



Powergen Review 2000

The last 10 years have been a decade of rapid change in energy markets across the world. Keeping pace with this change has meant continually evolving and reshaping our business operations and structure. Today, we face the future as an Anglo-American energy company, with assets of over £10,000 million and total revenues of over £5,000 million.

2-minute Powergen

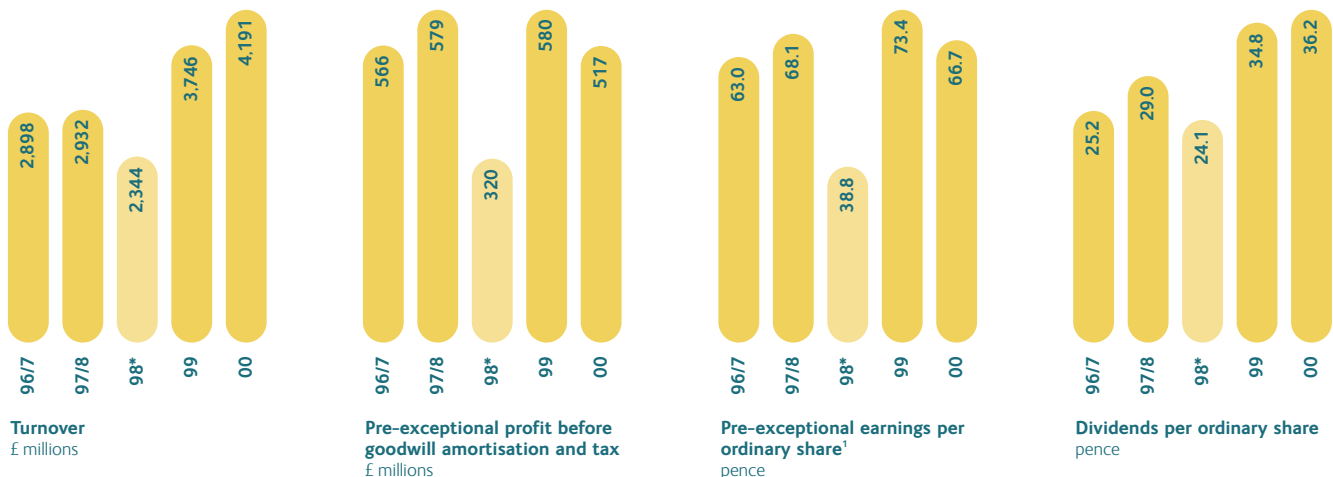
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In 2000, we refocused our business on the UK and US energy markets with the acquisition of LG&E Energy Corp. (LG&E) of Louisville, Kentucky. This strategic move – together with the disposal of selected assets – has completed Powergen's transformation from a UK power generator into an Anglo-American integrated electricity and gas business.

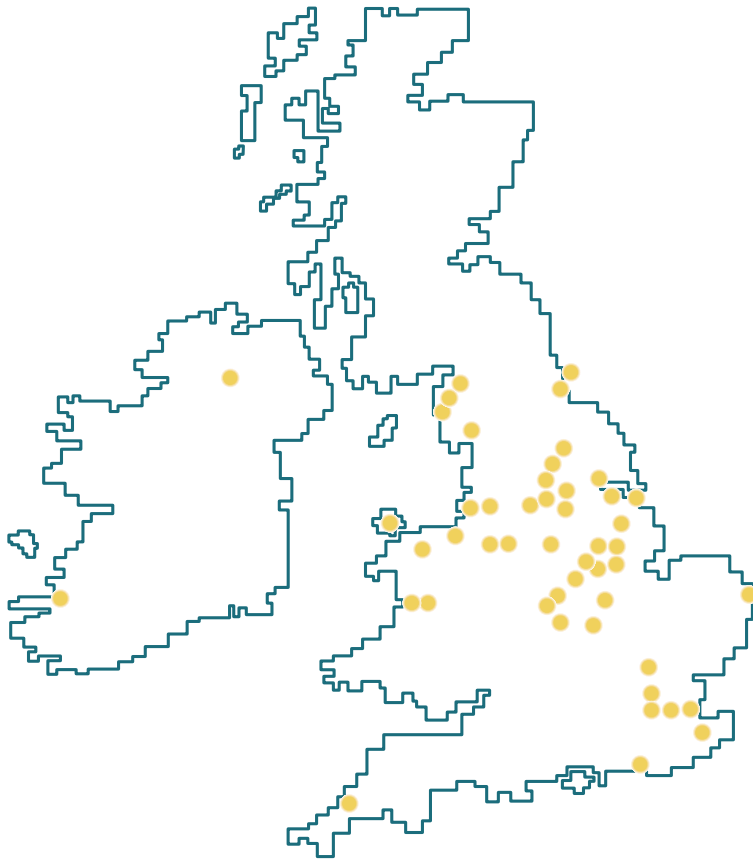


Our performance



* Nine months ended December 1998
¹ Before exceptional items and goodwill amortisation

