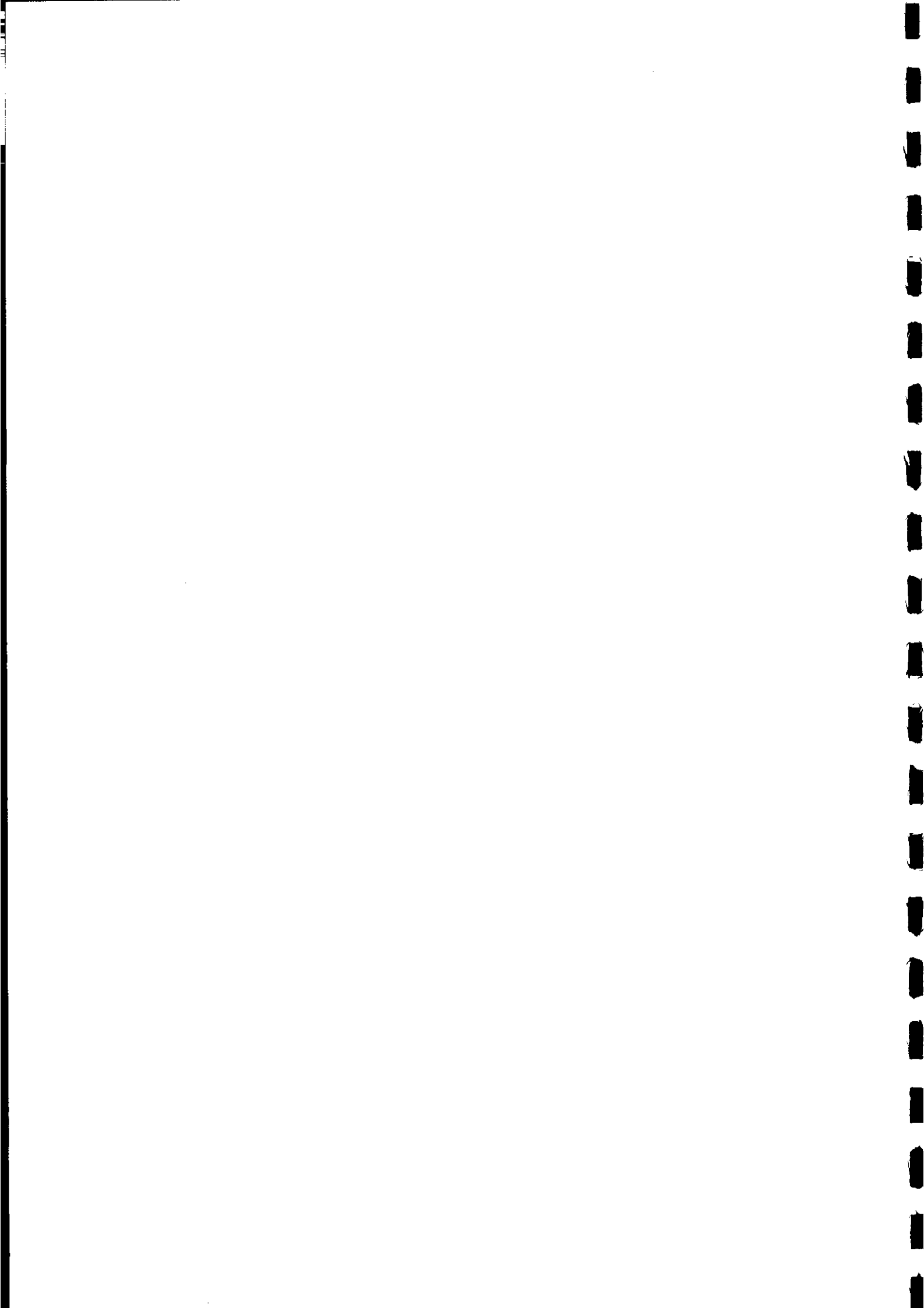


Killingholme Power Limited
Annual report
for the year ended 31 December 2002

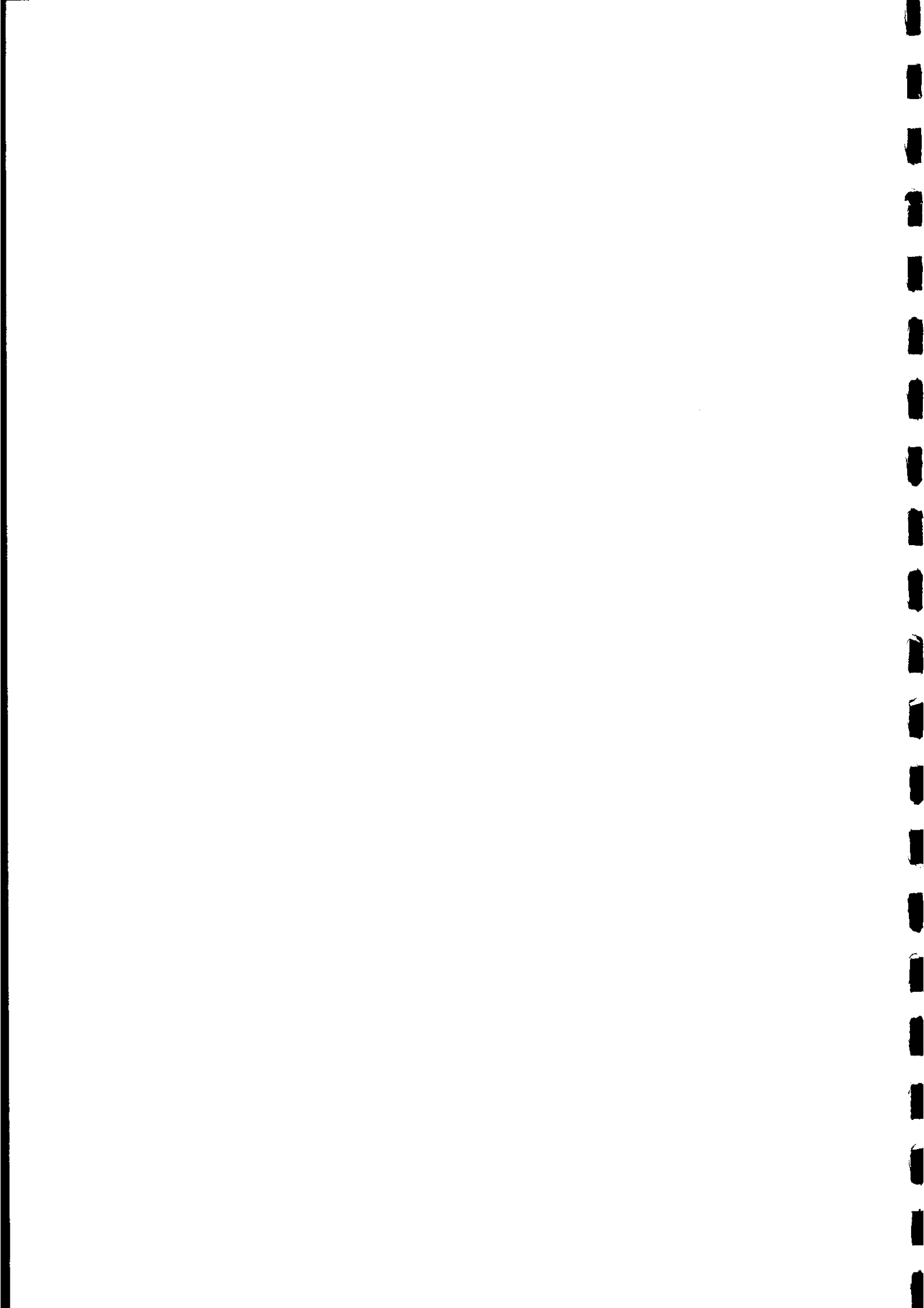
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Killingholme Power Limited
Annual report
for the year ended 31 December 2002
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Killingholme Power Limited

Directors' report for the year ended 31 December 2002

The directors present their report and the audited financial statements of the company for the year ended 31 December 2002.

Principal activities and review of the business

The principal activity of the company is the merchant generation and sale of electricity allied with the sale of gas.

In March 2001 Ofgem and the DTi completed the introduction of the New Electricity Trading Arrangements ("NETA") which fundamentally changed the basis upon which Killingholme traded power. As a result of the introduction of NETA the average price for wholesale power in the UK market has declined significantly. This has had the effect of reducing net revenue streams to the Company as well as increasing the reliance of the business on gas trading activities as a proportion of total revenue. In addition to price reductions there has been a shortage of liquidity in the markets

Against this difficult trading environment the Company has maintained the support of the Banks for all trading activities.

Events since the balance sheet date

On 30 January 2003 the company ceased to be part of the Xcel Energy Inc. group of companies following the acquisition of Killingholme Holdings Limited (the company's intermediate parent undertaking) by Killingholme Power Group Limited ("KPGL"). KPGL also acquired Sterling Luxembourg (No 3) SARL which had financed the activities of the immediate parent company, Killingholme Generation Limited ("KGL"), through long term debt facilities provided by a syndicate of banks. KPGL is now owned and controlled by this syndicate of banks. In connection with this transaction, a subsidiary of Xcel Energy Inc agreed to waive a loan of £100,000,000 to KGL together with £10,733,000 of accrued interest thereon.

