ANDERSEN

Derwent Cogeneration Limited

Financial statements for the year ended 31 March 2002
together with directors' and auditors' reports

Registered number: 2650621

Directors' report

For the year ended 31 March 2002

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 2002

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 £6,146,356 (2001 - £7,323,639).

The directors recommend a final dividend of £800.00 per ordinary share (2001 - £400.00). No interim dividend was proposed for the year (2001 - £300.00 per ordinary share).

Directors and their interests

The directors who served during the year are as follows:

R.J. Hemmings	
J.S. Buist	
I.R. Morgan	
P.R. Smith	
C.J. Warden	(resigned 1 May 2001)
D. Lumb	(appointed 1 May 2001)

Alternate directors

J.A. Bednall	(alternate of J.S. 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.

Lansdowne House
Berkeley Square
London
W1X 5DH

By order of the Board,

J.S. Buist
Director

27 June 2002

Auditors' report

ANDERSEN

To the Shareholders of Derwent Cogeneration Limited:

We have audited the financial statements of Derwent Cogeneration Limited for the year ended 31 March 2002 which comprise the profit and loss account, the balance sheet and the related Notes numbered 1 to 20. These accounts have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of directors' responsibilities in the Directors' report. Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

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.

We read the Directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of opinion

We conducted our audit in accordance with United Kingdom 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 judgments made by the directors in the preparation of the accounts 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 accounts give a true and fair view of the state of affairs of the company at 31 March 2002 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Arthur Andersen

Arthur Andersen
Chartered Accountants and Registered Auditors

180 Strand
London
WC2R 1BL
27 June 2002

Profit and loss account

For the year ended 31 March 2002

	Notes	2002 £	2001 £
Turnover	2	61,455,368	55,129,900
Cost of sales		(37,402,542)	(30,420,534)
Gross profit		24,052,826	24,709,366
Administrative expenses		(11,704,312)	(10,521,077)
Operating profit		12,348,514	14,188,289
Finance charges (net)	3	(6,202,158)	(6,864,650)
Profit on ordinary activities before taxation	4	6,146,356	7,323,639
Tax on profit on ordinary activities	6	(1,789,475)	(2,335,443)
Profit on ordinary activities after taxation	17	4,356,881	4,988,196
Dividends paid and proposed	7	(4,000,000)	(3,500,000)
Retained profit for the year		356,881	1,488,196
Retained profit brought forward		3,001,755	1,513,559
Retained profit carried forward		3,358,636	3,001,755

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 2002

	Notes	2002 £	2001 £
Fixed assets			
Tangible fixed assets	8	106,937,266	109,569,171
Current assets			
Stock	9	3,162,508	2,539,030
Debtors	10	8,445,983	6,001,473
Investments - short term treasury deposits		7,050,000	10,650,000
Cash at bank and in hand		170,801	-
		18,829,292	19,190,503
Creditors: Amounts falling due within one year	11	(18,934,963)	(16,658,321)
Net current (liabilities)/assets		(105,671)	2,532,182
Total assets less current liabilities		106,831,595	112,101,353
Creditors: Amounts falling due after more than one year	12	(80,756,721)	(88,123,360)
Provisions for liabilities and charges	13	(22,711,238)	(20,971,238)
Net assets		3,363,636	3,006,755
Capital and reserves			
Called-up equity share capital	16	5,000	5,000
Profit and loss account		3,358,636	3,001,755
Equity shareholders' funds	17	3,363,636	3,006,755

Signed on behalf of the Board

J.S. Buist

Director

27 June 2002

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

Cash flow statement

For the year ended 31 March 2002

	Notes	2002 £	2001 £
Net cash inflow from operating activities	18a	13,931,599	20,547,462
Returns on investments and servicing of finance			
Interest received		346,425	604,815
Interest paid		(6,536,402)	(7,817,402)
Net cash outflow from returns on investments and servicing of finance		(6,189,977)	(7,212,587)
Taxation			
UK corporation tax paid		-	(212,750)
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		(3,027,099)	(5,386,497)
Equity dividends paid		(2,000,000)	(6,000,000)
Net cash inflow before management of liquid resources and financing		2,714,523	1,735,628
Management of liquid resources			
Decrease in short term treasury deposits		3,600,000	2,461,196
Financing			
Repayment of loans		(6,107,446)	(4,619,312)
Net cash outflow from financing		(6,107,446)	(4,619,312)
Increase/(decrease) in cash in the year		207,077	(422,488)
Reconciliation of net cash flow to movement in net debt			
Increase/(decrease) in cash in the year	18b	207,077	(422,488)
Cash used to decrease borrowings	18b	6,107,447	4,619,311
Cash movements from decrease in liquid resources	18b	(3,600,000)	(2,461,196)
Movement in net debt in the year		2,714,524	1,735,627
Net debt at 1 April 2001		(83,617,083)	(85,352,710)
Net debt at 31 March 2002	18b	(80,902,559)	(83,617,083)