The group

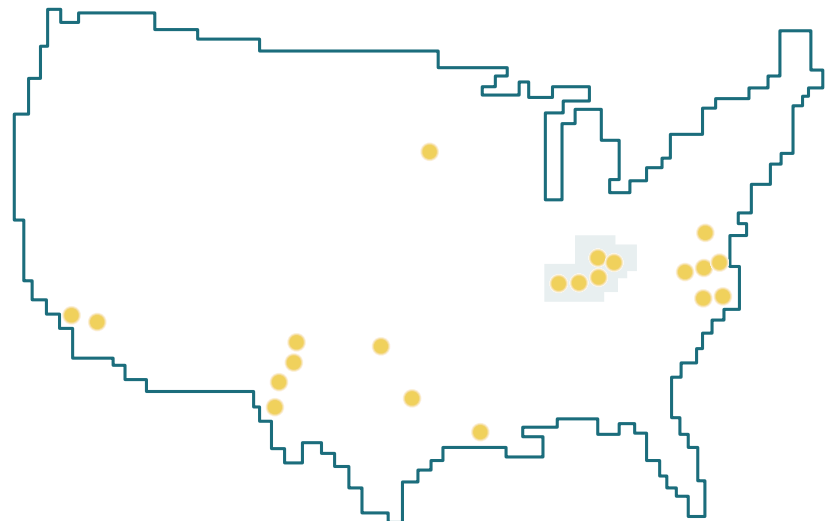


UK

Powergen is one of the UK's leading integrated electricity and gas companies, and one of the country's best known energy brands.

Our UK operations are split into five main activities;

- > Selling electricity, gas and other essential services, with over three million residential, business and industrial customer accounts.
- > Trading electricity, gas, oil and coal.
- > Producing electricity from our portfolio of world-class power stations.
- > Distributing electricity to 2.4 million homes and businesses in the East Midlands.
- > Providing highly efficient combined heat and power plant to meet the electricity and steam needs of energy-intensive businesses.



US

■ US regulated businesses

LG&E is a diversified energy services company with businesses in power generation, retail gas and electric utility services, asset-based energy marketing and project development.

Its regulated businesses are:

- > Louisville Gas and Electric Company, a gas and electricity utility serving customers in 17 Kentucky counties; and Kentucky Utilities Company, an electricity utility serving 77 Kentucky counties and five counties in Virginia. Together, these serve over one million customer accounts.

Its unregulated businesses include:

- > 50 per cent stakes in an operational plant in Texas and one under construction in Georgia.
- > Western Kentucky Energy, a wholly-owned subsidiary, which operates and leases four coal-fired plants owned by Big Rivers Electric Corporation in Western Kentucky.
- > LG&E Operating Services, which operates independent wind, coal-fired, and steam generation in six states.
- > Stakes in three Argentinian gas distribution companies.

Powergen International

Outside the UK, Powergen has built an international power generation business, with power projects in Europe, India and Asia Pacific. As part of a strategic refocusing of our activities on the UK and US markets, we have reached agreement for the sale of the majority of these assets. We are retaining a 20 per cent stake in the joint venture companies acquiring our Australian, Indian and other Asian interests.

Chairman's review



“Overall, we have either met, or exceeded, all the objectives that we set for ourselves last year...we are confident that our strategy will deliver real value to our shareholders.”

A handwritten signature in black ink, which appears to read 'Ed Wallis'. The signature is written in a cursive style and is underlined with a single horizontal line.

Ed Wallis, chairman, Powergen plc

How would you sum up Powergen's performance in 2000?

We have once again shown our ability to adapt successfully to new challenges and new working environments. We completed our acquisition of LG&E and, through our value delivery process, have identified higher than anticipated cost savings. We will exceed our £1,000 million debt reduction target from the announced sales of assets in the UK and overseas. And we have achieved all this without losing focus on our UK business, whose performance has underpinned our solid results for this year.

Overall, we have either met, or exceeded, all the objectives that we set for ourselves last year. Powergen has transformed itself during the year 2000 into a business well positioned to take advantage of opportunities that will arise from the developing competitive markets in the UK and US.

How has the business performed financially in 2000?

