Enron Teesside Operations Limited

Accounts for the year ended 30 June 2001
together with directors' and auditors' report

Registered number: 3647087

Directors' report

For the year ended 30 June 2001

The directors present their annual report on the affairs of the company, together with the accounts and auditors' report for the year ended 30 June 2001.

Principal activities and business review

The principal activities of the company are:

- the generation and supply of heat and power and the supply of other utilities to customers on Teesside
- the provision of an asset protection service
- the provision of site infrastructure services
- the provision of logistical support services

Results and dividends

Results are as follows:

	£'000
Profit on ordinary activities after taxation	7,889
Dividends paid and proposed on equity shares	(7,600)
Retained profit for the year	289

Directors

The directors who served during the year and up to the date of the signing of these accounts, are as shown below:

M J Carnaby	(resigned 30 June 2001)
T A Davidson	
J V Derrick Jr	
F K Dyson	
M A Frevert	
P D Gavens	
D M Guy	(appointed 1 January 2001)
A J Lewis	
N McDermott	(resigned 21 December 2000)
A J McLeod	
K I Readshaw	
G Ritchie	
M G Scrimshaw	(resigned 19 June 2001)

The directors who held office at 30 June 2001 had no beneficial interest in the shares of the company or other UK group companies during the year that requires disclosure under Schedule VII of the Companies Act 1985.

Supplier payment policy

The company's policy is to settle terms of payment with suppliers when agreeing the terms of each transaction to ensure that suppliers are made aware of the terms of payment and abide by the terms of payment.

Statement of directors' responsibilities

Company law requires the directors to prepare accounts for each financial period, 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 period. After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

In preparing those accounts, 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 accounts; and
- prepare the accounts 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 accounts 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.

Disabled employees

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the company continues and that appropriate training is arranged. It is the policy of the company that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

Employee consultation

The company places considerable value of the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the company. This is achieved through formal and informal meetings and the company intranet. Employee representatives are consulted regularly on a wide range of matters affecting their current and future interests.

Auditors

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

ETOL Headquarters
PO Box 1985
Wilton International
Middlesbrough
TS90 8WS

By order of the Board,

D M Guy

D M Guy
Director

26 October 2001

ANDERSEN

To the Shareholders of Enron Teesside Operations Limited

We have audited the financial statements of Enron Teesside Operations Limited for the year ended 30 June 2001,which comprise the Profit and Loss Account, the Balance Sheet, and the related Notes numbered 1 to 22. These financial statements 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. 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 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 30 June 2001 and of the company's 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
26 October 2001

Profit and loss account

For the year ended 30 June 2001

	Notes	Year ended 30 June 2001 £'000	Year ended 30 June 2000 £'000
Turnover	2	168,576	151,659
Cost of sales	16	(102,230)	(90,371)
Gross profit		66,346	61,288
Administrative expenses		(35,606)	(32,816)
Other operating income		615	981
Operating profit		31,355	29,453
Interest Receivable	3	1,661	1,534
Interest payable and similar charges	3	(17,227)	(19,245)
Profit on ordinary activities before taxation	4	15,789	11,742
Taxation on profit on ordinary activities	7	(7,900)	(6,216)
Profit on ordinary activities after taxation		7,889	5,526
Dividends paid and proposed	8	(7,600)	(7,200)
Retained profit/(loss) for the financial period		289	(1,674)

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

There were no other recognised gains or losses except for the profit/(loss) for the financial periods.

The above profits/(losses) were generated from continuing operations.