On 26 March 2003 KPGL and its subsidiaries agreed the terms of a refinancing of its existing banking facilities, details of which are set out in the Statement of Accounting Policies on page 6.

Results and dividends

The result for the year is set out in the profit and loss account on page 4.

The directors do not recommend payment of a dividend for 2002 (2001 £Nil).

Directors and their interests

The directors who held office during the year and changes following the year end are given below:

| | |
|-----------------------------|---|
| John Mapplebeck | Appointed 24 January 2003 |
| David MacMillan | Appointed 24 January 2003 |
| Richard Cottee (Australian) | Resigned 16 July 2002 |
| Mark Hart (American) | Resigned 19 June 2002 |
| John Noer (American) | Resigned 3 June 2002 |
| David Peterson (American) | Resigned 3 June 2002 |
| Richard Kelly | Appointed 12 July 2002, resigned 30 January 2003 |
| Stuart Jackson | Appointed 12 July 2002, resigned 27 March 2003 |
| Renee Sass | Appointed 12 July 2002, resigned 18 December 2002 |

None of the directors had any beneficial interest in the shares of the company.

Killingholme Power Limited

Employees

The senior management team is committed to the continuous development of staff at all levels of the organisation, and the company has been accredited with 'Investors in People' (IiP) status. The process and practices that have been introduced to achieve the IiP standard are regularly reviewed and improved to allow the business and employees to gain the maximum benefit, and staff are encouraged to maintain personal development plans.

Equal opportunities

The company operates an Equal Opportunities Policy providing employees with the chance to share equally in opportunities for training, career development and promotion.

Charitable and political donations

The company made charitable donations of £5,923 (2001 £8,779) during the financial year and no political donations.

Prompt payment policy

The company complied with the Confederation of British Industry (CBI) Prompt Payment Code for all suppliers. Information about the code may be obtained from the CBI.

It is the company's policy to settle trade creditors weekly on 28 day terms, this has continued throughout the restructure process.

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year that 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. The directors are required to prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

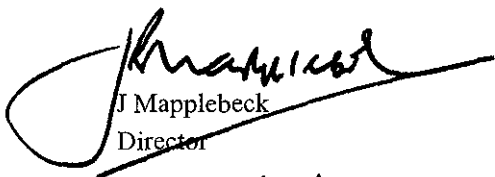
The directors confirm that suitable accounting policies have been used and applied consistently. They confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 December 2002 and that applicable accounting standards have been followed.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their re-appointment will be proposed at the annual general meeting.

By order of the Board


J Mapplebeck
Director

Date:

7th May 2003

Killingholme Power Limited

Independent auditors' report to the members of Killingholme Power Limited

We have audited the financial statements which comprise the profit and loss account, the balance sheet, the accounting policies and the related notes.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and 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, United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or in to whose hands it may come save where expressly agreed by our prior consent in writing.

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 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.

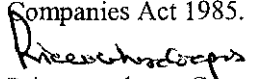
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity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

Going concern

In forming our opinion, we have considered the adequacy of the disclosures made in the statement of accounting policies under "going concern. The financial statements have been prepared on the going concern basis, the validity of which is dependent on the group of which the company forms a part being able to operate within its newly agreed banking facilities, which, in turn, is dependent, inter alia, on the group achieving its projected levels of cash flows. In view of the significance of this uncertainty, we consider that it should be drawn to your attention, but our opinion is not qualified in this respect.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 December 2002 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Hull

Date: 9 May 2003

Killingholme Power Limited

Profit and loss account for the year ended 31 December 2002

| | Note | 2002 | 2001 |
|--|------|-----------|-----------|
| | | £'000 | £'000 |
| Turnover | | 191,946 | 133,639 |
| Cost of sales | | (152,982) | (84,324) |
| Gross profit | | 38,964 | 49,315 |
| Distribution costs | | (7,356) | (5,366) |
| Administrative expenses - normal | | (21,250) | (28,582) |
| - exceptional items | 1 | (37,136) | (157,800) |
| | | (58,386) | (186,382) |
| Other operating income | | 81 | 624 |
| Operating loss | 1 | (26,697) | (141,809) |
| Interest receivable | 6 | 1,965 | 2,826 |
| Loss on ordinary activities before tax | | (24,732) | (138,983) |
| Tax on loss on ordinary activities | 7 | (3,434) | (6,697) |
| Loss for the financial year | | (28,166) | (145,680) |
| Dividends - including non-equity | 8 | - | - |
| Retained loss for the financial year | 15 | (28,166) | (145,680) |

There were no recognised gains or losses other than the loss for the year.

