ARTHUR ANDERSEN

Derwent Cogeneration Limited

Financial statements for the year ended 31 March 2001
together with directors' and auditors' reports

Registered number: 2650621

Directors' report

For the year ended 31 March 2001

The directors present their report on the affairs of the company together with the financial statements and auditors' report for the year ended 31 March 2001

Principal activities and business review

The company's principal activity is to generate electricity and steam for sale, using a purpose built 214MW gas fired power station in Derby.

Results and dividend

The power station became fully operational on 1 May 1995. The company is involved in the commercial production of steam and electricity and has made a profit before tax for the year of £7,323,639 (2000 - £6,929,116).

Following the introduction of the New Energy Trading Arrangements ('NETA') on 27 March 2001, the company is in a process of negotiating various key contracts associated with the sale of power and other areas of operation. These new contracts are not expected to have a material adverse effect on the financial position of the company.

The directors recommend a final dividend of £400.00 per ordinary share (2000 - £900.00). An interim dividend of £300.00 per ordinary share was also proposed for the year (2000 - £358.60).

Directors and their interests

The directors who served during the year are as follows:

N.F.T.H. Petrie	Chairman (resigned 29 September 2000)
R.J. Hemmings	
J. Buist	
I.R. Morgan	
P.R. Smith	
C.J. Warden	(appointed 5 October 2000)

Alternate directors

J.A. Bednall	(alternate of J. Buist)
D. Frankland	(alternate of R.J. Hemmings)

No director has any interest in the shares of the company.

No director has any interest in contracts with the company, other than those arising in the normal course of business by virtue of them also being a director of the company, being employed by a shareholder of the company or being employed by a holding company or subsidiary undertaking of a shareholder of the company.

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 of the company for that year. 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 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.

Auditors

The directors will place a resolution before the annual general meeting to reappoint Arthur Andersen as auditors for the ensuing year.

Lansdowne House
Berkeley Square
London
W1X 5DH

By order of the Board,

J. Buist
Director

27 June 2001

ARTHURANDERSEN

To the Shareholders of Derwent Cogeneration Limited:

We have audited the financial statements on pages 4 to 15 which have been prepared under the historical cost convention and the accounting policies set out on pages 7 and 8.

Respective responsibilities of directors and auditors

As described on page 2, the company's directors are responsible for the preparation of 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.

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 circumstances of the company, 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 affairs of the company at 31 March 2001 and of its profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

A. Arthur Andersen

Arthur Andersen
Chartered Accountants and Registered Auditors

1 Surrey Street
London
WC2R 2PS

27 June 2001

Profit and loss account

For the year ended 31 March 2001

	Notes	2001 £	2000 £
Turnover	2	55,129,900	55,509,081
Cost of sales		(30,420,534)	(31,198,252)
Gross profit		24,709,366	24,310,829
Administrative expenses		(10,521,077)	(9,968,049)
Operating profit		14,188,289	14,342,780
Finance charges (net)	3	(6,864,650)	(7,413,664)
Profit on ordinary activities before taxation	4	7,323,639	6,929,116
Tax on profit on ordinary activities	6	(2,335,443)	(1,797,037)
Profit on ordinary activities after taxation	17	4,988,196	5,132,079
Dividends paid and proposed	7	(3,500,000)	(6,293,000)
Retained profit/(loss) for the year		1,488,196	(1,160,921)
Retained profit brought forward		1,513,559	2,674,480
Retained profit carried forward		3,001,755	1,513,559

There are no recognised gains or losses in the year, other than the profit for the financial year.

All operations of the company continued throughout both years and no operations were acquired or discontinued.

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

Balance sheet

31 March 2001

	Notes	2001 £	2000 £
Fixed assets			
Tangible fixed assets	8	109,569,171	110,569,806
Current assets			
Stock	9	2,539,030	2,637,795
Debtors	10	6,001,473	7,187,245
Investments - short term treasury deposits		10,650,000	13,111,196
Cash at bank and in hand		-	386,212
		19,190,503	23,322,448
Creditors: Amounts falling due within one year	11	(16,658,321)	(19,505,605)
Net current assets		2,532,182	3,816,843
Total assets less current liabilities		112,101,353	114,386,649
Creditors: Amounts falling due after more than one year	12	(88,123,360)	(94,230,807)
Provisions for liabilities and charges	13	(20,971,238)	(18,637,283)
Net assets		3,006,755	1,518,559
Capital and reserves			
Called-up equity share capital	16	5,000	5,000
Profit and loss account		3,001,755	1,513,559
Equity shareholders' funds	17	3,006,755	1,518,559