Balance sheet

30 June 2001

	Notes	2001 £'000	2000 £'000
Fixed assets			
Intangible assets	9	67,614	73,659
Tangible assets	10	208,993	206,033
		276,607	279,692
Current assets			
Stocks	11	2,046	1,450
Debtors	12	26,400	20,637
Cash at bank		26,523	21,554
		54,969	43,641
Creditors: amounts falling due within one year	13	(65,894)	(49,816)
Net current liabilities		(10,925)	(6,175)
Total assets less current liabilities		265,682	273,517
Creditors: amounts falling due after more than one year	14	(173,173)	(189,197)
Provisions for liabilities and charges	15	(16,700)	(8,800)
Net assets		75,809	75,520
Capital and reserves			
Called-up equity share capital	18	2,769	2,769
Share premium account	19	71,858	71,858
Profit and loss account	19	1,182	893
Total equity shareholder's funds	20	75,809	75,520

Signed on behalf of the Board,

D M Guy

D M Guy
Director

26 October 2001

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

Notes to the accounts

For the year ended 30 June 2001

1 Accounting policies

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

a) Basis of accounting

The accounts have been prepared under the historical cost convention and in accordance with applicable accounting standards.

b) Cash flow statement

In accordance with Financial Reporting Standard No.1(Revised 1996) no cash flow statement has been prepared as the company's results are included in the consolidated accounts of its ultimate parent company which are made available to the public on an annual basis.

c) Goodwill

Goodwill arising on the acquisition of a business, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and written off on a straight-line basis over its useful economic life, which is twenty years. Provision is made for any impairment.

d) Other intangible assets

Included within other intangible assets are non-compete and other associated fees, which are written off on a straight-line basis over their useful economic lives of 5 years.

e) Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and provision for any impairment in value. Depreciation is provided on all tangible fixed assets, other than freehold land and assets under construction, at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over its expected useful life, as follows:

Freehold buildings	24 years
Plant and equipment	20 years
Boiler overhauls	4 years
Commercial vehicles	10 to 15 years
Office equipment	5 years

f) Stock

Stocks are stated at the lower of cost and net realisable value. Net realisable value is based on estimated selling prices less further costs expected to be incurred.

Provision is made for obsolete or defective items where appropriate.

1 Accounting policies (continued)

g) Taxation

Corporation tax payable is provided on taxable profits at the current rate.

Deferred taxation (which arises from differences in the timing of the recognition of items in the accounts and by the tax authorities) has been calculated on the liability method. Deferred taxation is provided on timing differences, which are expected to reverse in the foreseeable future, at the rates of tax likely to be in force at the time of the reversal.

Deferred tax is not provided on timing differences which, in the opinion of the directors, will not reverse in the foreseeable future. Deferred tax assets arising on tax losses are not recognised in the accounts.

h) Turnover

Turnover represents amounts receivable for utilities and services provided in the normal course of business, net of VAT and other sales-related taxes.

i) Pension costs

For the defined benefit schemes, the amount charged to the profit and loss account in respect of pension costs is the estimated regular cost of providing the benefits accrued in the period, adjusted to reflect variations from that cost. The regular cost is calculated so that it represents a substantially level percentage of current and future payroll. Variations from regular costs are charged or credited to the profit and loss account as a constant percentage of payroll over the estimated average remaining working life of scheme members. Defined benefit schemes are funded, with the assets of the scheme held in a separate trustee administered fund. Differences between amounts charged to the profit and loss account and amounts funded are shown as either accruals or prepayments in the balance sheet.

For defined contribution schemes the amount charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

j) Foreign currency

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. All differences are taken to the profit and loss account.

k) Leases

Assets held under finance leases are capitalised as tangible fixed assets and are depreciated over the lease term. The capital elements of any future lease obligations are recorded as liabilities, while the interest elements are charged to the profit and loss account over the period of the lease to produce a constant rate of charge on the balance of capital repayments outstanding.

1 Accounting policies (continued)

l) Financial instruments

The company's financial instruments, other than derivatives, comprise borrowings, some cash and liquid resources, and various items, such as trade debtors, trade creditors etc. that arise directly from its operations.

The main purpose of these financial instruments is to raise finance for the company's operations.

The company also enters into derivatives transactions (principally commodity hedges and interest rate hedges). The purpose of such transactions is to manage the commodity and interest rate risks arising from the company's operations and its sources of finance.

