statements for the year ended 31 December 2002

Registered no. 2579333



MIDLANDS POWER (TPL) LIMITED

Annual report and financial statements for the year ended 31 December 2002

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**Directors' report
for the year ended 31 December 2002**

The directors present their report and the financial statements for the year ended 31 December 2002.

Principal activity

The principal activity of the company is that of an investment holding company.

Review of business

Midlands Power (TPL) Limited owns 19.2% in Teesside Power Limited which operates a 1725 MW combined cycle gas turbine power station.

The company also owns a 15% investment in Teesside Power Holdings Limited which owns the rights to 50% of the income from Teesside Power Limited but has restrictions over voting rights.

The placement of Enron Europe Limited into Administration has had a serious impact on the Teesside Power Limited business. Not only was Enron a 50% shareholder in the project, it was also a power purchaser taking 668 MWs of the stations capacity. The loss of capacity revenue from these contracts has cast a serious doubt over Teesside Power Limited's future revenues and cashflows. Therefore the directors of Midlands Power (TPL) Limited decided to make a full provision against the company's investment in the project. A provision of £44.9 million was charged to the profit and loss account in the period ending 31 December 2001.

Future developments

The company will continue to manage its interest in its investments and work with the project lenders to restructure the project going forward.

Results and dividends

The profit and loss account is set out on page 4. During the year a dividend of £5.9 million was paid to Midlands Power International (9 months ended 31 December 2001: £nil). The remaining profit for the year has been transferred to reserves.

Directors and their interests

The directors who served during the period were:

D G Bacon	(appointed 08/05/2002)
S A King	(resigned 31/01/2003)
M R Miller	
P A Wright	
M A Hughes	(resigned 08/05/2002)
D Redfearn	(resigned 20/12/2002)

No director had any beneficial interest in the share capital of the company, or any other UK group company, during the year ended 31 December 2002 or in the preceding period.

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 group 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company and group 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 of the group 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 group and to prevent and detect fraud and other irregularities.

Auditors

On 31 July 2002, following the acquisition of a 79.9% economic interest in Avon Energy Partners Holdings by Aquila Inc, Arthur Anderson resigned as auditors. On the same day KPMG Audit Plc were appointed auditors.

KPMG Audit Plc have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

By order of the board**I Elcock**

Secretary

31 March 2003

Registered Office:

Whittington Hall

Whittington

Worcester

WR5 2RB

**Independent auditors' report to the members of
MIDLANDS POWER (TPL) LIMITED**

We have audited the financial statements on pages 4 to 10.

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 2, 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 as at 31 December 2002 and of its loss 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
31 March 2003

**Profit and loss account
for the year ended 31 December 2002**

	Notes	Year ended 31 December 2002 <u>£000</u>	9 months ended 31 December 2001 <u>£000</u>
Administrative expenses		(188)	(200)
Amounts written off investments	7	-	(44,883)
Operating loss	3	<u>(188)</u>	<u>(45,083)</u>
Income from fixed asset investments	4	188	11,064
Provision against amounts due from parent company	8	(41,000)	-
Loss on ordinary activities before interest and taxation		<u>(41,000)</u>	<u>(34,019)</u>
Net interest receivable	5	<u>150</u>	<u>909</u>
Loss on ordinary activities before taxation		(40,850)	(33,110)
Tax on loss on ordinary activities	6	<u>324</u>	<u>(213)</u>
Loss on ordinary activities after taxation		(40,526)	(33,323)
Dividends paid		<u>(5,934)</u>	<u>-</u>
Retained loss for the period	11	<u><u>(46,460)</u></u>	<u><u>(33,323)</u></u>

The above results all relate to continuing operations.

The accompanying notes on pages 6 to 10 are an integral part of this profit and loss account.

There are no recognised gains or losses in either period other than those stated in the profit and loss account above and consequently no statement of total recognised gains and losses is presented.

Balance sheet
at 31 December 2002

	Notes	31 December 2002 £000	31 December 2001 £000
Current assets			
Debtors – due after one year	8	9,438	41,000
Cash at bank and in hand		-	37,848
		<u>9,438</u>	<u>78,848</u>
Creditors: amounts falling due within one year	9	<u>-</u>	<u>(22,950)</u>
Net current assets		9,438	55,898
Total assets less current liabilities		<u>9,438</u>	<u>55,898</u>
Creditors: amounts falling due after more than one year	9	(9,552)	(9,552)
Net (liabilities) / assets		<u>(114)</u>	<u>46,346</u>
Capital and reserves			
Called up share capital	10	41,000	41,000
Profit and loss account	11	(41,114)	5,346
Equity shareholders' (deficit) / funds	12	<u>(114)</u>	<u>46,346</u>

The accompanying notes on pages 6 to 10 are an integral part of this balance sheet.

The financial statements on pages 4 to 10 were approved by the board of directors on 31st March 2003 and were signed on its behalf by:

M. Miller

M R MILLER
Director

MIDLANDS POWER (TPL) LIMITED
Notes to the financial statements
for the 12 months ended 31 December 2002

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1 Accounting policies

A summary of the principal accounting policies, which have been applied consistently during the year and preceding period, is set out below.

Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with the applicable Accounting Standards in the United Kingdom and the requirements of the Companies Act 1985 no group financial statements have been prepared. 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.

The company is dependent upon the continued financial support of its intermediate holding company, Midlands Electricity Plc. Midlands Electricity Plc has confirmed in writing that it will provide financial support to ensure continuation of the company.

Investment income

Investment income is included in the financial statements in the period in which it is receivable.

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 company'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.

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.