Group turnover was £4,191 million, up £445 million on last year, largely due to increased turnover in our UK wholesale and trading, retail and international businesses and three weeks' contribution from LG&E. Profit before tax, exceptional items and goodwill amortisation was £517 million compared with £580 million in the same period in 1999.

Could you explain the changes you are making to the Board?

With the group well positioned for the future, I feel that now is the right time for me to take a step back from the business and, as part of a planned succession, Nick Baldwin has succeeded me as chief executive. Nick, as an executive director of Powergen, has successfully run the UK business since February 1998 and has been with Powergen in a number of roles since

our formation in 1989. I will continue as chairman of the Board of Powergen.

Tony Habgood stood down from the Board in January 2001, having served as a non-executive director for eight years. In addition, Roger Hale, who joined the Board as an executive director on the completion of the LG&E acquisition, has decided to stand down with effect from the end of April 2001. Roger's replacement on the Board will be Vic Staffieri, as the new chief executive of LG&E. We wish both Tony and Roger every success for the future.

What were the operational highlights of the year?

Our UK business performed ahead of expectations, with all of our UK activities contributing to our diversified UK earnings base. Our retail business passed the three million customer account mark. Energy trading continued as the hub of our integrated business, co-ordinating our market actions. Our production business provided low-cost generation. And in distribution we are nearing completion of our cost saving initiatives.

Across the Atlantic, we completed our acquisition of LG&E on 11 December. Operationally, LG&E has had a good year in both its regulated and unregulated activities.

What is your strategy to take the UK business forward?

Our UK business strategy has three key steps. First, to sustain and develop the asset businesses of generation and distribution. The second step is to build competitive trading and retail businesses. This is essential if we are to take advantage of increasing competition in wholesale and retail markets. The third step is to export our UK competencies to support Powergen outside the UK.

This is vital if we are to succeed with our group strategy of using our UK experience from managing liberalisation of this market to gain a competitive edge in the deregulating US market.

What are your priorities in the US?

First, over the next three years LG&E has to deliver the cost savings identified through our value delivery process to move them towards world's best practice.

Next will be to reorganise the business into its component parts and to give the business a more commercial focus by creating a trading hub to maximise margins and manage risks across the group.

Finally, LG&E must provide the platform for the group's overall US strategic ambitions of growing through mergers and acquisitions in the Midwest region.

What else will Powergen be looking to achieve in 2001?

We have two other priorities for 2001. The first is to complete our announced sales. These are all scheduled for completion during the first half of this year. The second is to focus on ways of reducing the cost of our debt, both through lowering the interest cost and reducing in absolute terms the amount of group debt.

All in all, we are confident that our strategy will deliver real value to our shareholders.

Any final comments?

This has been one of our most challenging years and I know this has been felt by all employees. I would like to welcome all LG&E employees to the group, and to record the Board's thanks to all our employees for their magnificent contribution during the year.

The pace of change

The world around us is constantly changing, throwing up new opportunities and challenges. Competition, deregulation, consolidation and corporate social responsibility are just a few of the increasingly powerful forces that demand a response from companies determined to succeed in tomorrow's business environment.



Customers' changing needs

Meeting customers' changing needs is a key challenge for all suppliers, whatever their product or service. In view of today's hectic lifestyles, our aim is to make our customers' lives easier. We are establishing ourselves as a provider of essential services – offering in one place a whole range of competitively-priced products and services that are essential to the running of a home or business.



\$90,000m

\$90,000 million worth of utility merger and acquisition deals were completed in the US in 2000.

Pushing back the frontier

Consolidation is an emerging theme in the international energy marketplace, as companies combine to gain critical mass and enter new markets. This is the background to Powergen's acquisition of LG&E. With limited scope to grow in the UK, we aim to consolidate our business in the US, the world's largest electricity market, where deregulation is opening up significant opportunities.



An integrated UK business

Powergen has continued to develop its business to meet the challenges of the increasingly competitive UK energy market. Having diversified across the electricity and gas supply chains, we have combined our UK activities into a strong and balanced group comprising three interlocked business areas: asset management, retail and trading.



Continuing environmental concern

More than ever before, companies are under pressure to bring the environment and sustainable development into their mainstream business agenda. We recognise the interaction between our activities and the environment, and the contribution we can make to sustainable development. We aim to improve continually our environmental performance to help address issues of worldwide significance such as climate change.



The e-revolution

As the power of the internet continues to grow, we are increasingly incorporating it into our day-to-day business activities. As well as selling products and offering customer service over the web, we are taking advantage of e-procurement opportunities to reduce our buying costs. We have also responded to a change of legislation in the UK to enable our shareholders to make further use of the internet for communications with the company.