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	- the maintenance cycle, typically between 5 and 7 years.

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 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.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as 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 at the average tax rates that are expected to apply in the periods in which the 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 non-discounted basis.

Accounting policies (continued)

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 is expensed as incurred.

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. The company is party to no material finance leases.

2 Analysis of turnover

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

	2002 £	2001 £
Electricity	49,614,268	45,550,773
Steam	11,330,197	9,495,195
Other income	510,903	83,932
	61,455,368	55,129,900

3 Finance charges (net)

	2002 £	2001 £
Interest payable		
Bank loans and overdrafts - repayable after five years	(6,535,166)	(7,537,231)
Other interest payable	-	(27)
	(6,535,166)	(7,537,258)
Interest income		
Other interest receivable and similar income	333,008	672,608
	(6,202,158)	(6,864,650)

4 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging:

	2002 £	2001 £
Depreciation (see note 8)	5,659,004	6,387,132
Amortisation of refinancing costs (note 12)	74,041	74,041
Operating lease rentals		
- plant and machinery	249,823	249,823
Auditors' remuneration		
- audit fees	24,360	22,000
- other	5,550	24,900

5 Staff costs

No persons were employed by the company during the year (2001 - nil).

The directors of the company received no remuneration for their services to the company (2001 - £nil).

6 Tax on profit on ordinary activities

The tax charge comprises:

	2002 £	2001 £
Corporation tax	70,686	148,962
Deferred tax (see note 13)	1,740,000	2,333,955
Adjustments in respect of prior years	(21,211)	(147,474)
	1,789,475	2,335,443

7 Dividends paid and proposed

	2002 £	2001 £
Equity shares:		
- interim dividend of £nil per ordinary share (2001 - £300.00)	-	1,500,000
- final dividend proposed at £800.00 per ordinary share (2001 - £400.00)	4,000,000	2,000,000
	4,000,000	3,500,000

8 Fixed assets

	Land and buildings £	Auxiliary boiler £	Generating plant £	Motor vehicles £	Fixtures and fittings £	Total £
Cost						
Balance at 1 April 2001	1,150,553	1,735,889	146,032,573	39,393	661,938	149,620,346
Additions	-	-	2,955,288	-	71,811	3,027,099
Balance at 31 March 2002	1,150,553	1,735,889	148,987,861	39,393	733,749	152,647,445
Depreciation						
Balance at 1 April 2001	134,591	550,212	38,978,966	33,757	353,649	40,051,175
Charge for the year	38,352	69,436	5,430,662	2,332	118,222	5,659,004
Balance at 31 March 2002	172,943	619,648	44,409,628	36,089	471,871	45,710,179
Net book value						
At 31 March 2002	977,610	1,116,241	104,578,233	3,304	261,878	106,937,266
At 1 April 2001	1,015,962	1,185,677	107,053,607	5,636	308,289	109,569,171

The cost above includes interest capitalised of £14,678,567 (2001 - £14,678,567).

9 Stocks

	2002 £	2001 £
Oil stocks	1,967,571	1,493,212
Spare parts	1,194,937	1,045,818
	3,162,508	2,539,030

There is no material difference between the balance sheet value of stocks and their replacement cost.

