Damhead Creek Limited

Company no. 2675504

Consolidated Annual Report
and Accounts
For the year ended 31 December 2002

Contents

Directors' report

The directors present their annual report and the audited consolidated financial statements of Damhead Creek Limited ("the Company") and its subsidiary (together "the Group") for the year ended 31 December 2002.

Principal activities

The Group's principal activity is the operation of a gas-fired power station near the River Medway in Kent.

Business review

The loss before tax for the period was £62.0 million (2001: loss before tax £7.4 million). On 19 December 2002 100% of Damhead Creek's share capital was acquired from the Entergy Group by Damhead Energy Limited, a company formed and controlled by lending bankers to the Company. On 30 June 2003 the Company successfully negotiated revised long-term banking arrangements with its Lenders. The Company continues to operate and trade successfully.

Dividend

The directors do not recommend the payment of a dividend.

Directors and directors' interests

The directors who held office during the year ended December 2002 were as follows:

	Appointed	Resigned
Jonathan Eugene Long		19.12.2002
Fred F. Nugent		19.12.2002
Stephen Gareth Brett		19.12.2002
Michael Childers		19.12.2002
Robert Cushman		19.12.2002
Stanley A. Ross		19.12.2002
Andrew. A. Speak	19.12.2002	
Dr Clifford K. Stanley	19.12.2002	

The directors had no interests in the share capital of the Company or, prior to 19 December 2002, any other of the United Kingdom Entergy Group companies.

Political and charitable contributions

The Group made no political contributions during the year. During the year the Group made charitable contributions of £8,067

Auditors

During the year KPMG LLP were appointed by the directors as auditors of the Company to fill a casual vacancy.

In accordance with Section 388 of the Companies Act 1985, a resolution for the re-appointment of KPMG LLP as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board

Andrew Speak
Director

Cliff Stanley
Director

24th November 2003

Damhead Creek Power Station
Kingsnorth
Hoo St Werburgh
Rochester, Kent

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 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 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.

KPMG

KPMG LLP

8 Salisbury Square
London
EC4Y 8BB
United Kingdom

Report of the independent auditors to the members of Damhead Creek Limited

We have audited the financial statements on pages 4 to 21.

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 affairs of the Company and the Group as at 31 December 2002 and of the loss of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP

KPMG LLP
Chartered Accountants
Registered Auditor

24 November 2003

Consolidated profit and loss account

for the year ended 31 December 2002

	Notes	**Year ended 31 December 2002 £000**	Year ended 31 December (restated) 2001 £000
Turnover		153,703	186,296
Cost of sales		(118,052)	(142,937)
Gross profit		35,651	43,359
Administrative expenses		(25,621)	(24,074)
Operating profit		10,030	19,285
Interest receivable		1,102	1,088
Interest payable and similar charges	4	(73,141)	(27,724)
Loss on ordinary activities before taxation	2	(62,009)	(7,351)
Tax on loss on ordinary activities	5	3,401	(596)
Retained deficit for the year		(58,608)	(7,947)

Under section 230(4) of the Companies Act 1985 the Company is exempt from the requirement to present its own profit and loss account. The Company made an operating profit of £10,007,000 and a loss after tax of £18,962,000.

All activities in the year are continuing.

Consolidated balance sheet
at 31 December 2002

	Note	31 December 2002	31 December 2001 (restated)
		£000	£000
Fixed assets			
Tangible assets	*6*	**276,327**	283,114
Current assets			
Stocks	*8*	**1,506**	1,390
Debtors: amounts falling due within one year	*9*	**14,676**	23,038
Cash at bank and in hand	*10*	**26,060**	25,584
		42,242	50,012
Creditors: amounts falling due within one year	*11*	**(16,766)**	(47,654)
Net current assets		**25,476**	2,358
Total assets less current liabilities		**301,803**	285,472
Creditors: amounts falling due after more than one year	*12*	**(320,791)**	(278,698)
Provisions for liabilities and charges	*13*	**-**	(1,825)
Net (liabilities) / assets		**(18,988)**	4,949
Capital and reserves			
Called up share capital	*14*	**50,871**	16,200
Share premium account	*15*	**3,337**	3,337
Profit and loss account	*15*	**(73,196)**	(14,588)
Total equity shareholders' (deficit) / funds	*16*	**(18,988)**	4,949