230,000

230,000 customers will benefit from our initiative to cut our surcharge for pre-payment customers.



Access for all

A major concern for the UK Government and Ofgem is that all customers are able to access the benefits of energy competition. Powergen is responding through a range of initiatives – such as our partnership with Age Concern to offer an energy package tailored to the needs of the over-60s, and our £14 million initiative to help pre-payment meter customers by cutting the pre-payment surcharge and offering them a range of energy efficiency services.

Corporate Social Responsibility

Opening UP

Corporate Social Responsibility (CSR) is an integral part of sustainable development. It has been defined as 'the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families, as well as the local community and society at large'.

In brief, CSR reporting allows companies like Powergen to consider their overall contribution to society in an integrated and transparent manner, detailing economic, environmental and social impacts in all areas of their operation.

We already publish reports on our environmental performance and community initiatives, but from next year we aim to produce an annual CSR report covering a broader spread of our activities. This summary acts as an introduction to that report and we invite feedback to ensure that it is relevant to all our stakeholders, including our employees, customers, investors, local communities and governments.

Powergen at a glance

Since our creation in 1989, we have transformed ourselves from a UK electricity generator into a vertically-integrated energy company, with operations in energy retailing, energy trading, electricity production and electricity distribution. We consolidated this business internationally in 2000 with the acquisition of LG&E, an electricity and gas group based in Louisville, Kentucky, USA.

- > We offer electricity, gas and other essential services such as telephone and internet services to residential, business and industrial customers in the UK. We are the market leader in supplying electricity to industry. We currently supply over three million UK customer accounts.
- > In the US, we supply electricity and gas, with over one million customer accounts.
- > We are active traders of electricity, gas, oil and coal.

Key group statistics	Year ended 31 Dec 2000*	Year ended 2 Jan 2000
Turnover	£4,191m	£3,746m
Market capitalisation (at year end)	£4.1bn	£2.9bn
Shares in issue (at year end)	651.5m	649.7m
Employees (at year end)	11,742	7,678
Distribution customers (at year end)	3.5m	2.3m
Retail customer accounts (at year end)	4.2m	2.6m
Generation capacity (at year end)**	17.8GW	10.2 GW

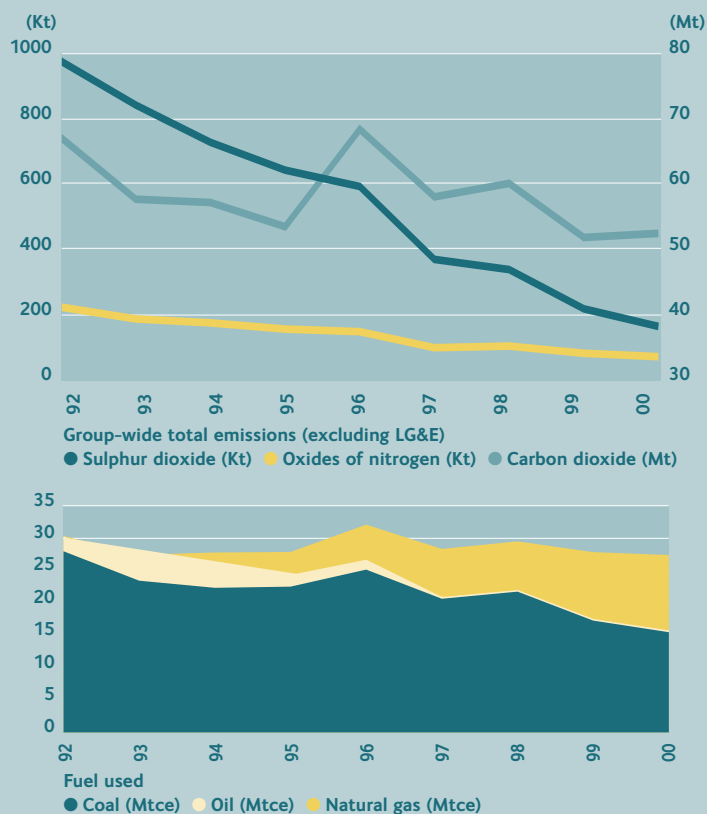
* Includes LG&E data since completion of the acquisition on 11 December 2000

** UK wholly-owned capacity, excluding CHP and renewables; US contribution includes operational generation from unregulated businesses