Signed on behalf of the Board

J. Buist

Director

27 June 2001

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

Cash flow statement

For the year ended 31 March 2001

	Notes	2001 £	2000 £
Net cash inflow from operating activities	18a	20,547,462	19,029,484
Returns on investments and servicing of finance			
Interest received		604,815	687,882
Interest paid		(7,817,402)	(7,477,192)
Net cash outflow from returns on investments and servicing of finance		(7,212,587)	(6,789,310)
Taxation			
UK corporation tax paid		(212,750)	(322,223)
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		(5,386,497)	(1,764,929)
Equity dividends paid		(6,000,000)	(8,725,750)
Net cash inflow before management of liquid resources and financing		1,735,628	1,427,272
Management of liquid resources			
Decrease in short term treasury deposits		2,461,196	4,410,711
Financing			
Repurchase of loan stock		-	(1,618,250)
Repayment of loans		(4,619,312)	(4,562,190)
Net cash outflow from financing		(4,619,312)	(6,180,440)
Decrease in cash in the year		(422,488)	(342,458)

Reconciliation of net cash flow to movement in net debt

	Notes	2001 £	2000 £
Decrease in cash in the year	18b	(422,488)	(342,458)
Cash used to decrease borrowings	18b	4,619,311	6,180,440
Cash movements from decrease in liquid resources	18b	(2,461,196)	(4,410,711)
Movement in net debt in the year		1,735,627	1,427,271
Net debt at 1 April 2000		(85,352,710)	(86,779,981)
Net debt at 31 March 2001	18b	(83,617,083)	(85,352,710)

The accompanying notes are an integral part of this cash flow statement.

1 Accounting policies

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

a) Basis of accounting

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

b) Fixed assets

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment. Costs incurred by the company in the construction of the power station, including interest on loans to finance the construction, are initially capitalised as assets under construction. These are transferred to other tangible fixed asset categories upon completion.

Depreciation is charged upon commencement of full commercial operations at rates which will write off the costs of the assets over their expected useful lives as follows:

Generating plant	- 30 years
Buildings	- 30 years
Auxiliary boiler	- 25 years
Fixtures and fittings	- 4 years
Motor vehicles	- 3 years
Major maintenance	- either 5 or 7 years depending on the maintenance cycle.

c) Taxation

Corporation tax payable is provided on taxable profits at the current rate. Payments for tax losses receivable from shareholders under consortia arrangements are credited to the profit and loss account when the amount receivable can be ascertained with reasonable certainty. Differences between the value of losses surrendered and the payments received are charged or credited to the profit and loss account accordingly.

Deferred taxation is calculated under the liability method and is provided in respect of timing differences which, in the opinion of the directors, may result in tax becoming payable in the foreseeable future. Deferred tax is not provided on timing differences which, in the opinion of the directors, will probably not reverse.

d) Turnover

Turnover comprises the value of sales, excluding trade discounts, VAT and other sales related taxes, of steam and electricity provided in the normal course of business.

e) Finance costs

Finance costs which are directly attributable to the construction of tangible fixed assets are capitalised as part of the costs of those assets. The commencement of capitalisation begins when both finance costs and expenditures for the asset are being incurred and activities that are necessary to get the asset ready for use are in progress. Capitalisation ceases when substantially all the activities that are necessary to get the asset ready for use are complete. Upon the commencement of full commercial operations, interest was expensed as incurred.

1 Accounting policies (continued)

f) Stocks

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

g) Maintenance

Costs of on-going major overhaul and maintenance programmes are capitalised and the related assets depreciated over the period until the next major overhaul is expected to be required.

h) Leases

Rentals under operating leases are charged on a straight line basis over the lease term.

2 Analysis of turnover

Contributions to turnover and gross profit arise wholly within the United Kingdom. Turnover can be analysed as follows:

	2001 £	2000 £
Electricity	45,550,773	47,080,220
Steam	9,495,195	8,256,055
Other income	83,932	172,806
	55,129,900	55,509,081

3 Finance charges (net)

	2001 £	2000 £
Interest payable		
Bank loans and overdrafts		
- repayable after five years	(7,537,231)	(7,616,795)
Interest payable to shareholders	-	(501,425)
Other interest payable	(27)	(174)
	(7,537,258)	(8,118,394)
Interest income		
Other interest receivable and similar income	672,608	704,730
	(6,864,650)	(7,413,644)

4 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging:

	2001	2000
	£	£
Depreciation (see note 8)	6,387,132	6,579,722
Amortisation of refinancing costs (note 12)	74,041	74,041
Operating lease rentals		
- plant and machinery	249,823	260,427
Auditors' remuneration		
- audit fees	22,000	22,000
- other	24,900	31,630

5 Staff costs

No persons were employed by the company during the year (2000 - nil).