The policies for managing each of these risks are summarised below:

Commodity price risk

The company enters into commodity purchasing and sales agreements to hedge power and steam sales. This protects the company from movements in the commodity prices as the hedge serves to guarantee a fixed margin on such sales and purchases.

Interest rate risk

The company finances its operations through a mixture of retained profits and bank borrowings. The company has entered into an interest rate hedge with another group company, Enron Corp., whereby the LIBOR element of the interest on the long term bank loan is fixed at 5.95% to 31 December 2001.

m) Related party transactions

Under the provisions of Financial Reporting Standard No. 8 the company has not disclosed details of related party transactions with group companies as its ultimate parent undertaking prepares consolidated financial statements which include the results of the company and are made available to the public on an annual basis.

2 Turnover

All turnover and profit arises from the principal activities of the company,which are carried out entirely in the United Kingdom. Turnover is stated before the operation of the derivatives disclosed in note 16.

3 Interest payable and similar charges

	Year ended 30 June 2001 £'000	Year ended 30 June 2000 £'000
Bank loans	17,220	19,236
Finance leases	7	9
	17,227	19,245
Interest receivable	(1,661)	(1,534)
Net interest payable	15,566	17,711

4 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging:

	Year ended 30 June 2001 £'000	Year ended 30 June 2000 £'000
Depreciation and amounts written off tangible fixed assets		
- owned	11,885	11,471
- held under finance leases	33	38
Amortisation of goodwill	6,045	6,022
Staff costs (note 5)	17,853	19,379
Auditors' remuneration		
- audit	15	10
- non-audit	-	10

5 Staff numbers and costs

The average number of persons employed by the company (including directors) during the period was:

	Year ended 30 June 2001 Number	Year ended 30 June 2000 Number
Operating	483	476
Administration	69	76
	552	552

The aggregate remuneration comprised:

	Year ended 30 June 2001 £'000	Year ended 30 June 2000 £'000
Salaries	14,469	15,267
Pension costs	2,237	2,919
Social Security costs	1,147	1,193
	17,853	19,379

6 Directors' remuneration

The total amounts for directors' remuneration and other benefits were as follows:

	Year ended 30 June 2001 £'000	Year ended 30 June 2000 £'000
Emoluments	664	654
Company contributions to money purchase pension schemes	22	22
	686	676

	2001 Number	2000 Number
Directors contributing to a defined benefit pension scheme	6	5

6 Directors' remuneration (continued)

The above amounts for remuneration include the following in respect of the highest paid director:

	Year ended 30 June 2001 £'000	Year ended 30 June 2000 £'000
Emoluments	128	130

7 Taxation on profit on ordinary activities

	Year ended 30 June 2001 £'000	Year ended 30 June 2000 £'000
Deferred taxation	7,900	6,216

8 Equity dividends paid and proposed

	Year ended 30 June 2001 £'000	Year ended 30 June 2000 £'000
Dividend Paid		
A shares	3,922	3,922
B shares	78	-
Dividend Proposed		
A shares	3,529	3,137
B shares	71	141
	7,600	7,200

Notes to the accounts (continued)

9 Intangible fixed assets

	Goodwill £'000	Non-Compete £'000	Total £'000
Cost – Goodwill on acquisition of Teesside Utilities and Services Business from ICI Chemicals and Polymers Limited			
Balance as at 1 July 2000	70,178	12,500	82,678
Additions during the year	-	-	-
Balance as at 30 June 2001	70,178	12,500	82,678
Amortisation			
Balance as at 1 July 2000	5,269	3,750	9,019
Charge for year	3,545	2,500	6,045
Balance as at 30 June 2001	8,814	6,250	15,064
Net book value at 30 June 2000	64,909	8,750	73,659
Net book value at 30 June 2001	61,364	6,250	67,614

10 Tangible fixed assets

The movement in the year was as follows:

	Land £'000	Buildings £'000	Plant and equipment £'000	Vehicles £'000	Assets under construction £'000	Total £'000
Cost						
Balance as at 1 July 2000	27,500	12,238	174,964	1,161	6,400	222,263
Additions during the year	-	334	13,317	-	1,340	14,991
Disposals during the year	-	-	(67)	(19)	(49)	(135)
Transfers	-	305	2,604	92	(3,001)	-
Balance as at 30 June 2001	27,500	12,877	190,818	1,234	4,690	237,119
Depreciation						
Balance as at 1 July 2000	-	765	15,209	256	-	16,230
Charge for the year	-	528	11,206	184	-	11,918
Disposals during the year	-	-	(8)	(14)	-	(22)
Balance as at 30 June 2001	-	1,293	26,407	426	-	28,126
Net book value at 30 June 2000	27,500	11,473	159,755	905	6,400	206,033
Net book value at 30 June 2001	27,500	11,584	164,411	808	4,690	208,993

Included within the net book value of vehicles is an amount of £13,902 (2000 - £52,262) in respect of assets held under finance leases. The related depreciation charge for the period amounts to £33,238 (2000 - £38,233).

11 Stock

	2001 £'000	2000 £'000
Raw materials	424	404
Engineering Spares	1,622	1,046
	2,046	1,450

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

12 Debtors

The following amounts are included in debtors falling due within one year:

	2001 £'000	2000 £'000
Trade debtors	14,835	12,915
Amounts owed by fellow group undertakings	5,714	2,568
Amounts owed by associate	3,889	4,313
Prepayments	1,962	841
	26,400	20,637

13 Creditors: amounts falling due within one year

The following amounts are included in creditors falling due within one year:

	2001 £'000	2000 £'000
Obligations under finance leases (note 14)	57	54
Bank loans (note 14)	20,353	22,331
Trade creditors	1,924	7,705
Amounts owed to fellow group undertakings	11,852	5,317
Amounts owed to associate	3,115	-
Taxation and Social Security	1,466	1,867
Other creditors	100	337
Accruals and deferred income	23,427	8,927
Dividends payable (note 8)	3,600	3,278
	65,894	49,816

14 Creditors: amounts falling due after more than one year

The following amounts are included in creditors falling due after more than one year:

	2001 £'000	2000 £'000
Obligations under finance leases	-	28
Bank loans	164,323	184,669
Amounts owed to fellow group undertakings	8,850	4,500
	173,173	189,197

The bank loans have been secured on the assets of the company.

The maturity profile of the company's financial liabilities at 30 June 2001 was as follows:

Bank loans

	2001 £'000	2000 £'000
Less than one year	20,353	22,331
Between one and two years	17,502	20,370
Between two and five years	37,881	44,894
After five years	108,940	119,405
	184,676	207,000

Within the above amounts, £71,700,406 (2000 - £71,700,406) attracts an interest charge of 10.25% and the remainder attracts an interest charge of LIBOR plus 115 -140 basis points.

Finance leases

	2001 £'000	2000 £'000
Less than one year	57	54
Between one and two years	-	27
Between two and five years	-	1
	57	82

Group undertakings

	2001 £'000	2000 £'000
After five years	8,850	4,500

The above amount due after five years attracts no interest charge.

15 Provisions for liabilities and charges

Deferred Taxation	2001 £'000	2000 £'000
At start of period	8,800	2,584
Charged to profit and loss account	7,900	6,216
At 30 June	16,700	8,800

There is no unprovided deferred taxation within the company.

16 Financial instruments

The company enters into commodity purchasing and sales agreements to hedge power and steam sales. This protects the company from movements in the commodity prices as the hedge serves to guarantee a fixed margin on such sales and purchases.

The profit attributable to these instruments amounted to £26,160,634 (2000 - £15,623,478) and has been included within cost of sales.

17 Interest rate hedge

The company finances its operations through a mixture of retained profits and bank borrowings. The company has entered into an interest hedge with another group company, Enron Corp. whereby the LIBOR element of the interest on the long term bank loan is fixed at 5.95% to 31 December 2001.