- > Our power station portfolio includes over 8.1GW of coal, gas and oil-fired power plant in the UK, and over 9.7GW of predominantly coal-fired plant in the US.
- > We have a commissioned capacity of over 480MWe of combined heat and power plant in the UK, with further projects under development.
- > Through our joint venture Powergen Renewables, we have interests in 14 operational wind farms in the UK and Eire, with a total capacity of 78MW.
- > In the UK, we own and operate the electricity distribution network for the East Midlands, covering 16,000 square kilometres. In the US, we operate electricity and gas transmission and distribution assets in Kentucky, covering 70,000 square kilometres.
- > In the UK, we are regulated by Ofgem under the Electricity Act 1989. In the US, our regulated businesses in Kentucky are regulated by the Kentucky Public Services Commission and in Virginia by the Virginia State Corporation Commission.

Our performance

Environmental impact



- > We are playing a major role in helping the UK Government achieve its environmental targets. For example, our carbon dioxide emissions per unit of electricity supplied are over 30 per cent less than they were in 1990.
- > All our UK power stations are certified under ISO 14001, the industry standard for environmental management. We aim to achieve ISO 14001 for international projects where we have at least a 50 per cent equity stake.
- > Powergen is represented in the Dow Jones Sustainability Group Index. This international index consists of more than 200 companies that represent the top 10 per cent of the leading sustainability companies in 64 industry groups.
- > Powergen has never been prosecuted for an environmental offence during the company's lifetime.
- > The 2001 Business in the Environment survey of environmental engagement and performance ranked Powergen 51st out of the FTSE 350 companies taking part. This fall from our previous position of 12th reinforces the need for continual improvement and setting further challenging targets.
- > Under our 'green' electricity tariffs, we guarantee that for each unit of electricity we supply, an equivalent unit will be generated from renewable sources.
- > Powergen Renewables is one of the UK's largest generators of renewable energy and is part of the consortium behind the UK's first offshore wind farm.
- > We regard the disposal of waste as a last resort and operate integrated waste management plans at all our sites.

Economic value

		Year ended 31 Dec 2000	Year ended 2 Jan 2000
Group turnover	£m	4,191	3,746
Pre-exceptional profit before goodwill amortisation and tax	£m	517	580
Profit before tax	£m	468	762
Earnings per ordinary share before exceptional items and goodwill amortisation	Pence	66.7	73.4
Dividends per ordinary share	Pence	36.2	34.8
Net assets	£m	2,286	1,984
Net debt	£m	5,322	2,024

- > In 2000, we completed the purchase of LG&E, an electricity and gas group based in Louisville, Kentucky, for \$3.2 billion. In the UK, we purchased a 50 per cent stake in Corby Power, which owns a 350MW power station in Northamptonshire, for a net consideration of £34 million.
- > To reduce the debt created by the acquisition of LG&E, we have agreed the sale of selected UK and international assets which will raise over £1,000 million. These assets include Cottam and Rye House power stations in the UK, and interests in power projects in Portugal, India, Australia, Thailand and Korea.
- > We commissioned two new power projects: a 130MWe combined heat and power plant in Cheshire and a 389MW gas-fired power station in Hungary.
- > Competition in energy supply is continuing to deliver benefits to customers. For example, from January 2000 Powergen's existing residential customers saw their electricity bills cut by up to £41 per year.
- > We are committed to meeting local best practice in the payment of creditors. The average number of days taken to pay our trade suppliers in the UK is 28.
- > In 2000, Powergen saw significant growth in its share price, which rose by 45 per cent to end the year at 632 pence and outperformed the FTSE 100 index by 38 per cent.



Social responsibility

Employees

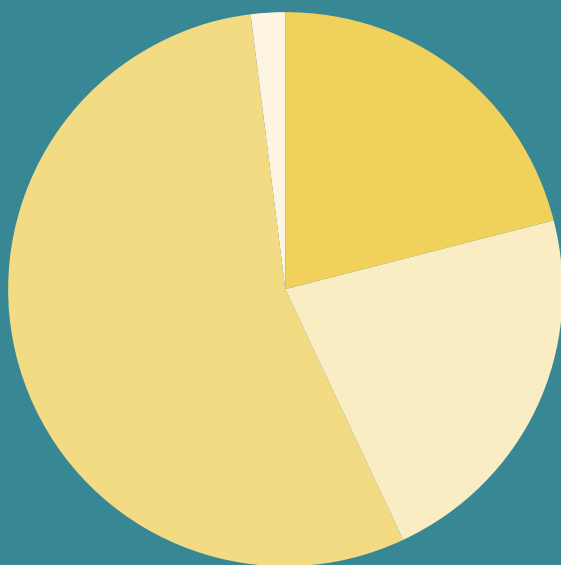
- > Results from an independently-conducted employee opinion survey in 2000 showed that 74 per cent of Powergen employees and 79 per cent of LG&E Energy employees feel satisfied with their job.
- > Powergen has won the UK's top accolade in occupational health and safety – the Royal Society for the Prevention of Accidents' Sir George Earle Trophy.
- > In 2000, our UK operations sustained 0.13 lost-time injuries per 100,000 hours worked – a significant improvement on our 1999 figure of 0.36. Several of our UK and international projects celebrated a whole year of operation without a single lost-time injury.
- > Training and development of staff is a key priority. Over half of our UK business areas are accredited with Investors in People, joining the increasing numbers of business units holding the award.
- > We are firmly committed to offering equal opportunities to both our current and prospective employees, and strive for a diverse environment that is supportive of all staff.
- > We encourage employee share ownership and operate a number of employee share schemes to encourage ongoing commitment to the company.