2 Directors and employees

None of the directors received any remuneration in respect of their services to the company during the year (9 months ended 31 December 2001: £nil). The company has no other employees (9 months ended 31 December 2001: nil).

MIDLANDS POWER (TPL) LIMITED
Notes to the financial statements (continued)

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3 Operating loss

Administrative expenses relate to the costs of managing the investment. Auditors remuneration for the year and the preceding period is paid by Midlands Power International and is included in the financial statements of that company.

4 Income from fixed asset investments

	Year ended 31 December 2002 £000	9 months ended 31 December 2001 £000
Shareholder Management Fee	188	-
Dividends receivable	<u>-</u>	<u>11,064</u>

Income for the current year relates to a quarterly shareholder fee received from Teesside Power Limited as per the restated credit agreement dated 31st May 2002.

5 Net interest receivable

	Year ended 31 December 2002 £000	9 months ended 31 December 2001 £000
Interest receivable	588	1,321
Interest payable on loans repayable after 5 years, not by instalments	<u>(438)</u>	<u>(412)</u>
	<u>150</u>	<u>909</u>

6 Tax on loss on ordinary activities

	Year ended 31 December 2002 £000	9 months ended 31 December 2001 £000
Analysis of charge in the period		
UK corporation tax at 30% (9 months ended 31 December 2001: 30%)	45	213
Adjustments in respect of prior periods	<u>(369)</u>	<u>-</u>
Total current tax	<u>(324)</u>	<u>213</u>

MIDLANDS POWER (TPL) LIMITED

Notes to the financial statements (continued)

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6 Tax on loss on ordinary activities (continued)

Factors affecting the current tax charge:

	12 months ended 31 December 2002 £000	9 months ended 31 December 2001 £000
Loss on ordinary activities before taxation	<u>(40,850)</u>	<u>(33,110)</u>
Loss on ordinary activities multiplied by standard rate of 30% (2001: 30%)	(12,255)	(9,933)
Effects of:		
Adjustments to tax charge in respect of prior period	(369)	-
Provision against parent company debt	12,300	-
Non-tax deductible provision against investments	-	13,465
Non-taxable income	-	(3,319)
Total current tax	<u>(324)</u>	<u>213</u>

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 £8,099,444 (31 December 2001: £8,099,444).

7 Investments

	Shares in TPL £000	Shares in TPHL £000	Total £000
Cost			
At 1 January 2002 and 31 December 2002	<u>28,641</u>	<u>25,000</u>	<u>53,641</u>
Amortisation and provisions			
At 1 January 2002	(28,641)	(25,000)	(53,641)
Amounts provided in respect of diminution in value	-	-	-
At 31 December 2002	<u>(28,641)</u>	<u>(25,000)</u>	<u>(53,641)</u>
Net book value			
At 31 December 2002	<u>-</u>	<u>-</u>	<u>-</u>
At 31 December 2001	<u>-</u>	<u>-</u>	<u>-</u>

Investments comprise a 19.2% holding in the ordinary shares of Teesside Power Limited (TPL), a company registered in England and Wales and a 15% holding in the ordinary shares of Teesside Power Holdings Limited (TPHL), a company registered in England and Wales. The placement of Enron Europe Limited into Administration has resulted in serious doubts over Teesside Power Limited's ability to generate future earnings or cashflows. As a result of this, during 2001 the directors decided to fully provide for the company's investment in Teesside Power Limited.

The tax charge in relation to the provision against the investment in Teesside Power was £nil.

MIDLANDS POWER (TPL) LIMITED
Notes to the financial statements (continued)

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8 Debtors

	31 December 2002 £000	31 December 2001 £000
Amounts falling due after one year:		
Amounts due from holding company and fellow subsidiaries	<u>9,438</u>	<u>41,000</u>

As at 31 December 2002 the amounts owed by the company's immediate parent undertaking of £41,000,000 has been fully provided for.

9 Creditors

	31 December 2002 £000	31 December 2001 £000
Amounts falling due within one year:		
Amounts due to holding company and fellow subsidiaries	-	22,840
Accruals	<u>-</u>	<u>110</u>
	<u>-</u>	<u>22,950</u>
Amounts falling due after more than one year:		
Long term loan	<u>9,552</u>	<u>9,552</u>

The long term loan represents amounts due to Teesside Power Holdings Limited that are not expected to be repaid until after more than five years. Interest is charged on the loan at a rate equivalent to LIBOR. The company has an obligation in respect of this amount despite the difficulties affecting Teesside Power.

10 Called up share capital

	31 December 2002 £000	31 December 2001 £000
Authorised		
50,000,000 ordinary shares of £1 each	<u>50,000</u>	<u>50,000</u>
Allotted, called up and fully paid		
41,000,000 ordinary shares of £1 each	<u>41,000</u>	<u>41,000</u>

11 Profit and loss account

	£000
At 1 January 2002	5,346
Retained loss for the period	<u>(46,460)</u>
At 31 December 2002	<u>(41,114)</u>

12 Reconciliation of movements in equity shareholders' (deficit) / funds

	31 December 2002 £000	31 December 2001 £000
Opening shareholders' funds	46,346	79,669
Retained loss for the year	(46,460)	(33,323)
Closing shareholders' (deficit) / funds	<u>(114)</u>	<u>46,346</u>

13 Ultimate controlling party

At 31 December 2002 the company's intermediate holding company was Aquila Sterling Limited. Copies of the intermediate holding company's consolidated financial statements may be obtained from The Secretary, Aquila Sterling Limited, Whittington Hall, Whittington, Worcester, WR5 2RB.

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.