The directors of the company received no remuneration for their services to the company (2000 - £nil).

6 Tax on profit on ordinary activities

The tax charge comprises:

	2001	2000
	£	£
Corporation tax	148,962	199,973
Deferred tax (see note 13)	2,333,955	1,724,264
Repurchase of consortium relief	-	(127,200)
Adjustments in respect of prior years	(147,474)	-
	2,335,443	1,797,037

The repurchase of consortium relief from shareholders in 2000 arose as a result of the settlement of previous years' tax computations which has reduced the tax losses available for consortium relief. Tax losses were originally sold at a discount and this has been refunded on the repurchase of such losses.

7 Dividends paid and proposed

	2001	2000
	£	£
Equity shares:		
- interim dividend of £300.00 per ordinary share (2000 - £358.60)	1,500,000	1,793,000
- final dividend proposed at £400.00 per ordinary share (2000 - £900.00)	2,000,000	4,500,000
	3,500,000	6,293,000

8 Fixed assets

	Land and buildings £	Auxiliary boiler £	Generating plant £	Motor vehicles £	Fixtures and fittings £	Total £
Cost						
Balance at 1 April 2000	1,150,493	1,735,889	140,892,238	39,393	415,836	144,233,849
Additions	60	-	5,140,335	-	246,102	5,386,497
Balance at 31 March 2001	1,150,553	1,735,889	146,032,573	39,393	661,938	149,620,346
Depreciation						
Balance at 1 April 2000	96,238	480,776	32,750,617	31,425	304,987	33,664,043
Charge for the year	38,353	69,436	6,228,349	2,332	48,662	6,387,132
Balance at 31 March 2001	134,591	550,212	38,978,966	33,757	353,649	40,051,175
Net book value						
At 31 March 2001	1,015,962	1,185,677	107,053,607	5,636	308,289	109,569,171
At 1 April 2000	1,054,255	1,255,113	108,141,621	7,968	110,849	110,569,806

The cost above includes interest capitalised of £14,678,567 (2000 - £14,678,567).

9 Stocks

	2001 £	2000 £
Oil stocks	1,493,212	1,570,635
Spare parts	1,045,818	1,067,160
	2,539,030	2,637,795

In the opinion of the directors, the replacement cost of the oil stocks is approximately £300,000 greater than the cost reflected on the balance sheet.

10 Debtors

Amounts falling due within one year:

	2001 £	2000 £
Trade debtors	112,501	80,423
Amounts due from shareholders	5,615,150	7,004,138
Prepayments and accrued income	273,822	102,684
	6,001,473	7,187,245

11 Creditors: Amounts falling due within one year

	2001 £	2000 £
Current portion of long term loans (see note 12)	6,107,447	4,619,311
Bank overdraft	36,276	-
Trade creditors	906,997	1,233,911
Amounts due to shareholders	2,703,453	5,004,118
Taxation and social security	1,169,981	1,087,178
Accruals and deferred income	3,734,167	3,061,087
Proposed dividends	2,000,000	4,500,000
	16,658,321	19,505,605

12 Creditors: Amounts falling due after more than one year

	2001 £	2000 £
Bank loans (see below)	88,123,360	94,230,807

	2001 £	2000 £
The bank loans are repayable as follows:		
- within 1 year (see note 11)	6,107,447	4,619,311
- between 1 and 2 years	7,366,639	6,107,447
- between 2 and 5 years	26,850,506	25,763,022
- after 5 years	53,906,215	62,360,338
	94,230,807	98,850,118

12 Creditors: Amounts falling due after more than one year (continued)

In 1992, the company signed a £150 million facility agreement with a banking consortium. On 1 May 1995, the outstanding portion of the facility was refinanced by conversion into a 15 year term loan. The term loan is secured over the assets of the company and is repayable in six monthly instalments which commenced on the 31 March 1996.

Interest is due on the loan at fixed and varying floating rates. The variable rate term loan, with an original principal of £54,472,000, has an interest rate of LIBOR plus 65 basis points. The fixed rate term loan, with an original principal of £60,000,000, has interest rates between 7.25 to 8.75% depending on the specific tranche of debt.