Customers

- > During 2000, our UK call centres responded to 8.6 million calls from customers, taking an average 17.3 seconds to answer each one. We are now working with LG&E to share best practice in customer service.
- > In 2000, J D Power and Associates honoured LG&E for the highest overall customer satisfaction for mid-sized businesses and as the leader in residential customer satisfaction in the US Midwest.
- > Under our UK supply licence, we are required to participate in the Energy Efficiency Commitment scheme under which we spend the equivalent each year of £1.20 per customer, for each fuel supplied, on energy efficiency schemes. Since 1994, £7.6 million of our funding has benefited 320,000 disadvantaged customers.
- > Over 20,000 customers in the UK are benefiting from our partnership with Age Concern to offer a tariff for older people. This includes cold weather payments for every day below freezing between December and February, and a free energy efficiency survey.
- > During the reporting period of 1999/2000, electricity was available on our UK electricity distribution network for 99.99 per cent of the time. The average duration of supply interruptions – measured as customer minutes lost (CML) – was 71.9, beating the regulatory target of 73 CML. The increase on our 1998/1999 figure of 70.3 CML was due to increased lightning activity in the East Midlands area.

Community

- > Our UK community programme focuses on areas that are relevant to our business and where we can bring maximum benefit, namely educational, environmental and local community projects.
- > Over four million UK households cannot afford adequate heat or light. Since 1992, we've provided over £1 million to long-term projects which provide practical energy efficiency advice to those communities that need it most.
- > Over 900 primary schools and 27,000 children have benefited from our Weather Reports project. The project is an exciting way for children to learn about science, technology and maths under the National Curriculum.
- > Employees voted for Shelter to become our UK Charity of the Year in 2000, enabling it to benefit from donations through the year as a result of group activities linked to charity.
- > LG&E has a comprehensive programme to support charitable, educational and community-based projects throughout Kentucky. We are committed to continuing this programme.



Community/sponsorship expenditure in 1999

- Charitable gifts £1,048,372
- Community investments £1,053,420
- Commercial initiatives £2,700,000
- Corporate management costs £85,000

Management

Our vision

Powergen's vision is to create one of the world's leading integrated electricity and gas businesses.

As a low-cost, innovative and environmentally-responsible operator, Powergen delivers value and quality to its customers, shareholders, employees, partners and the communities in which it operates.

Our values

Working Together. Working Better

We work together:

- > for mutual benefit.
- > with integrity, honesty and trust.
- > showing respect and consideration for others.

We work better by:

- > not compromising on safety.
- > constantly seeking innovation and improvement.
- > taking account of the future in what we do today.
- > delivering what we promise.

LG&E's values are strikingly similar to Powergen's. One of our targets for 2001 will be to review both sets of values to ensure their continued relevance to the enlarged group.

Corporate governance

Good corporate governance is of prime importance for the company in demonstrating to all those with an interest in our affairs that we are acting in accordance with, and even exceeding, best practice.

As the standards of corporate governance have continued to be refined over time through the reports of the Cadbury, Greenbury and Hampel committees and the Turnbull Working Party, the Powergen Board has been active in ensuring that is acting in line with best practice.

A system of internal control is in place, designed to ensure that the risks facing the business in pursuit of its objectives are identified and managed at known acceptable levels.

Group policies are in place for key issues such as the management of health and safety, environmental, engineering and IT risks as well as defining the Board's requirements for personal conduct and probity.

Our human resources policies include health and safety, equal opportunities and personal development.

We have operated our own environmental management system since 1991 and upgraded this system in 1996 to meet the requirements of ISO 14001, the international standard for environmental management. We also have a clear environmental policy statement, as stated on our website and in our annual environment reports.