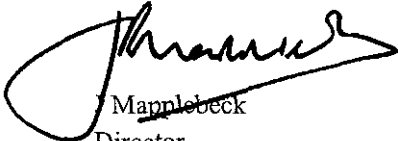
All amounts relate to continuing operations.

Killingholme Power Limited

Balance sheet as at 31 December 2002

| | Note | 2002 £'000 | 2001 £'000 |
|---|------|-----------------|-----------------|
| Fixed assets | | | |
| Tangible assets | 9 | 181,679 | 184,616 |
| Current assets | | | |
| Stock | 10 | 4,373 | 8,666 |
| Debtors | 11 | 14,370 | 37,754 |
| Cash at Bank | | 14,310 | 11,338 |
| | | 33,053 | 57,758 |
| Creditors: amounts falling due within one year | 12 | (19,128) | (15,665) |
| Net current assets | | 13,925 | 42,093 |
| Total assets less current liabilities | | 195,604 | 226,709 |
| Provisions for liabilities and charges | 13 | - | (2,939) |
| Net assets | | 195,604 | 223,770 |
| Capital and reserves | | | |
| Called up share capital - Equity | 14 | - | - |
| - Non Equity | 14 | 369,450 | 369,450 |
| Profit and loss account | 15 | (173,846) | (145,680) |
| Total shareholders' funds | 16 | 195,604 | 223,770 |
| Analysis of shareholders' funds | | | |
| Non-Equity | | 369,450 | 369,450 |
| Equity | | (173,846) | (145,680) |
| | | 195,604 | 223,770 |

The financial statements on pages 4 to 19 were approved by the board of directors and were signed on its behalf by:


Mapplebeck
Director

Date:

7th May 2003

Killingholme Power Limited

Accounting policies

Basis of preparation of accounts

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

Changes in accounting policy

FRS 19 "Deferred tax" has been adopted in these financial statements for the first time which represents a change in accounting policy although there was no effect on the amounts provided in the current or prior financial years.

Going concern

As a result of the restructuring within the Xcel Energy Inc ("Xcel") group since the year end referred to in note 19, the company now forms part of a new group headed by a new company, Killingholme Power Group Limited ("KPGL"), which is owned by a consortium of banks that have historically provided a range of facilities to the UK subsidiaries of Xcel. These facilities have been provided through Sterling Luxembourg (No 3) SARL ("Sterlux") which has also been acquired by KPGL and which, therefore, forms part of the new group. The company is the new group's principal trading subsidiary. Sterlux has provided long term loan facilities of £223,720,000 to the company's immediate parent company, Killingholme Generation Limited ("KGL") at 31 December 2002. Sterlux has funded these loans via term loans from the consortium of banks referred to above. In addition at 31 December 2002 KGL had an inter-company loan from a subsidiary of Xcel of £100,000,000 plus accrued interest of £10,733,000.

Subsequent to the year end on 26 March 2003 the directors of KPGL completed negotiations with the syndicate of banks to refinance the borrowings of the new group. This refinancing involved, inter alia;

- 1) The termination of existing interest rate swaps;
- 2) The re-categorisation of approximately £66 million of debt as subordinated debt, repayable in 2019. The loan is interest free until 2006; and
- 3) The continuation of existing working capital facilities to this company.

The refinancing has not resulted in any additional facilities to the new group other than in relation to financing the termination of the interest rate swaps.

This company has pledged its assets as security for the external debts of the group and the intra-group liabilities in Killingholme Generation Limited and has given cross guarantees in relation to the indebtedness of the group.

The directors of KPGL have prepared projections for the new group, which reflect the re-financing. The key trading assumption underpinning these forecasts is that concerning forward electricity prices. The directors have used external estimates of the forward electricity price curve to derive their estimates of future revenues. These projections indicate that the new group will have adequate facilities to meet its commitments as they fall due. However, the degree of headroom provided under the facilities is limited and the financial covenants and events of default contained in the facility agreements are tightly drawn. Should the company not achieve its projected level of profitability and cash flow then additional facilities may be required.

Killingholme Power Limited

The financial statements have been prepared on a going concern basis, which assumes that the company will continue in operational existence for the foreseeable future. The validity of this assumption is dependent upon the new group being able to operate within its new facilities which, in turn, is dependent upon achievement of the forecast level of cash flows.

