

GPU POWER NETWORKS (UK) plc
(formerly GPU Power Networks (UK) Limited)

ANNUAL REPORT & ACCOUNTS

**FOR THE NINE MONTHS ENDED
31 DECEMBER 2001**



GPU Power Networks (UK) plc

DIRECTORS' REPORT

The Directors submit their report and the audited accounts for GPU Power Networks (UK) plc for the period ended 31 December 2001.

Change in accounting reference date

During the period the Company changed its accounting reference date to 31 December 2001. The current reporting period is therefore a short accounting period of nine months.

Principal activities

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

Financial results and review of the business

On 14 May 2001 the Company changed its name from Energent Limited to GPU Power Networks (UK) Limited and on 2 July 2001 the Company registered as GPU Power Networks (UK) plc. Until 30 September 2001, the Company was dormant. On 1 October 2001, the trade, assets and liabilities of the Regulated Distribution business of Midlands Electricity plc were transferred to the Company under the Transfer Scheme provisions of the Utilities Act 2000.

The audited financial statements for the nine months ended 31 December 2001 are set out on pages 5 to 16. The profit for the period, after taxation, was £26.2m (12 months ended 31 March 2001: £nil).

Dividends

No dividend has been proposed for the period ended 31 December 2001 (12 months ended 31 March 2001: £nil).

Research and development

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

Share capital

The authorised share capital of the Company, together with movements in shares issued, is shown in Note 14 to the accounts. On 27 April 2001, the Company increased its share capital to £50,000 on conversion to a public limited company.

Directors

The following served as Directors during the period:

Mr M A Hughes	(appointed 29 May 2001)
Mr S A King	(appointed 29 May 2001)
Mr R D Murray	(appointed 29 May 2001)
Mr I Elcock	(resigned 30 September 2001)
Mr F D Hafer	(appointed 1 October 2001)
Mr B L Levy	(appointed 1 October 2001, resigned 7 November 2001)
Mr I H Jolles	(appointed 1 October 2001, resigned 7 November 2001)
Ms C B Snyder	(appointed 1 October 2001)
Mr R H Browne	(resigned 30 September 2001)

No Director had any interest in the shares of the Company or any other affiliated UK company at 31 December 2001 other than as a non-beneficial nominee.

GPU Power Networks (UK) plc

DIRECTORS' REPORT (continued)

Regulatory accounts

Additional accounts are prepared for the Director General of Electricity Supply as required by our Public Electricity Supply Licence in respect of the fiscal year ending 31 March. Extracts from these regulatory accounts are available free from the Regulation Manager, GPU Power Networks (UK) plc, Whittington Hall, Whittington, Worcester, WR5 2RB.

Creditor payment policy

The Company's current policy concerning the payment of the majority of its trade creditors is to follow the CBI's Prompt Payers Code (copies available from the CBI, Centre Point, 103 New Oxford Street, London, WC1A 1DU). For other suppliers the Company's policy is to:

- a) settle the terms of payment with those suppliers when agreeing the terms of each transaction;
- b) ensure that those suppliers are made aware of the terms of payment by inclusion of the relevant terms in contracts; and
- c) pay in accordance with its contractual and other legal obligations.

The payment policy applies to all payments to creditors for revenue and capital supplies of goods and services. The average trade creditor payment period for the Company was 45 days (for the twelve months ended 31 March 2001: nil days).

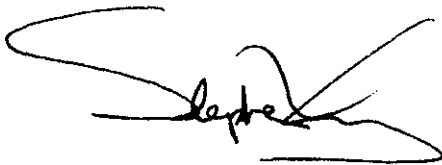
Future developments

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

Auditors

Arthur Andersen were appointed auditors following the acquisition of GPU Inc., by FirstEnergy Corp. on 7 November 2001. Arthur Andersen have indicated their willingness to continue in office, and a resolution concerning their reappointment will be proposed at the Annual General Meeting.