These financial statements were approved by the board of directors on 24th November 2003 and signed on its behalf by:

Andrew Speak
Director

Cliff Stanley
Director

Company balance sheet

at 31 December 2002

	Note	31 December 2002	31 December 2001 (restated)
		£000	£000
Fixed assets			
Tangible assets	*6*	**276,327**	283,114
Investments in subsidiary undertakings	*7*	-	30
		276,327	283,144
Current assets			
Stocks	*8*	**1,506**	1,390
Debtors: amounts falling due within one year	*9*	**14,676**	22,970
Cash at bank and in hand	*10*	**26,060**	25,584
		42,242	49,944
Creditors: amounts falling due within one year	*11*	**(16,794)**	(47,621)
Net current assets		**25,448**	2,323
Total assets less current liabilities		**301,775**	285,467
Creditors: amounts falling due after more than one year	*12*	**(277,721)**	(278,698)
Provisions for liabilities and charges	*13*	-	(1,825)
Net assets		**24,054**	4,944
Capital and reserves			
Called up share capital	*14*	**50,871**	16,200
Share premium account	*15*	**3,337**	3,337
Profit and loss account	*15*	**(30,154)**	(14,593)
Total Shareholders' funds	*16*	**24,054**	4,944

These financial statements were approved by the board of directors on 24th November 2003 and signed on its behalf by:

Andrew Speak
Director

Cliff Stanley
Director

Consolidated cash flow statement

for the year ended 31 December 2002

	Note	Year ended 31 December 2002 £000	Year ended 31 December 2001 £000
Cash flow statement			
Cash flow from operating activities	*18*	**28,472**	39,845
Returns on investments and servicing of finance	*19*	**(22,535)**	(22,051)
Capital expenditure and financial investment	*19*	**(838)**	(972)
Cash inflow before financing		**5,099**	16,822
Financing	*19*	**(4,623)**	154
Increase in cash in the period		**476**	16,976
Reconciliation of net cash flow to movement in net debt	*20*		
Increase in cash in the period		**476**	16,976
Cash outflow from decrease in debt		**4,744**	154
Change in net debt resulting from cash flows		**5,220**	17,237
Non cash movements		**(14,954)**	-
Movement in net debt in the period		**(9,734)**	17,237
Net debt at the start of the period		**(284,997)**	(302,234)
Net debt at the end of the period		**(294,731)**	(284,997)

Consolidated statement of total recognised gains and losses
for the year ended 31 December 2002

	2002 £000	2001 (restated) £000
Loss for the financial year	**(58,608)**	(7,947)
Total recognised gains and losses relating to the financial year	**(58,608)**	**(7,947)**
Prior year adjustment (as explained in note 1)	**(1,266)**	
Total gains and losses recognised since last annual report	**(59,874)**	

Historical cost profits and losses are as shown in the profit and loss account above.

Notes to the Annual Report and Accounts for the period ended 31 December 2002

1 Accounting policies

The principal accounting policies adopted in the preparation of the Annual Report and Accounts, which have been consistently applied, are set out below:

Basis of preparation

The Annual Report and accounts have been prepared under the historical cost convention and in accordance with applicable Accounting Standards in the United Kingdom.

The Group has adopted FRS 19 Deferred Taxation during the year and the results have been restated accordingly. The impact of adopting FRS 19 has been to decrease shareholders' funds by £1.8 million at 1 January 2002 and to increase the tax credit in the year ended 31 December 2002 by £1.8 million (2001: £0.6 million increase in tax charge).

Going Concern

Notwithstanding that the Group has net liabilities, the Company has net assets and the directors have prepared these financial statements on the going concern basis which assumes that both the Company and Group will continue in operational existence for the foreseeable future. The Company and the Group's ability to meet their trading and financing obligations is dependent principally on the prices that are paid and received for gas and electricity purchases and sales:

Long-term energy prices

On 30 June 2003 the Group entered into a refinancing agreement with its senior and subordinated lenders that postponed principal repayments on the Group's senior debt. In due course the senior debt will be repaid out of the Group's cash in excess of amounts held aside in debt service reserve accounts. Once all senior debt and associated interest is repaid the subordinated debt and associated interest will be repaid out of available cash. On the basis of the Group's forecasts, which formed part of the refinancing agreement, the Group will generate positive operating cash flow to allow it to service and repay its senior debt in full prior to commencing repayment of the subordinated debt and associated interest. Current forward market prices for electricity until 2006 are significantly in excess of those assumed within the Group's forecasts.

