TransCanada Turbines (UK) Limited

Directors' report and financial statements

Registered number SC212499

31 December 2002



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Directors' report

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

Principal activities

The principal activities of the company are the provision of field repair services to operators of aeroderivative industrial gas turbines used primarily in gas compression and power generation facilities. The company was incorporated on 2 November 2000 and began to trade on 1 January 2001.

Business review

The company commenced commercial operation in 2001 and has incurred cumulative losses in 2001 and 2002 related to the start up of business amounting to £253,895. The company is dependant on continued financial support from its Canadian parent company, TransCanada Turbines Limited, as it expands its market share until it reaches profitability.

Proposed dividend

The directors do not recommend the payment of a dividend.

Directors and directors' interests

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

Stuart Broadley
Alexander John Pourbaix
Gary Laird Stephen

None of the directors who held office at the end of 2002 had any disclosable interest in the shares of the company.

TransCanada Turbines (UK) Limited held no other interests in other companies during 2002.

According to the register of directors' interests, no rights to subscribe for shares in or debentures of the company or any other group company were granted to any of the directors or their immediate families, or exercised by them, during 2002.

Political and charitable contributions

The company made no political contributions or charitable donations during the year.

Auditors

In accordance with Section 384 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

Glenis E Rylance
Secretary

John Wood House
Greenwell Road
Aberdeen

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 year. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and 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 company and to prevent and detect fraud and other irregularities.

KPMG

8 Princes Parade
Liverpool L3 1QH
United Kingdom

Independent auditors' report to the members of TransCanada Turbines (UK) Limited

We have audited the financial statements on pages 4 to 16.

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 auditors' 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 3, 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 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's affairs as 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.

KPMG LLP

KPMG LLP
Chartered Accountants
Registered Auditor

1 March 2004

Profit and loss account

for the year ended 31 December 2002

	Note	**2002** **£000**	2001 £000
Turnover	*2*	**519**	205
Cost of sales		**(589)**	(353)
Gross loss		**(70)**	(148)
Administrative expenses		**(50)**	(20)
Operating loss		**(120)**	(168)
Other interest receivable and similar income	*6*	**31**	3
Loss on ordinary activities before taxation	*3*	**(89)**	(165)
Tax on profit on ordinary activities	*7*	**-**	-
Retained loss for the year	*16*	**(89)**	(165)

All operations of the company are continuing. The company has no recognised gains or losses other than the loss for the year.

Balance sheet
at 31 December 2002

	Note	2002 £000	2001 £000
Fixed assets			
Tangible assets	*8*	**20**	30
Current assets			
Stocks	*9*	**29**	14
Debtors	*10*	**128**	163
Cash at bank and in hand		**93**	13
		250	190
Creditors: amounts falling due within one year	*11*	**(424)**	(383)
Net current liabilities		**(174)**	(193)
Total assets less current liabilities		**(154)**	(163)
Creditors: amounts falling due after more than one year	*12*	**(32)**	-
Provisions for liabilities and charges	*13*	**(3)**	(2)
Deferred income	*14*	**(65)**	-
Net liabilities		**(254)**	(165)
Capital and reserves			
Called up share capital	*15*	**-**	-
Profit and loss account	*16*	**(254)**	(165)
Shareholders' funds - equity		**(254)**	(165)

These financial statements were approved by the board of directors on 12 Jan 04 and were signed on its behalf by:

Stuart Broadley
Director

Reconciliation of movements in shareholders' funds

for the year ended 31 December 2002

	2002 £000	2001 £000
Loss for the financial year	**(89)**	(165)
Net reduction in shareholders' funds	**(89)**	(165)
Opening shareholders' funds	**(165)**	-
Closing shareholders' funds	**(254)**	(165)

Notes
(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements. The company has adopted FRS 18 ' Accounting policies' and FRS 19 'Deferred tax' in these financial statements.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules.

Under Financial Reporting Standard 1 the company is exempt from the requirement to prepare a cash flow statement on the grounds of its size

Going concern

The financial statements have been prepared on the going concern basis with the assurance of continued support of the parent company.

Fixed assets and depreciation

Depreciation is provided to write off the cost or valuation less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Tooling	10 years
Office & Shop Equipment	5 years
Computer Equipment	3 years

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

Leases

Operating lease rentals are charged to the profit and loss account on a straight line basis over the year of the lease.

Stocks

Stocks are stated at the lower of cost and net realisable value. In determining the cost of goods purchased for resale, the weighted average purchase price is used.

Notes *(continued)*

1 Accounting policies *(continued)*

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Turnover

Turnover represents the amounts (excluding value added tax) derived from the provision of goods and services to customers. Revenue is recognized when the services provided to customers are complete or for multi-year service contracts, on a percentage of completion basis.