Stakeholder feedback

We maintain an active dialogue with our shareholders, both large and small, through our Investor Relations and Company Secretary's departments. The very fact of being a 'privatisation stock' with an initial register exceeding 1.5 million has meant that

shareholder communication has always been high on our agenda.

We maintain an active programme of contact with institutional investors and brokers, and publish the documentation used at the time of these briefings on our website. We use our Annual General Meeting as more than just a business meeting in order to communicate effectively with all our private shareholders.

We have well established arrangements for communication and consultation with employees. The views of staff are both sought and taken into account, for example through regular employee opinion surveys and an internal newspaper.

Further information

- > Annual Report and Accounts
 - > Investing in our Communities Report
 - > Environment Report
 - > Energy Efficiency Report
 - > Quality of Supply Report
- www.powergenplc.com



Your voice
counts

To ensure that our CSR report for 2001 covers all the areas you're interested in, please complete the questionnaire on the back of the proxy card or on our website at www.powergenplc.com

A great Leap forward



Review of operations In 2000, we again showed our ability to adapt successfully to new challenges. In the UK, we completed our transformation from a generator into a customer-focused integrated energy company. Through the acquisition of LG&E, we redirected the company's international development to become an Anglo-American energy business.



UK

Three million customer accounts

Our retail business achieved its target of three million customer accounts – an increase of 17 per cent since the beginning of the year – due to a targeted marketing strategy and the expansion of our product range.

During the year, we successfully broadened the range of products we offer beyond electricity and gas, to develop our relationships with our residential and small to medium-sized enterprises (SME) customers and establish ourselves as a provider of essential services.

In February, we announced a joint venture with an internet and telecommunications company, Affinty Internet Holdings. This enabled us to launch fixed-line telephone services for residential and SME customers during the year. A mobile telephone service is currently being market tested, and we will be introducing a new billing system during 2001 that will enable multiple products to be detailed on a single bill.

> **Top** Our focused national advertising campaign has been one of the keys behind the success of our retail business.

> **Left** Primary schoolchildren from across the East Midlands visited our interactive display at the SciTec 2000 Science Festival. Powergen is a long-standing supporter of the annual festival, held at the University of Derby.

Powergen has transformed itself into a business well positioned to take advantage of opportunities that will arise from the developing competitive markets in the UK and US.



We also joined forces with Alto Digital to offer website development packages to SME customers.

Another new alliance is with Legal & General, enabling us to offer our customers a range of cost-effective financial services.

Large business

In the large business sector, we built further on our market leadership position in electricity sales and consolidated our position as one of the leading gas suppliers in the market. We are continuing to develop innovative energy services to help these large energy users manage the conditions in the energy market.

After the year end, we announced that we were investing in a joint venture to offer on-line energy management services to large pan-European companies.

Reaching new customers

Our target is to increase our customer base to five million accounts by the end of 2002. Over 50 per cent of our new customers are gained by telemarketing, and we opened two new telemarketing centres in 2000, in the Dearne Valley in Yorkshire and at Tannochside near Glasgow. We complement telemarketing with targeted direct mail and advertising, a selective use of face-to-face sales, relationships with third parties such as Age Concern, and the internet.



The hub of the UK business

Energy trading lies at the heart of our integrated UK business, maximising the profitability of our generation assets and customer base. Wholesale electricity prices continued their downward trend during the year, but we took advantage of opportunities to secure additional value by asset-based energy marketing in the short-term electricity and gas markets.

The new electricity trading arrangements (NETA), originally scheduled for 2000, were postponed to 27 March 2001 following problems with the testing of the new central industry systems. We are confident that the shape and flexibility of our UK business leaves us well placed to manage the new challenges of NETA. For the past two years we have been preparing for its introduction to ensure we have the people and new trading systems in place.

An efficient power producer

In 2000, the high availability of our plant, together with an increase in outages from our competitors, enabled us to generate 43.2TWh of electricity – equivalent to 14.3 per cent of the total electricity used in England and Wales. This output is slightly higher than we achieved from the same plant in 1999.

> **Left** Following a two-year change management project, we have the people, the skills and the systems in place for the introduction of the new electricity trading arrangements, currently scheduled for March 2001.

> **Below** Fixed line telephone services were among the new products and services we launched in 2000. Mobile telephone services will follow later in the year.