Short-term energy prices

The Company and Group have entered into trading arrangements which are sensitive to short term increases in electricity prices. Based on their assessment of the most likely short-term energy prices, the directors believe that the Group will continue to be able to meet all of its obligations and liabilities under these trading arrangements. In particular the Company has sold call options for 2.37 TWh of electricity for the period to 3 April 2005 which, if exercised by the counterparty, will require the Company to purchase electricity at market prices to meet its obligations, resulting in a loss and the outflow of cash. The Company has purchased call options for the same period totalling 1.1 TWh to partially mitigate this effect. Technically, the cash outflow is uncapped, being dependent on how high short-term electricity prices rise. However, the directors believe that, based on their assessment of the most likely worst case movement in short-term energy prices, the Company will be able to continue to meet its obligations if the options are exercised. The directors are monitoring the situation and have a strategy in place to reduce the Group's exposure to these call options.

Notes *(continued)*

Turnover

Turnover arises through the sale of electricity and gas in the United Kingdom.

Fixed assets

Fixed assets are stated at cost. Depreciation commenced upon completion of the power station.

Depreciation is provided on all fixed assets at rates calculated to write off the costs, less estimated residual value based on prices prevailing at the date of acquisition, of each asset evenly over its useful life. Depreciation is charged from the "take-over" date based upon the useful asset lives as follows:

Plant and machinery (Power station)	-	40 years
Fixtures and fittings	-	3 years

No depreciation is provided on freehold land.

Stocks

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

Deferred tax

Deferred taxation is provided on the liability basis to take into account the difference between the incidence of income and expenditure for accounting and taxation purposes to the extent that it is likely that a liability will crystallise in the foreseeable future. Deferred tax assets are recognised in respect of tax losses to the extent that it is more probable than not that taxable profits will be available for offset against in future accounting periods.

Interest

Interest on borrowings specifically related to the financing of the power station was capitalised during the construction period. All other interest is charged/credited directly to the profit and loss account.

Notes *(continued)*

2 Loss on ordinary activities before taxation

	Group		Company	
	Year ended 31 December	Year ended 31 December	**Year ended 31 December**	Year ended 31 December
Loss on ordinary activities before taxation is stated after charging:	**2002**	2001	**2002**	2001
	£000	£000	**£000**	£000
Depreciation of tangible fixed assets	**7,625**	6,902	**7,625**	6,902
Auditors' remuneration:				
Audit services	**50**	50	**50**	50
Other services	**7**	-	**7**	-

3 Directors' remuneration and employees

Directors' remuneration

The directors received £16,000 for services to the Company during the year. No pension payments to the directors were made by the Group.

Staff numbers and costs

The Company employed 4 persons in finance and administrative roles in the period from 19 December 2002 to 31 December 2002. Prior to 19 December 2002 the Company had no direct employees, but relied on staff employed by other Entergy group companies.

The aggregate payroll costs of these persons for the period from 19 December 2002 to 31 December 2002 were as follows:

	£'000
Wages and salaries	**4**
Social security costs	**1**
Other pension costs	**-**

4 Interest payable and other charges:

	Year ended 31 December 2002 £000	Year ended 31 December 2001 £000
On intercompany loans	22,473	24,109
On external loans, including swaps	7,720	3,615
Loan acquired for nil consideration	36,100	-
Accrued interest acquired for nil consideration	6,848	-
	73,141	27,724

5 Taxation

Tax on profit on ordinary activities

	Year ended 31 December 2002 £000	Year ended 31 December 2001 (restated) £000
UK Corporation tax at 30%	-	-
Deferred taxation (credit) / charge	(3,401)	596
	(3,401)	596

Tax reconciliation

The current tax charge for the period is higher than the standard rate of corporation tax in the UK (30%, 2001: 30%). The differences are explained below.