By Order of the Board of Directors



S A King
Director
26 April 2002

Registered Office
GPU Power Networks (UK) plc, Whittington Hall,
Whittington, Worcester, WR5 2RB

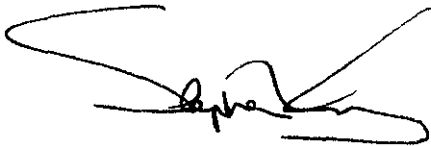
RESPONSIBILITIES OF THE DIRECTORS

The Directors are required by UK company law to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Company at the end of the financial period and of the profit for that period.

In preparing the financial statements, appropriate accounting policies have been used and have been applied consistently. These policies are set out on pages 7 and 8. Where it is necessary to make judgements and estimates, they have been made on a reasonable and prudent basis. The Directors confirm that applicable accounting standards have been followed and that the financial statements have been prepared on the going concern basis.

The Directors are also responsible for maintaining adequate accounting records, for safeguarding the assets of the Company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

On behalf of the Board of Directors

A handwritten signature in black ink, appearing to read 'S A King', with a long horizontal line extending to the right.

S A King
Director
26 April 2002

GPU Power Networks (UK) plc

INDEPENDENT AUDITORS' REPORT

to the shareholders of GPU Power Networks (UK) plc

We have audited the financial statements of GPU Power Networks (UK) plc for the period ended 31 December 2001 which comprise the Profit and Loss account, the Balance Sheet, and the related Notes numbered 1 to 17. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report. As described on page 3, this includes responsibility for preparing the financial statements, in accordance with applicable United Kingdom accounting standards. 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 United Kingdom Companies Act. 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 is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 December 2001 and of its profit for the period then ended and have been properly prepared in accordance with the Companies Act 1985.



Arthur Andersen
Chartered Accountants and Registered Auditors
180 Strand
London
WC2R 1BL
26 April 2002

GPU Power Networks (UK) plc
PROFIT AND LOSS ACCOUNT

for the period ended 31 December 2001

	Note	9 months ended 31 December 2001 £000	Year ended 31 March 2001 £000
Turnover – continuing operations	2	79,412	-
Cost of sales		(6,627)	-
Gross profit		72,785	-
Distribution costs		(30,120)	-
Administration expenses		(1,909)	-
Operating profit – continuing operations	3	40,756	-
Loss on sale of fixed assets		(2,371)	-
Profit on ordinary activities before interest		38,385	-
Net interest payable	4	(9,108)	-
Profit on ordinary activities before taxation		29,277	-
Taxation	6	(3,068)	-
Retained profit for the financial period	15	26,209	-

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

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

There are no recognised gains and losses for the period other than those stated in the profit and loss account above and therefore no separate statement has been prepared.

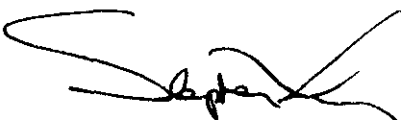
GPU Power Networks (UK) plc**BALANCE SHEET**

at 31 December 2001

	Note	31 December 2001 £000	31 March 2001 £000
Fixed assets			
Tangible fixed assets	8	879,046	-
		<u>879,046</u>	<u>-</u>
Current assets			
Debtors	10	5,046	-
Trade and unbilled debtors subject to non-recourse financing		47,589	-
Less: non-returnable amounts received		(36,707)	-
	10	<u>10,882</u>	<u>-</u>
		15,928	-
Creditors (amounts falling due within one year)	11	(110,273)	-
Net current liabilities		<u>(94,345)</u>	<u>-</u>
Total assets less current liabilities		784,701	-
Creditors (amounts falling due after one year)	11	(538,918)	-
Provisions for liabilities and charges	12	(11,441)	-
Deferred taxation	13	(118,083)	-
Net assets		<u>116,259</u>	<u>-</u>
Capital and reserves			
Share capital	14	50	-
Profit and loss account	15	116,209	-
Equity shareholders' funds		<u>116,259</u>	<u>-</u>

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

The accounts on pages 5 to 16 were approved by the Board of Directors on 26 April 2002 and were signed on its behalf by:



S A King
Director

GPU Power Networks (UK) plc

NOTES TO THE ACCOUNTS

1 Principal accounting policies

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom. As the Company is a wholly owned subsidiary of Avon Energy Partners Holdings it is exempt under Financial Reporting Standard No. 1 (Revised) from publishing a cash flow statement. A summary of the more important accounting policies, which have been applied consistently, is set out below:

Basis of preparation

The financial statements have been prepared using historical cost accounting principles.