If the company is not able to continue in operational existence adjustments would be required to reduce the balance sheet values of assets to their recoverable amounts to provide for further liabilities which might arise and to reclassify fixed assets as current assets.

Taking the foregoing into account the directors consider it appropriate to prepare the financial statements on the going concern basis.

Turnover

Turnover comprises sales of electricity generated by the company to the trading market in England and Wales and sales of gas.

Pension costs

Pension contributions are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives. The regular cost is attributed to individual years using the projected unit credit method. Variations in pension costs, which are identified as a result of actuarial valuations, are amortised over the average expected remaining working lives of employees. Differences between the amounts funded and the amounts charged to the profit and loss account are treated as either provisions or prepayments in the balance sheet.

Foreign exchange

Transactions denominated in foreign currencies arising in the normal course of business are translated into sterling at the exchange rate ruling on the date payment takes place.

Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation. Assets in the course of construction are included in tangible fixed assets on the basis of expenditure incurred at the balance sheet date.

Depreciation is provided on all tangible fixed assets 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:

| | |
|---|-------------|
| Non-operational buildings | - 40 years |
| Original generation plant | - 40 years |
| Fixtures, fittings, tools and equipment | - 5 years |
| Computer equipment and software | - 3-5 years |
| Hot gas path turbine blades and vanes | - 5 years |

Freehold land is not depreciated.

Stocks

Operating stocks of consumables and stores are valued at the lower of cost and net realisable value. These are included as current assets. The company maintains a provision for obsolete stock.

Killingholme Power Limited

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 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.

Deferred tax is measured at the average tax rates that are expected to reverse, based on the tax rates and laws that have been enacted or substantively enacted at the balance sheet date. Deferred tax is not subject to discounting.

Killingholme Power Limited

Notes to the financial statements for the year ended 31 December 2002

1 Operating loss

| | 2002 | 2001 |
|--|--------|---------|
| | £'000 | £'000 |
| Operating loss is stated after charging: | | |
| Depreciation of tangible fixed assets - owned assets | 10,300 | 11,109 |
| Auditors remuneration - audit | 47 | 40 |
| - non-audit | - | 81 |
| Exceptional items: | | |
| - Impairment of tangible fixed assets | - | 157,800 |
| - Provision against intra group loan (see note 11) | 37,136 | - |
| - Bad debt provision | 434 | 6,407 |

2 Employee information

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

| By activity | 2002 | 2001 |
|-------------------|-------|-------|
| | £'000 | £'000 |
| Operations | 19 | 19 |
| Maintenance | 19 | 21 |
| Business services | 11 | 8 |
| | 49 | 48 |

Killingholme Power Limited

3 Employee costs

| | 2002 | 2001 |
|-----------------------|--------------|--------------|
| | £'000 | £'000 |
| Wages and salaries | 1,923 | 1,475 |
| Social security costs | 162 | 119 |
| Other pensions costs | 163 | 139 |
| Staff costs | 2,248 | 1,733 |

4 Pension scheme

The Killingholme Power Pension Plan (the Plan) is a funded pension scheme providing benefits primarily based on final pensionable salary. The Plan is contracted-out of the State Earnings Related Pension Scheme and is open to new entrants. The assets of the Scheme are held separately from those of the company, in a trustee administered fund. Employees are required to contribute to the Scheme (the standard employee contribution rate is 6% of pensionable salary).

The Plan was established on 31 March 2001 and a formal actuarial valuation has been undertaken as at 31 December 2001. The pension cost in respect of defined benefit obligations is assessed in accordance with the advice of a qualified actuary. The most recent actuarial calculation of the pension cost for the Scheme was at 31 December 2001.

At 31 December 2001, the market value of the assets was approximately £1.6 million and the actuarial value of those assets represented 102% of the value of benefits that had accrued to members including allowance for future salary increases.

These calculations were based on Projected Unit Credit Method of calculation. The assumptions which have the most significant effect on the results are those relating to the return on investments and the rates of increase in salaries and pensions. It was assumed that the investment return would be 8% per annum, that salary increases would be 4% per annum, and that increases of 2.5% per annum would apply to the pensions in deferment and 2.25% per annum on pensions in payment (except on Guaranteed Minimum Pensions).

The company is currently contributing 12% of pensionable salaries to meet the expected costs of accruing benefits.

The total pension cost for the company over the year was £163,000 (2001 £139,000).