13 Provisions for liabilities and charges

	2001 £	2000 £
Deferred taxation	20,971,238	18,637,283

The deferred tax liability comprises:

	2001 £	2000 £
Excess of tax allowances over book depreciation of fixed assets	28,355,446	28,746,427
Other short term timing differences	510,342	537,219
Tax losses carried forward	(7,894,550)	(10,646,363)
	20,971,238	18,637,283

There is no unprovided deferred tax in either year.

13 Provisions for liabilities and charges (continued)

The movement in the deferred tax provision is as follows:

	2001	2000
	£	£
As at 1 April	18,637,283	17,637,219
Deferred tax charge in respect of:		
- Increase/(decrease) in the excess of tax allowances over book depreciation of fixed assets	92,568	363,299
- Movement in other short term timing differences	(26,877)	(42,383)
- Adjustment in respect of prior years	330,858	(244,301)
- Release in respect of current year taxable profits	1,937,406	1,647,649
	20,971,238	1,724,264
Repurchase of consortium relief	-	(724,200)
As at 31 March	20,971,238	18,637,283

14 Capital and other lease commitments

Capital commitments are as follows:

	2001	2000
	£	£
Contracted for but not provided for	-	34,495

Annual commitments under non-cancellable operating leases are as follows:

	Plant and machinery	
	2001	2000
	£	£
Expiry date after five years	249,000	249,000

15 Other financial commitments

On 14 October 1991 the company entered into a long term interruptable gas supply agreement with British Gas for a period of 15 years beginning 1 October 1995, a commitment of approximately £15.6 million per annum based on the initial price. These future amounts have not been provided for in the financial statements.

16 Share capital

	2001 £	2000 £
Authorised		
5,000 ordinary shares of £1 each	5,000	5,000
Allotted, called-up and fully paid		
5,000 ordinary shares of £1 each	5,000	5,000

17 Reconciliation of movement in equity shareholders' funds

	2001 £	2000 £
Profit for the financial year	4,988,196	5,132,079
Dividends paid and proposed	(3,500,000)	(6,293,000)
Opening shareholders' funds	1,518,559	2,679,480
Closing shareholders' funds	3,006,755	1,518,559

18 Cash flow information

a) Reconciliation of operating profit to net cash inflow from operating activities

	2001 £	2000 £
Operating profit	14,188,289	14,342,780
Decrease/(increase) in debtors	1,154,688	(790,896)
Decrease in stocks	98,765	57,617
(Decrease) in creditors	(1,281,412)	(1,159,739)
Depreciation charge	6,387,132	6,579,722
Net cash inflow from operating activities	20,547,462	19,029,484

18 Cash flow information (continued)

b) Analysis of changes in net debt

	Cash £	Short term treasury deposits £	Debt due within one year £	Debt due after one year £	Net debt £
Balance at 31 March 1999	728,670	17,521,907	(6,129,259)	(98,901,299)	(86,779,981)
Cash flows	(342,458)	(4,410,711)	6,129,259	51,181	1,427,271
Other	-	-	(4,619,311)	4,619,311	-
Balance at 31 March 2000	386,212	13,111,196	(4,619,311)	(94,230,807)	(85,352,710)
Cash flows	(422,488)	(2,461,196)	4,619,311	-	1,735,627
Other	-	-	(6,107,447)	6,107,447	-
Balance at 31 March 2001	(36,276)	10,650,000	(6,107,447)	(88,123,360)	(83,617,083)

19 Related party transactions

The company conducts business transactions on a normal basis with, and receives a number of services from, shareholder companies or members of their groups. The costs of such services are charged to the company.

The following transactions have occurred with related parties.

a) Electricity

The company generates electricity which was purchased by the Pool up until 27 March when the New Electricity Trading Arrangements were introduced. All income received from the Pool was passed to Scottish and Southern Energy plc ("SSE"), a parent company of one of the shareholders. The company has a contract with SSE which sets out the terms under which the company receives payments from SSE in respect of electricity supply.

During the year the total sales to SSE amounted to £44,787,840 (2000 - £46,617,445).

b) Steam

Acordis Acetate Chemicals Ltd (formerly Courtaulds Chemicals (Holdings) Ltd), a shareholder, is the sole purchaser of steam. During the year the total sales to Acordis Acetate Chemicals Ltd amounted to £9,516,332 (2000 - £8,263,545).

c) Operation and maintenance

The Mission Energy Company (UK) Ltd group recharge the company for contractually agreed operational and maintenance costs. In addition the Mission Energy Company (UK) Ltd group employs and pays the staff costs of the personnel responsible for the company. The total amount payable to the Mission Energy Company (UK) Ltd group in the year was £2,057,995 (2000 - £1,964,647).