On 1 October 2001 the trade, liabilities and assets of the regulated distribution business of Midlands Electricity plc were transferred into the Company under the Transfer Scheme provisions of the Utilities Act 2000.

Related party transactions

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

Turnover

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

Computer software costs

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

Research and development

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

Investment income

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

Tangible assets

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

Depreciation

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

	Years
Distribution assets	40
Depreciation is charged at 3% for 20 years followed by 2% for the remaining 20 years	
Non-operational assets	
Buildings – freehold	Up to 60
– leasehold	Lower of lease period or 60 years
Major computer software developments	Up to 15

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

GPU Power Networks (UK) plc

NOTES TO THE ACCOUNTS (continued)

1 Principal accounting policies (continued)

Customers' contributions

Customers' contributions are credited to the profit and loss account over a 40 year period at a rate of 3% for the first 20 years followed by 2% for the remaining 20 years.

Stocks

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

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the group's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

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

Pension costs

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

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

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

Leases

Rental costs under operating leases are charged to the profit and loss account in equal annual amounts over the period of the lease.

Securitisation programme

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

2 Segmental analysis

Geographical analysis

Turnover is derived from operations within the UK.

By class of business

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

GPU Power Networks (UK) plc
NOTES TO THE ACCOUNTS (continued)

3 Operating profit

	9 months ended 31 December 2001 £000	Year ended 31 March 2001 £000
Operating profit is stated after charging:		
Depreciation	7,828	-

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

4 Net interest payable

	9 months ended 31 December 2001 £000	Year ended 31 March 2001 £000
Interest receivable:		
Other loans	(17)	-
Interest payable on:		
Bank loans and overdrafts	1,680	-
Other loans	7,445	-
	9,108	-

5 Directors and employees

Employment costs

The aggregate remuneration of all employees comprised:

	9 months ended 31 December 2001 £000	Year ended 31 March 2001 £000
Wages and salaries	399	-
Social security costs	27	-
Other pension costs	34	-
	460	-
Less charged as capital expenditure	(19)	-
	441	-

Average number of employees

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

	9 months ended 31 December 2001 £000	Year ended 31 March 2001 £000
Managerial	2	-
Non-industrial	7	-
Industrial	54	-
	63	-

GPU Power Networks (UK) plc

Directors' emoluments

None of the Directors received any remuneration from the Company during the period (12 months ended 31 March 2001: £nil).

6 Taxation

	9 months ended 31 December 2001 £000	Year ended 31 March 2001 £000
Taxation on profit for the period comprised:		
UK corporation tax:		
Current	4,985	-
Deferred taxation:		
Accelerated capital allowances	4,025	-
Short term timing differences	(40)	-
Increase in discount	(5,902)	-
	<hr/> (1,917) <hr/>	<hr/> - <hr/>
	<hr/> 3,068 <hr/>	<hr/> - <hr/>

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

Factors affecting the tax charge for the period

	9 months ended 31 March 2001 £000
Profit on ordinary activities before taxation	29,277
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30%	<hr/> 8,783
Effects of:	
Accelerated capital allowances	(4,025)
Expenses not allowable for tax purposes	60
Gain on disposal of non qualifying assets	(87)
Other timing differences	254
Current taxation charge for the period	<hr/> 4,985 <hr/>

7 Dividends

No dividends have been paid or proposed for the nine months ended 31 December 2001 (12 months ended 31 March 2001: £nil).