FRS17 Retirement Benefits disclosures

The valuation of the group scheme used for FRS17 disclosures has been based on the most recent actuarial valuation at 31 December 2001 updated on an interim basis to 31 December 2002 by Hewitt Associates to take account of the requirements of FRS17 in order to assess the liabilities of the group scheme at 31 December 2002. Scheme assets are stated at their market value at 31 December 2002.

Killingholme Power Limited

The financial assumptions used to calculate the scheme liabilities under FRS17 are:

| | 2002 | 2001 |
|---|----------------------------|----------------------------|
| Valuation method | Projected unit credit cost | Projected unit credit cost |
| Inflation rate | 2.32% per annum | 2.5% per annum |
| Salary growth | 3.82% per annum | 4% per annum |
| Pensions in payment increase - pre 1988 | 0% per annum | 0% per annum |
| - post 1988 | 2.25% per annum | 2.25% per annum |
| - other | 2.36% per annum | 2.5% per annum |
| Deferred pensions increase | 2.5% per annum | 2.5% per annum |
| Discount rate | 5.47% per annum | 6% per annum |

The assets in the scheme and the expected rate of return are shown below:

| | Long term rate of return | | Value as at 31 December | |
|-------------------------------------|--------------------------|----------------|-------------------------|--------------|
| | 2002 | 2001 | 2002 | 2001 |
| | | | £'000 | £'000 |
| Bonds | 4.52% per annum | 5.5% per annum | 168 | - |
| Equities | 7.52% per annum | 8.0% per annum | 1,330 | 1,470 |
| Other | 4.02% per annum | 4.0% per annum | 30 | 150 |
| Present value of scheme liabilities | | | (3,103) | (2,102) |
| Deficit in the scheme | | | (1,575) | (482) |
| Related deferred tax asset | | | 473 | 145 |
| Net pension liability | | | (1,102) | (337) |

The recognition of a deferred tax asset in respect of the pension deficit would be unlikely in the light of existing trading losses within the group.

| | 31 December | |
|--|------------------|------------------|
| | 2002 | 2001 |
| Net assets excluding pension liability | 195,604 | 223,770 |
| Net pension liability | (1,102) | (337) |
| Net assets including pension liability | 194,502 | 223,433 |
| Profit and loss reserve excluding pension liability | (173,846) | (145,680) |
| Net pension liability | (1,102) | (337) |
| Profit and loss reserve including pension liability | (174,948) | (146,017) |

Killingholme Power Limited

5 Directors' remuneration, interests and transactions

| | 2002 £'000 | 2001 £'000 |
|------------|---------------|---------------|
| Emoluments | 30 | - |

One director (2001: Nil) is a member of the Company's defined benefit pension scheme.

6 Interest and similar items

| | 2002 £'000 | 2001 £'000 |
|---------------------|---------------|---------------|
| Interest receivable | 1,965 | 2,826 |

7 Tax on profit on ordinary activities

| | 2002 £'000 | 2001 £'000 |
|---|---------------|---------------|
| Taxation on the profit for the year | | |
| Group relief at 30% | 6,627 | 7,027 |
| Deferred taxation (note 13) | (2,939) | (16) |
| Adjustments in respect of prior periods: | | |
| Corporation tax | (254) | (1,298) |
| Deferred taxation (note 13) | - | 984 |
| | 3,434 | 6,697 |
| Factors affecting tax charge for the year | | |
| Loss on ordinary activities before tax | (24,732) | (138,983) |
| Loss on ordinary activities before tax at 30% | (7,420) | (41,695) |
| Expenses not deductible for tax purposes | 10,718 | 17 |
| Impairment of fixed assets | - | 47,340 |
| Accounting depreciation in excess of capital allowances | 2,904 | 1,365 |
| Current year corporation tax charge | 6,627 | 7,027 |

Killingholme Power Limited

8 Dividends

| | 2002 | 2001 |
|------------------------------|-------|-------|
| | £'000 | £'000 |
| Non equity – preference | | |
| Preference shares - proposed | - | - |

Dividend arrears on redeemable preference shares amount to £66,635,000 (2001: £37,818,000)