18 Called-up equity share capital

	2001 £'000	2000 £'000
Authorised		
70,628,259 ordinary shares of 1p each	706	706
71,000,000 A class ordinary shares of 2.9p each	2,059	2,059
71,000,000 B class ordinary shares of 1p each	710	710
10,000,000 C class ordinary shares of 0.1p each	10	10
1,000 D class ordinary shares of 0.1p each		
	3,485	3,485
Allotted, called-up and fully-paid		
71,000,000 A class ordinary shares of 2.9p each	2,059	2,059
71,000,000 B class ordinary shares of 1p each	710	710
	2,769	2,769

19 Reserves

	Share premium £'000	Profit and loss £'000	Total £'000
At 1 July 2000	71,858	893	72,751
Profit for the year	-	7,889	7,889
Dividends on ordinary shares issued	-	(7,600)	(7,600)
At 30 June 2001	71,858	1,182	73,040

20 Reconciliation of movements in equity shareholders' funds

	2001 £'000	2000 £'000
Profit for the financial year	7,889	5,526
Dividends	(7,600)	(7,200)
New share capital subscribed	-	2,063
Premium on share capital subscribed	-	1,936
Net additions to equity shareholders funds	289	2,325
Opening equity shareholders funds	75,520	73,195
Closing equity shareholders funds	75,809	75,520

The movements in equity shareholders' funds include all movements in reserves.

21 Controlling party

The company is a subsidiary undertaking of Enron Europe Limited, registered in England and Wales. Enron Europe Limited heads the largest group in which the results of the company are consolidated. The consolidated accounts of this group are available to the public and may be obtained from 40 Grosvenor Place, London, SW1X 7EN.

22 Pension Costs

The company provides pension arrangements to the majority of full time employees through a defined benefit scheme and the related costs are assessed in accordance with the advice of professionally qualified actuaries.

Details of the most recent actuarial valuation of the scheme, which was conducted as at 1 January 2000 using the attained age method, are as follows:

Main assumptions (% pa):	
- rate of increase in salaries	4.4
- rate of increase in pensions in payment	2.8
- discount rate	6.4
- return on scheme investments	6.4

Results:

- market value of scheme's assets (£'000)	49,300
- level of funding (%)	131

The surplus on the scheme should be eliminated by the time the last member leaves service as a result of lower contributions than those required to meet the cost of future service benefits.

The pension cost charge for the year was £ 2,207,075 (2000 - £2,899,032). The significant reduction in cost compared to the previous year is due to the effect of the surplus disclosed by the valuation as at 1 January 2000.

The company also operates a defined contribution scheme for which the pension cost charge for the year amounted to £30,105 (2000 - £19,968).

Additional disclosures regarding the company's defined benefit pension scheme are required under the transitional provisions of FRS 17 "Retirement benefits" and these are set out below. The disclosures relate to the first year of the transitional provisions. They provide information which will be necessary for full implementation of the FRS 17 in the year ending 30 June 2003.

The actuarial valuation described above has been updated at 30 June 2001 by a qualified actuary using revised assumptions that are consistent with the requirements of FRS 17. Investments have been valued, for this purpose, at fair value.

The major assumptions used for the updated actuarial valuation were:

	2001
	%pa
Rate of increase in salaries	4.1
Rate of increase in pensions in payment	2.6
Discount rate	6.3
Inflation assumption	2.6

Notes to the accounts (continued)

The fair value of the assets in the scheme, the present value of the liabilities in the scheme and the expected rate of return at the balance sheet date were:

	2001	2001
	%	£'000
Equities	6.8	43,702
Bonds	6.3	4,540
Cash	5.1	532
Total fair value of assets		48,774
Present value of scheme liabilities		39,374
Surplus in the scheme		9,400
Related deferred tax liability (30%)		2,820
Net pension asset		6,580

The contribution rate for 2000/2001 was 21.4% of pensionable earnings to 31 December 2000 and 12.5% thereafter and the agreed contribution rate until the results of the next valuation (which is due no later than 1 January 2003) are available is 12.5% of pensionable earnings.