GPU Power Networks (UK) plc
NOTES TO THE ACCOUNTS (continued)

8 Tangible fixed assets

	Distribution	Customer contributions	Total
	£000	£000	£000
Cost			
At 1 April 2001	-	-	-
Group transfers	1,683,031	(304,445)	1,378,586
Additions	41,011	(6,238)	34,773
Disposals	(5,222)	-	(5,222)
	<hr/>	<hr/>	<hr/>
At 31 December 2001	1,718,820	(310,683)	1,408,137
	<hr/>	<hr/>	<hr/>
Depreciation			
At 1 April 2001	-	-	-
Group transfers	(621,428)	97,687	(523,741)
Charge for the period	(9,895)	2,067	(7,828)
Disposals	2,478	-	2,478
	<hr/>	<hr/>	<hr/>
At 31 December 2001	(628,845)	99,754	(529,091)
	<hr/>	<hr/>	<hr/>
Net book value			
At 1 April 2001	-	-	-
	<hr/>	<hr/>	<hr/>
At 31 December 2001	1,089,975	(210,929)	879,046
	<hr/>	<hr/>	<hr/>

Included in fixed assets are assets in the course of construction at 31 December 2001 amounting to £61.7m (31 March 2001: £nil) and land with a cost of £4.4m (31 March 2001: £nil) which is not depreciated.

GPU Power Networks (UK) plc
NOTES TO THE ACCOUNTS (continued)

9 Utilities Act 2000 Transfer Scheme

On 1 October 2001 the trade, liabilities and assets of the regulated distribution business of Midlands Electricity plc were transferred into the Company under the Transfer Scheme provisions of the Utilities Act 2000. The following table sets out the book values of the identifiable assets and liabilities transferred, which under the transfer scheme provisions specified all assets and liabilities are to be transferred at net book value.

	Book value £000
Fixed assets	854,845
Current assets	
Debtors	35,878
Prepayments and accrued income	5,817
Total assets	<hr/> 896,540
Creditors	
Bank loans	(103,471)
Other creditors	(3,542)
Payments received on account	(15,766)
Accruals and deferred income	(3,067)
Intercompany creditors	(549,481)
Provisions for liabilities and charges	(11,213)
Deferred tax	(120,000)
Total liabilities	<hr/> (806,540)
Net assets	<hr/> 90,000
Satisfied by	
Transfer of reserves	<hr/> 90,000

GPU Power Networks (UK) plc
NOTES TO THE ACCOUNTS (continued)

10 Debtors

	31 December 2001 £000	31 March 2001 £000
Amounts falling due within one year:		
Prepayments and accrued income	5,046	-
Gross debtors subject to non-recourse financing	24,010	-
Less: non-returnable amounts received	(13,128)	-
Gross unbilled consumption subject to non-recourse financing	23,579	-
Less: non-returnable amounts received	(23,579)	-
	<hr/>	<hr/>
	15,928	-
	<hr/>	<hr/>

When the trade, assets and liabilities of the Midlands Electricity Regulated Distribution business were transferred into the Company, the transfer included a £75m securitisation programme. The securitisation programme involves the sale of eligible unbilled, billed and an element of future electricity trade debtors to a trust. Of the £75m (31 March 2001: £nil), £36,707,000 (31 March 2001: £nil) has been deducted from debtors above. The balance of £38,293,000 (31 March 2001: £nil) has been included in short term borrowings.

The terms of the agreement are such that interest is charged on the securitisation at a variable margin above LIBOR and is payable monthly. GPU Power Networks (UK) plc is not obliged to support any losses suffered by the trust as a result of the securitisation, nor does it intend to do so. Furthermore, the trust has agreed in writing that it will seek recovery of sums advanced to GPU Power Networks (UK) plc together with funding costs only to the extent that sufficient funds are generated from the assets to which the securitisation applies.

The charges relating to the above agreement are as follows:

	9 months ended 31 December 2001 £000	Year ended 31 March 2001 £000
Interest	893	-
Other fees	28	-
	<hr/>	<hr/>
	921	-
	<hr/>	<hr/>

GPU Power Networks (UK) plc
NOTES TO THE ACCOUNTS (continued)

11 Creditors

	31 December 2001 £000	31 March 2001 £000
Amounts falling due within one year		
Short term borrowings repayable within three months	38,293	-
Payments received on account	19,940	-
Trade creditors	9	-
Other creditors	410	-
Accruals & deferred income	12,921	-
Amounts due to parent undertaking	11,663	-
Amounts due to group undertakings	20,674	-
Other loans	6,363	-
	<hr/>	<hr/>
	110,273	-
	<hr/>	<hr/>
Amounts falling due after more than one year		
Other loans	22,108	-
Amounts due to parent undertaking	516,810	-
	<hr/>	<hr/>
	538,918	-
	<hr/>	<hr/>

Short term borrowings includes £38,293,000 (31 March 2001: £nil) relating to a debtor securitisation programme transferred to the Company from Midlands Electricity plc under the Transfer Scheme. This programme involves the sale of both billed and unbilled debtors to a third party for which £75m (31 March 2001: £nil) was received. See note 10.