9 Tangible assets

| | Land and buildings | Generation plant and machinery | Capitalised blades & vanes | Blades & vanes not in machines | Assets under construction | Total |
|----------------------------|-----------------------|--------------------------------------|----------------------------------|---|------------------------------|----------------|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Cost | | | | | | |
| At 31 December 2001 | 45,143 | 316,093 | 6,876 | - | 351 | 368,463 |
| Transfer from stock | - | - | - | 3,737 | - | 3,737 |
| Additions | - | 337 | - | - | 3,290 | 3,627 |
| Transfers | - | - | 1,813 | - | (1,813) | - |
| Disposals | - | (13) | - | - | - | (13) |
| At 31 December 2002 | 45,143 | 316,417 | 8,689 | 3,737 | 1,828 | 375,814 |
| Accumulated | | | | | | |
| At 31 December 2001 | 22,384 | 155,807 | 5,656 | - | - | 183,847 |
| Charge for the year | 1,173 | 7,939 | 1,188 | - | - | 10,300 |
| Disposals | - | (12) | - | - | - | (12) |
| At 31 December 2002 | 23,557 | 163,734 | 6,844 | - | - | 194,135 |
| Net book amount | | | | | | |
| At 31 December 2002 | 21,586 | 152,683 | 1,845 | 3,737 | 1,828 | 181,679 |
| At 31 December 2001 | 22,759 | 160,286 | 1,220 | - | 351 | 184,616 |

Freehold land, at a cost of £17,000 has not been depreciated.

The assets of the company are held as security against a bank loan in another group company.

The category generation plant and machinery includes fixtures and fittings, tools and equipment, computer equipment and software which are separately not material.

Killingholme Power Limited

In the prior year the directors carried out an impairment review of the Power Station based on forecast cash flow projections. The forecasts were produced for the expected remaining useful economic life of the plant and as such extended beyond the normal budgeting period of the business. The cash flow projections used a combination of short term market data and independent market assumptions for medium and long term gas and electricity prices which resulted in increases in assumed electricity and gas prices that exceed the long term average rate for the UK economy generally. The directors believed this assumption was appropriate. The cash flows were discounted at 8.9%. As a result, an impairment provision of £158,000,000 was charged against the plant and buildings carrying value at 31 December 2001. At 31 December 2002 the directors have carried out an updated impairment review as a result of which they consider that the current carrying value is appropriate and hence no further adjustment is required to the previous impairment provision.

10 Stocks

| | 2002 | 2001 |
|--------------|-------|-------|
| | £'000 | £'000 |
| Plant Spares | 4,277 | 8,626 |
| Consumables | 96 | 40 |
| | 4,373 | 8,666 |

There is no material difference between the balance sheet value of stocks and their replacement value. The company maintains an obsolescence provision against these spares.

11 Debtors

| | 2002 | 2001 |
|------------------------------------|--------|--------|
| | £'000 | £'000 |
| Trade debtors | 12,343 | 14,594 |
| Amount due from parent undertaking | - | 21,449 |
| Prepayments | 2,027 | 1,711 |
| Total | 14,370 | 37,754 |

Full provision has been made within these accounts against the carrying value of the intra group loan due from its immediate parent undertaking at 31 December 2002 of £37,136,000.

Killingholme Power Limited

12 Creditors – Amounts falling due within one year

| | 2002 £'000 | 2001 £'000 |
|----------------------------------|---------------|---------------|
| Bank Loans | 1,000 | 2,500 |
| Trade Creditors | 204 | 1,086 |
| Amount due to parent undertaking | 424 | - |
| Corporation tax | - | 73 |
| Other tax and social security | 540 | 886 |
| Other Creditors | 60 | 63 |
| Accruals and deferred income | 16,900 | 11,057 |
| | 19,128 | 15,665 |

Bank loans consist of short term loans bearing interest fixed at 5.37%. The loans are repayable in full within one year. The shares in Killingholme Power Limited are held as security against this and bank loans held by another group company (Sterling Luxembourg No.3 SARL).

13 Provisions for liabilities and charges

| | 2002 £'000 |
|---|---------------|
| Deferred taxation | |
| At 1 January 2002 | 2,939 |
| Profit and loss account (note 7) | (2,939) |
| At 31 December 2002 | - |
| The potential deferred tax asset relating to timing differences is as follows: | |
| Excess of depreciation over capital allowances | 6,112 |

Killingholme Power Limited

14 Called up share capital

| | 2002 £'000 | 2001 £'000 |
|--|----------------|----------------|
| Authorised | | |
| Equity: 74 'A' ordinary shares of £1 each | - | - |
| Non-equity: 26 'B' redeemable ordinary shares of £1 each | - | - |
| Non-equity: 410,500,000 preference shares of £0.90 each | 369,450 | 369,450 |
| | 369,450 | 369,450 |
| Allotted, called up and fully paid | | |
| Equity: 74 'A' ordinary shares of £1 each | - | - |
| Non-equity: 26 'B' redeemable ordinary shares of £1 each | - | - |
| Non-equity: 410,500,000 preference shares of £0.90 each | 369,450 | 369,450 |
| | 369,450 | 369,450 |

'A' ordinary shares

The 'A' ordinary shares shall confer on the holders one vote for every share held.