	Year ended 31 December 2002 £000	Year ended 31 December 2001 £000
Current tax reconciliation		
Loss on ordinary activities before tax	(62,009)	(7,351)
Current tax at 30% (2001: 30%)	(18,603)	(2,205)
Effects of:		
Expenses not deductible for tax purposes	13,064	127
Depreciation for period in excess of capital allowances	2,213	2,004
Interest capitalised in the year	-	(433)
Financing spread adjustment	-	453
Group relief surrendered for no charge	2,100	-
Losses not used and carried forward	1,226	54
Total current tax charge (see above)	-	-

Notes *(continued)*

6 Tangible fixed assets

Group and Company

	Freehold Land and buildings	Plant and machinery	Fixtures, fittings, tools and equipment	Finance Costs	Total
	£000	£000	£000	£000	£000
Cost					
Cost as at 1 January 2002	1,200	282,984	296	5,537	290,017
Additions	-	826	12	-	838
At 31 December 2002	**1,200**	**283,810**	**308**	**5,537**	**290,855**
Depreciation					
As at 1 January 2002	-	(6,443)	(121)	(339)	(6,903)
Charge for period	-	(7,156)	(100)	(369)	(7,625)
At 31 December 2002	**-**	**(13,599)**	**(221)**	**(708)**	**(14,528)**
Net book value					
At 31 December 2002	**1,200**	**270,211**	**87**	**4,829**	**276,327**
At 31 December 2001	1,200	276,541	175	5,198	283,114

£38.7 million (2001: £38.7 million) of capitalised interest is included within the plant and machinery costs above.

Notes *(continued)*

7 Fixed asset investments

	Shares in group undertakings £000	Total £000
Shares		
Cost at 1 January and 31 December 2002	**30**	**30**
Provisions		
At 1 January 2002	-	-
Impairment	(30)	(30)
At 31 December 2002	**(30)**	**(30)**
Net Book Value		
31 December 2002	-	-
31 December 2001	30	30

The Group undertaking is Damhead Creek Finance Limited, a wholly owned subsidiary registered in the Cayman Islands, whose main activity is to act as a finance company. The Company owns 100% of the Ordinary share capital of Damhead Creek Finance Limited.

The Company wrote down its investment in Damhead Creek Finance Limited during the year as the subsidiary's net assets no longer support the carrying value.

8 Stocks

Group and Company

	31 December 2002 £000	31 December 2001 £000
Raw materials and consumables	**1,506**	1,390

Notes *(continued)*

9 Debtors

	Group		Company	
	31 December 2002 £000	31 December 2001 £000	**31 December 2002 £000**	31 December 2001 £000
Amounts owed by subsidiary undertakings	-	-	-	2,240
Amounts owed by group undertakings	-	7,894	-	5,586
Other debtors	**11,409**	15,144	**11,409**	15,144
Prepayments and accrued income	**1,691**	-	**1,691**	-
Deferred taxation asset (note 13)	**1,576**		**1,576**	
	14,676	23,038	**14,676**	22,970

References to amounts owed by group undertakings at 31 December 2001 are in respect of the Entergy group to which the Company previously belonged until 19 December 2002.

All debtors are due in less than one year with the exception of the deferred tax asset which is expected to be recovered in greater than one year..

10 Cash at bank and in hand

Group and Company	**31 December 2002 £000**	31 December 2001 £000
Debt service reserve accounts	**22,039**	16,184
Other cash at bank and in hand	**4,021**	9,400
	26,060	25,584

Notes *(continued)*

11 Creditors: amounts falling due within one year

	Group		Company	
	31 December 2002 £000	31 December 2001 £000	**31 December 2002 £000**	31 December 2001 £000
Trade creditors	**4,945**	-	**4,945**	-
Amounts owed to group undertakings	**-**	1,809	**-**	1,778
Amounts owed to parent undertaking	**-**	31,883	**-**	31,883
Amounts owed to subsidiary undertaking	**-**	-	**30**	-
Taxation and social security	**586**	-	**586**	-
Accruals and deferred income	**11,235**	13,962	**11,233**	13,960
	16,766	47,654	**16,794**	47,621

References to amounts owed to fellow group undertakings at 31 December 2001 are in respect of the Entergy group to which the Company previously belonged until 19 December 2002.