2 Analysis of turnover

Turnover, which is stated net of value added tax, represents amounts invoiced to third parties for goods or services supplied by the company. Turnover is attributable to one continuing activity, the provision of field repair services to operators of aeroderivative industrial gas turbines. An analysis of turnover by geographical market is given below:

	2002	2001
	£000	£000
UK	**140**	58
Europe	**275**	106
North America	**90**	-
Other	**14**	41
	519	205

Notes *(continued)*

3 Loss on ordinary activities before taxation

	2002 £000	2001 £000
Loss on ordinary activities before taxation is stated		
after charging		
Auditors' remuneration:		
Audit	5	2
Other services - fees paid to the auditor and its associates	-	-
Depreciation and other amounts written off tangible fixed assets:		
Owned	9	7
after crediting		
Exchange gains	(30)	(3)

4 Remuneration of directors

During the year, no directors' emoluments, contributions to pensions schemes or retirements benefits were paid or committed to by the company.

5 Staff numbers and costs

The average number of persons employed by the company (including directors) during the year, analysed by category, was as follows:

	Number of employees 2002	2001
Management	1	1
Sales	2	2
Administration	1	1
	4	4

The aggregate payroll costs of these persons were as follows:

	2002 £000	2001 £000
Wages and salaries	156	143
Social security costs	35	18
	191	161

The company has a pension scheme, however, in both the current year and prior year all employees have opted out of the scheme. The payroll costs are included in cost of sales in the profit and loss statement.

Notes *(continued)*

6 Other interest receivable and similar income

	2002 £000	2001 £000
Net exchange gains	30	3
Other	1	-
	31	3

7 Taxation

	2002 £000	2001 £000
Tax on loss on ordinary activities	-	-

Factors affecting the tax charge for the current year

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

	2002 £000	2001 £000
Current tax reconciliation		
Loss on ordinary activities before tax	(89)	(165)
Current tax at 30% (2001: 30%)	(27)	(50)
Effects of:		
Expenses not deductible for tax purposes	1	1
Utilisation of tax losses	26	49
Total current tax charge (see above)	-	-

There is a deferred tax asset not provided for:

	2002 £000	2001 £000
Tax losses carried forward	75	50
Deferred tax asset not provided	75	50

Notes *(continued)*

8 Tangible fixed assets

	Computer Equipment £000	Office & Shop Equipment £000	Total £000
Cost			
At beginning of year	14	23	37
Additions	-	2	2
Disposals	(3)	-	(3
At end of year	11	25	36
Depreciation			
At beginning of year	3	4	7
Charge for year	4	5	9
At end of year	7	9	16
Net book value			
At 31 December 2002	**4**	**16**	**20**
At 1 January 2002	11	19	30

9 Stocks

	2002 £000	2001 £000
Finished goods	**29**	14

10 Debtors

	2002 £000	2001 £000
Trade debtors	**123**	159
VAT recoverable	**4**	4
Prepayments and accrued income	**1**	-
	128	163

Notes *(continued)*

11 Creditors: amounts falling due within one year

	2002 £000	2001 £000
Trade creditors	9	10
Amounts owed to group undertakings	361	310
Accruals and deferred income	54	63
	424	383

12 Creditors: amounts falling due after more than one year

	2002 £000	2001 £000
Amounts owed to group undertakings	32	-

13 Provisions for liabilities and charges

	20 Warrar Provisi £0
At beginning of year	
Charged in year	
At end of year	

A warranty provision is established to cover expenses for the repair and maintenance of products within the warranty year.

14 Deferred income

	2002 £000	20(£0(
At beginning of year	-	
Receivable during year	65	
At end of year	65	

Notes *(continued)*

15 Called up share capital

	2002 £000	2001 £000
Authorised		
1,000 ordinary shares of £1 each	**1**	1
Allotted, called up and fully paid		
One ordinary share of £1	**-**	-

16 Reserves

	Profi and los accoun £00(
At beginning of year	(16
Retained loss for the year	(8
At end of year	(25

17 Commitments

a) No capital commitments have been made at the end of the financial year.

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

	2002 Land a buildin £0(	2001 Land an building £00
Operating leases which expire:		
Within one year	1	
In the second to fifth years inclusive	5	1
Over five years		
	1	1

Notes *(continued)*

18 Related party disclosures

During the year the company entered into the following transactions with fellow group companies:

	Due from group undertakings:			
	Within one year		In over one year	
	2002	2001	**2002**	2001
	£000	£000	**£000**	£000
TransCanada Turbines Limited	**214**	231	**32**	-
TransCanada Turbines Inc	**147**	79	**-**	-
	361	310	**32**	-

The amount owed to group companies bears no interest and is repayable on demand.

There were inter-company sales of £59,000 *(2001: 6)*.

Group companies provided management and administrative support to the company during the fiscal year for which the company was charged £35,000 *(2001: £10,600)*.

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

The immediate parent company of TransCanada Turbines (UK) Limited is TransCanada Turbines Limited, incorporated in Canada. TransCanada Turbines Limited is a 50/50 joint venture between TransCanada PipeLines Services Limited, and John Wood Group Holdings BV, incorporated in the Netherlands.

The largest group in which the results of the company are proportionately consolidated is that headed by TransCanada PipeLines Limited and John Wood Group Plc. The smallest group in which they are consolidated is that headed by TransCanada Turbines Limited.