'B' redeemable ordinary shares

The 'B' redeemable ordinary shares shall not confer on the holders the right to attend, speak or vote at any General Meeting of the company. The holders of the shares shall only receive dividends payable and declarable after 24 December 2000. After 31 December 2000, the company shall have the right to redeem at any time the 'B' ordinary shares. The holders shall be paid the amount paid up thereon plus declared but unpaid dividends.

Preference shares

The preference shareholders shall have the right to receive notice of, attend, speak and vote at a General Meeting of the company. Out of the profits available for distribution, dividends shall be paid at the rate of 7.8% per annum in priority to any payment of dividend to the holders of any other class of shares. As indicated in note 8, there are arrears of preference dividends totalling £66,635,000 at 31 December 2002.

On a winding-up, the holders of the preference shares shall be entitled in priority to any payment to the holders of any other class of shares the repayment of a sum equal to the nominal capital together with any premium paid up on the preference shares. The balance of any assets shall be distributed amongst the 'A' ordinary shareholders and 'B' redeemable ordinary shareholders on a pari passu basis in proportion to the amounts paid up.

Killingholme Power Limited

15 Profit and loss account

| | £'000 |
|---------------------|-----------|
| At 31 December 2001 | (145,680) |
| Loss for the year | (28,166) |
| At 31 December 2002 | (173,846) |

16 Reconciliation of movements in shareholders' funds

| | 2002 £'000 | 2001 £'000 |
|---------------------------------------|---------------|---------------|
| Loss attributable to the shareholders | (28,166) | (145,680) |
| Opening shareholders' funds | 223,770 | 369,450 |
| Closing shareholders' funds | 195,604 | 223,770 |

17 Capital and other commitments and guarantees

Lease and capital commitments

At 31 December 2002 the company had capital commitments of £274,000. The company had no lease commitments.

Guarantees

The company has given a cross guarantee in relation to the external bank indebtedness of various group companies. The total potential liability under this guarantee was £nil at 31 December 2002.

Other contractual commitments

At 31 December 2002, the estimated annual minimum commitment for the supply of gas was £36.3 million for a contract expiring in 2010 and £14.1 million for a contract expiring in 2005.

Killingholme Power Limited

18 Ultimate parent undertaking

Killingholme Power Limited is a wholly owned subsidiary of Killingholme Generation Limited, a company registered in England and Wales.

At the year end NR Generating Limited, a company registered in England and Wales, is the parent undertaking of the smallest group in which the accounts of the company are consolidated. Xcel Energy Inc. a company incorporated in USA is the parent undertaking of the largest group in which the accounts of the company are consolidated. Xcel Energy Inc. holds 74% of the issued shares of NRG Energy, Inc, an intermediate parent undertaking, and was considered to be the ultimate controlling party as at 31 December 2002. Following the acquisition of the company by Killingholme Power Group Limited on 30 January 2003 (note 19) there is no longer considered to be any single ultimate controlling party. On 3 June 2002 Xcel Energy Inc. re-acquired the 26% of the issued shares of NRG Energy Inc. it did not own at the Balance Sheet date.

Copies of the accounts for NR Generating Limited can be obtained from 5th Floor, 50 Broadway, London, SW1H 0RG and accounts for Xcel Energy Inc. can be obtained from 901 Marquette Ave., Minneapolis, Minnesota, MN55402, USA.

The company has taken advantage of the exemption from preparing a cash flow statement under the terms of Financial Reporting Standard 1 (revised 1996).

The company has taken advantage of the exemption available under Financial Reporting Standard No 8, not to disclose transactions with other entities that are at least 90% subsidiaries of the NRG Energy, Inc, group.

19 Events since the balance sheet date

On 30 January 2003 the company ceased to be part of the Xcel Energy Inc. group of companies following the acquisition of Killingholme Holdings Limited (the company's intermediate parent undertaking) by Killingholme Power Group Limited ("KPGL"). KPGL also acquired Sterling Luxembourg (No 3) SARL which had financed the activities of the group through long term debt facilities provided by a syndicate of banks. KPGL is owned and controlled by this syndicate of banks. In connection with this transaction, a subsidiary of Xcel Energy Inc agreed to waive a loan of £100,000,000 together with accrued interest thereon of £10,733,000 made to the company's immediate parent company, Killingholme Generation Limited.

On 26 March 2003 KPGL and its subsidiaries agreed the terms of a refinancing of its existing banking facilities, details of which are set out in the Statement of Accounting Policies on pages 6 and 7.