12 Creditors: amounts falling due after more than one year

	Group		Company	
	31 December 2002 £000	31 December 2001 £000	**31 December 2002 £000**	31 December 2001 £000
Bank debt	**320,791**	-	**277,721**	-
Amounts owed to parent undertakings	**-**	278,698	**-**	278,698
	320,791	278,698	**277,721**	278,698

Following the successful renegotiation of the loan facilities on 30 June 2003 the maturity of all bank debt is greater than five years. Interest on senior bank debt is fixed at a rate of 6.5% for 8 years by swap arrangements entered into by the Group. Interest on subordinated bank debt is charged at a rate of 4.50% above LIBOR.

The Company has granted fixed and floating charges over substantially all its assets to secure repayment of outstanding borrowings to it term lenders. The Company has also granted fixed and floating charges over substantially all its assets to guarantee the borrowings of Damhead Creek Finance Limited, a subsidiary of the Company.

Notes *(continued)*

13 Provisions for liabilities and charges

Group and Company

Deferred taxation provision	**2002**
	£000
Group	
At beginning of year (restated)	**1,825**
Credit to the profit and loss for the year	**(1,825)**
At end of year	**-**

The elements of deferred taxation are as follows:

	2002	2001 (restated)
	£000	£000
Difference between accumulated depreciation and amortisation and capital allowances	**(10,310)**	(12,523)
Tax losses	**11,886**	10,698
Deferred tax asset / (liability)	**1,576**	(1,825)

In the Group there is a further £39,000 asset arising on tax losses which has not been recognised.

14 Called up share capital

Share capital

	31 December 2002	31 December 2001
	£	**£**
Authorised		
100,000,000 Ordinary shares of £1 each	**100,000,000**	41,200,000
Allotted, called up and fully paid		
50,870,530 Ordinary shares of £1 each	**50,870,530**	16,200,101

On 22 March 2003 10,000,000 ordinary £1 shares were allotted at par in exchange for a reduction in intercompany loans.

On 19 December 2002 24,670,429 ordinary £1 shares were allotted at par in exchange for a reduction in intercompany loans of £24,549,596 and cash of £120,833.

Notes *(continued)*

15 Share premium and reserves

	Group		Company	
	Share premium account £000	**Profit and loss account £000**	**Share premium account £000**	**Profit and loss account £000**
At 1 January 2002 (as previously reported)	3,337	(13,322)	3,337	(13,327)
Restatement following adoption of FRS 19	-	(1,266)	-	(1,266)
At 1 January 2002 as restated	3,337	(14,588)	3,337	(14,593)
Retained deficit for the year	-	(58,608)	-	(15,561)
At 31 December 2002	**3,337**	**(73,196)**	**3,337**	**(30,154)**

16 Reconciliation of movements in shareholders' funds

	Group		**Company**	
	31 December 2002 £000	31 December 2001 £000	**31 December 2002 £000**	31 December 2001 £000
Shares issued in the period	**34,671**	5,000	**34,671**	5,000
Loss for the period (restated)	**(58,608)**	(7,947)	**(15,561)**	(7,947)
Net (decrease)/increase in shareholders' funds	**(23,937)**	(2,947)	**19,110**	(2,947)
Shareholders' funds at 1 January as previously reported	**6,215**	8,566	**6,210**	8,561
Restatement following adoption of FRS 19	**(1,266)**	(670)	**(1,266)**	(670)
Shareholders' funds at 1 January as restated	**4,949**	7,896	**4,944**	7,891
Shareholders' funds at 31 December	**(18,988)**	**4,949**	**24,054**	**4,944**

Notes *(continued)*

17 Contingent liabilities and commitments

Operational commitments

The supply of gas to the power station is provided predominantly via a long-term gas supply contract entered into on 15 June 1998 and expected to expire in 2016. The estimated minimum commitment for the supply of gas under this contract totals approximately £916 million.

The Company has commitments for the forward sale of electricity for amounts totalling £192 million.

In addition to the forward sales of electricity the Company has sold net call options, giving counterparties the right to purchase 1.27 TWh of electricity from the Company in the period to March 2005. As the Company's forward sale commitments are generally close to the capacity of the Company's generating plant, if the counterparty exercises the options, the Company will have to satisfy its liability by purchasing electricity, potentially on the spot market. In addition the Company has sold put options for 0.48 TWh of electricity over the same period. If prices in the market fall, these options may be exercised by the counterparty, forcing the Company to buy electricity which it may not be able to sell on at a profit. If future market prices remain at their current levels then the Directors anticipate that all the call options will be exercised. The counterparty's decision to exercise the options and the resulting monetary impact on the Company will principally be dependent on the future market price of electricity. For this reason the directors are unable to provide a best estimate of the potential liability arising from these options. Where it is commercially prudent to do so, the directors will take mitigating actions to reduce the Company's exposure to these options.