10 Debtors

Amounts falling due within one year:

	2002 £	2001 £
Trade debtors	159,323	112,501
Amounts due from shareholders	7,865,949	5,615,150
Prepayments and accrued income	420,711	273,822
	8,445,983	6,001,473

11 Creditors: Amounts falling due within one year

	2002 £	2001 £
Current portion of long term loans (see note 12)	7,366,639	6,107,447
Bank overdraft	-	36,276
Trade creditors	364,042	906,997
Amounts due to shareholder companies	1,676,779	2,703,453
Taxation	1,167,840	1,169,981
Accruals and deferred income	4,359,663	3,734,167
Proposed dividends	4,000,000	2,000,000
	18,934,963	16,658,321

12 Creditors: Amounts falling due after more than one year

	2002 £	2001 £
Bank loans (see below)	80,756,721	88,123,360

	2002 £	2001 £
The bank loans are repayable as follows:		
- within 1 year (see note 11)	7,366,639	6,107,447
- between 1 and 2 years	8,396,887	7,366,639
- between 2 and 5 years	27,651,810	26,850,506
- after 5 years	44,708,024	53,906,215
	88,123,360	94,230,807

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 tranche of the facility was refinanced by conversion into a 15 year term loan. The 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 varying fixed and 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

	2002 £	2001 £
Deferred taxation	22,711,238	20,971,238

The deferred tax liability comprises:

	2002 £	2001 £
Excess of tax allowances over book depreciation of fixed assets	28,084,281	28,355,446
Other short term timing differences	461,338	510,342
Tax losses carried forward	(5,834,381)	(7,894,550)
	22,711,238	20,971,238

There is no unprovided deferred tax in either year. The movement in the deferred tax provision is as follows:

	2002 £	2001 £
As at 1 April	20,971,238	18,637,283
Deferred tax charge in respect of:		
- (Decrease)/increase in the excess of tax allowances over book depreciation of fixed assets	(271,165)	92,568
- Movement in other short term timing differences	(49,004)	(26,877)
- Adjustment in respect of prior years	-	330,858
- Release in respect of current year taxable profits	2,060,169	1,937,406
As at 31 March	22,711,238	20,971,238

14 Financial commitments

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

	Plant and machinery 2002 £	2001 £
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

	2002 £	2001 £
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

	2002 £	2001 £
Profit for the financial year	4,356,881	4,988,196
Dividends paid and proposed	(4,000,000)	(3,500,000)
Opening shareholders' funds	3,006,755	1,518,559
Closing shareholders' funds	3,363,636	3,006,755

18 Cash flow information

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

	2002 £	2001 £
Operating profit	12,348,514	14,188,289
Depreciation charge	5,659,005	6,387,132
(Increase)/decrease in debtors	(2,457,927)	1,154,688
(Increase)/decrease in stocks	(623,478)	98,765
(Decrease) in creditors	(994,515)	(1,281,412)
Net cash inflow from operating activities	13,931,599	20,547,462

b) Analysis of changes in net debt

	Cash and overdraft £	Short term treasury deposits £	Debt due within one year £	Debt due after one year £	Net debt £
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	-	-	(6,107,477)	6,107,447	-
Balance at 31 March 2001	(36,276)	10,650,000	(6,107,447)	(88,123,360)	(83,617,083)
Cash flows	207,077	(3,600,000)	6,107,447	-	2,714,524
Other	-	-	(7,366,639)	7,366,639	-
Balance at 31 March 2002	170,801	7,050,000	(7,366,639)	(80,756,721)	(80,902,559)

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 is purchased by Scottish and Southern Energy plc ("SSE"), a parent company of one of the shareholders. The company has a contract with the SSE group 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 the SSE group amounted to £49,614,268 (2001 - £44,787,840).

Amounts due from the SSE group at year end were £5,825,635 (2001 - £4,573,850). There were also amounts due to the SSE group of £370,374 (2001 - £1,564,832).

19 Related party transactions (continued)

b) Steam

Acordis Acetate Chemicals Ltd, a shareholder, is the sole purchaser of steam. During the year the total sales to Acordis Acetate Chemicals Ltd amounted to £11,330,197 (2001 - £9,516,332). Amounts due from Acordis Acetate Chemicals Ltd at year end were £2,040,314 (2001 - £1,041,300). There were also amounts due to Acordis Acetate Chemicals Ltd of £924,476 (2001 - £956,577).

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 £1,981,984 (2001 - £2,057,995). Amounts due to Mission Energy Company (UK) Ltd group at year end were £381,846 (2001 - £182,044).

20 Contingent liabilities

Following the introduction of the New Energy Trading Arrangements ("NETA") in 2001, the company has submitted a trading dispute to the system administrators, the outcome of which the directors do not believe will be material to the financial position of the company.