Other loans comprise £28,471,000 of an unsecured ten-year loan from the European Investment Bank at an interest rate of 7.4% per annum. £6,363,000 of this loan is repayable within one year (31 March 2001: £nil), £6,840,000 (31 March 2001: £nil) between one and two years and £15,268,000 (31 March 2001: £nil) is repayable after between two and five years. There is no balance repayable after more than 5 years.

Amounts due to parent undertaking in more than one year relate to long term funding loans from the Company's immediate parent undertaking, bearing an interest rate of HSBC base plus 0.4%.

12 Provisions for liabilities and charges

	31 December 2001 £000	31 March 2001 £000
Opening balance	-	-
Transfers in	11,213	-
Transferred from profit and loss account	228	-
	<hr/>	<hr/>
Closing balance	11,441	-
	<hr/>	<hr/>

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

GPU Power Networks (UK) plc
NOTES TO THE ACCOUNTS (continued)

13 Deferred taxation

	31 December 2001 £000	31 March 2001 £000
Opening balance	-	-
Transferred under the transfer scheme	120,000	-
Release for the period (note 6)	(1,917)	-
	<hr/>	<hr/>
Closing balance	118,083	-
	<hr/>	<hr/>
	31 December 2001 £000	31 March 2001 £000
Deferred tax computed at the corporation tax rate of 30% (31 March 2001: 30%) is computed as follows:		
Accelerated capital allowances	191,943	-
Other timing differences	(245)	-
	<hr/>	<hr/>
Undiscounted provision for deferred tax	191,698	-
Discount	(73,615)	-
	<hr/>	<hr/>
	118,083	-
	<hr/>	<hr/>

14 Called up share capital

	31 December 2001 £000	31 March 2001 £000
Authorised		
Ordinary shares of £1 each	50	1
	<hr/>	<hr/>
Allotted, called up and fully paid		
Ordinary shares of £1 each	50	-
	<hr/>	<hr/>

On 27 April 2001 the Company increased its authorised share capital from 1,000 ordinary shares of £1 each to 50,000 ordinary shares of £1 each. On the same date the Company allotted a further 49,998 shares to its parent company, Midlands Electricity plc.

GPU Power Networks (UK) plc
NOTES TO THE ACCOUNTS (continued)

15 Reserves and reconciliation of movements in equity shareholders' funds

	Share Capital £000	Profit and Loss account £000	Total £000
At 1 April 2001	-	-	-
Transfers in	-	90,000	90,000
Shares issued	50	-	50
Profits for the financial period	-	26,209	26,209
	<hr/>	<hr/>	<hr/>
At 31 December 2001	50	116,209	116,259
	<hr/>	<hr/>	<hr/>

On 1 October 2001, the trade, assets and liabilities of the Regulated Distribution business of Midlands Electricity plc were transferred to the Company under the Transfer Scheme provisions of the Utilities Act 2000. As part of this transaction, reserves of £90,000,000 were transferred into the Company (see note 9).

16 Pension commitments

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

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

The total pension cost to the company for the period was £34,000 (12 months to March 2001: £nil).

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

17 Ultimate parent company

At 31 December 2001 the Company's intermediate holding company was Avon Energy Partners Holdings. Copies of the intermediate holding company's consolidated financial statements (in which this Company's accounts are consolidated) may be obtained from The Secretary, Avon Energy Partners Holdings, Whittington Hall, Whittington, Worcester, WR5 2RB.

The Directors regard FirstEnergy Corp. as the ultimate holding company and controlling party by virtue that it has a 100% interest in Avon Energy Partners Holdings. Copies of the ultimate holding company's consolidated financial statements (in which this Company's results are included) may be obtained from The Secretary, FirstEnergy Corp., 76 South Main Street, Akron, Ohio, 44308, USA.