The Company must maintain a Letter of Credit facility in order to allow it to continue trading energy with its main counterparty, Entergy Koch ("EKT"). The Letter of Credit facility is set at a level proportionate to the mark to market value of the Company's trades with EKT. The directors believe that they currently hold, or will be able to obtain, sufficient Letter of Credit facilities to meet the Company's obligations under the trading arrangements with EKT, based on their assessment of the most likely worst-case movement in short term energy prices.

Other financial commitments

The Company is the Guarantor on a subordinated loan entered into by its subsidiary, Damhead Creek Finance Limited, amounting to £36.1 million, along with deferred interest of £6.9 million at 31 December 2002.

Following the repayment of all obligations under the Senior Credit Agreement, the Company has an obligation to subscribe for fully paid shares in Damhead Creek Finance Limited (DCFL) to the extent required for DCFL to have sufficient funds to meet its then current obligations to pay amounts that are due and payable under a subordinated debt agreement.

18 Reconciliation of operating profit to operating cash flows

	Year ended 31 December 2002 £000	Year ended 31 December 2001 £000
Operating profit	**10,030**	19,285
Depreciation	**7,625**	6,902
Loss on sale of fixed assets	**-**	3
Increase in stocks	**(116)**	(269)
Decrease in debtors	**9,938**	11,676
Increase in creditors	**995**	2,248
Net cash inflow from operating activities	**28,472**	39,845

Notes *(continued)*

19 Analysis of cash flows

	Year ended 31 December 2002 £000	Year ended 31 December 2001 £000
Returns on investment and servicing of finance		
Interest received	**1,102**	1,088
Interest paid	**(23,637)**	(23,139)
	(22,535)	(22,051)
Capital expenditure and financial investment		
Purchase of tangible fixed assets	**(838)**	(972)
Financing		
Issue of ordinary share capital	**121**	-
Debt due within one year:		
Decrease in short-term borrowing	-	154
Debt due after more than one year:		
Secured loan	**(4,744)**	-
	(4,623)	154

20 Analysis of net debt

	At beginning of year £000	Cash flow £000	Other non cash changes £000	At end of year £000
Cash in hand, at bank	25,584	476	-	26,060
Debt due after one year	(278,698)	4,744	(46,837)	(320,791)
Debt due within one year	(31,883)	-	31,883	-
Total	**(284,997)**	**5,220**	**(14,954)**	**(294,731)**

Other non-cash changes shows the effect of a financial restructuring exercise during the year whereby short and long term intercompany debt was replaced by long term external debt, including the assumption by the Group of £36.1 million of debt and accumulated deferred interest of £7.0 million for nil consideration and loan amounts forgiven. Share capital of £24.5 million was also issued in consideration for a reduction in the debt during the year. Other non-cash changes also include interest accrued in the year and added to the loan balances and, conversely, deductions for interest amounts accrued to the loan in prior years and reclassified as interest cash payments in the current year.

Notes *(continued)*

21 Pensions

The Group does not operate a pension scheme, but contributes to its employees' personal schemes. The pension cost charge for the period represents contributions payable by the group to the employees' schemes and amounted to £305 *(2001: £nil).*

22 Post balance sheet events

On 30 June 2003 the Company successfully negotiated revised long-term banking arrangements with its lenders (see note 12).

23 Related party disclosures

During the year prior to 19 December 2002, payments to Entergy Group companies of £7.1 million were made for the provision of Operations, Maintenance and Technical Services. Interest paid on loans held by Entergy Group companies was £20.8 million.

24 Ultimate parent company and parent undertaking of larger group of which the company is a member

At 31 December 2002 the Company is a wholly owned subsidiary of Damhead Energy Limited, a company incorporated in the United Kingdom, and the directors regard Damhead Energy Limited as the immediate parent company. Damhead Energy Limited was incorporated on 25 October 2002 and will prepare its first set of statutory accounts for the period ended 31 December 2004. When published these will be available from Damhead Creek Power Station, Kingsnorth, Hoo St Werburgh, Rochester, Kent.