We made some significant changes to our plant portfolio during the year. We purchased a 50 per cent share in Corby Power, which owns a 350MW gas-fired plant in Northamptonshire, whose output we already purchased under a long-term contract. As part of our asset sale programme, we sold our coal-fired power station at Cottam, Nottinghamshire, and reached agreement for the sale of Rye House, a gas-fired plant in Hertfordshire. As a result of these sales, we expect our market share in generation to fall to around 10 per cent in 2001.

For future growth, to build on the company's existing strengths in electricity production, we are developing a comprehensive asset management service for generation plant owners in the UK and elsewhere in Europe. The service will cover operations and maintenance, technical consultancy and risk management.

Continued growth in CHP

Our combined heat and power (CHP) business has continued to grow, sustaining its position as a leading provider of industrial CHP in the UK.

In August 2000, we commissioned one of the UK's largest CHP plants, at Winnington in Cheshire.

We also announced two new projects during the year: a plant in Stoke-on-Trent which is on track for commercial operation at the end of 2001, and a fluidised bed combustion plant at the Kemsley Paper Mill in Kent, due for operation in summer 2002.

Renewable energy

Powergen Renewables, a joint venture with the Abbot Group, is one of the UK's leading developers and owner/operators of wind farms. In 2000, it was part of the consortium that developed the UK's first offshore wind farm, a 4MW development off the Northumberland coast.

Driving to be best in distribution

Our distribution business, East Midlands Electricity (EME), performed well during the year, despite the severe storms that affected the East Midlands region in October.

The business is ahead of schedule in its drive to reduce costs and achieve world's best practice.

The sale of EME's contracting business was completed in February 2000 and, after the year-end, the metering business was also sold.

PGI

Powergen International is responsible for the company's power projects in Europe, India and Asia Pacific.

Its financial contribution to the group increased in 2000, reflecting the increase in our stake in GPEC, the consortium that owns Paguthan power station in India, from 74.1 per cent to 88 per cent.

We celebrated the commissioning of two new plants in November: our gas-fired Csepel II plant in Hungary, and the coal-fired plant at Paiton, Indonesia, in which we have a 35 per cent stake. Both plants are performing in line with expectations.

The plant at Yallourn, Australia, experienced some industrial relations problems which were reflected in a drop in profits. We had a 49.9 per cent stake in this project.

Disposals agreed

In the fourth quarter of the year, we made a number of announcements relating to the disposal of selected international assets.

In October, we completed the sale of our 49.9 per cent shareholding in the Korean power project, LG Energy.

In December, we announced an agreement to sell our Australian, Indian and Thai assets to companies that will be managed and 80 per cent owned by CLP Power International. We will retain a 20 per cent equity stake in these companies.

We also announced in December an agreement to sell our 49.9 per cent shareholding in Turbogas, a private joint venture which owns the Tapada do Outeiro plant in Portugal.

We are reviewing our position in respect of our remaining European assets in Hungary and Germany.

> **Right** Two new construction projects became commercially operational during the year – our new gas-fired power station on Csepel Island in Hungary, and a combined heat and power plant (pictured) in Cheshire.

> **Below** In the period between announcing our acquisition of LG&E and closing the deal, the two companies have worked closely together to prepare for the integration of LG&E into Powergen.

£10,000m

Powergen today is an Anglo-American energy company, with assets of over £10,000 million and total revenues of over £5,000 million.

US

We completed our \$3.2 billion acquisition of LG&E Energy on 11 December 2000, within our anticipated nine to 12-month approval timescale.

Before completing the deal, we worked closely with LG&E to benchmark its operations against world's best practice, explore the scope for efficiency gains in its generation and distribution businesses, and prepare for its integration into Powergen. The results of this work have been built into LG&E's business plan for 2001.

LG&E will maintain its headquarters in Louisville, Kentucky, which will now serve as the base for Powergen's US operations and future growth.



Our figures

Summary Financial Statement

for the year ended 31 December 2000

Summary Directors' Report

A business review of the Group and likely future developments in the business is given on pages 7 to 16.

During the year, four executive and six non-executive directors have served on the Board. The persons who were directors throughout the year ended 31 December 2000 were Mr E A Wallis, Mr P C F Hickson, Mr N P Baldwin, Sir Frederick Crawford, Mr S Gillibrand CBE, Mr A J Habgood, Dr D K-P Li, Mr P Myrers and Mr R Quarta. Mr R W Hale was appointed as an executive director on 11 December 2000, on the completion of the Company's acquisition of LG&E Energy Corp. On 31 January 2001 Mr A J Habgood stood down from the Board, and Mr R W Hale will stand down on 30 April 2001. The Company has announced that Mr V Staffieri will be appointed an executive director on 30 April 2001.

The auditors have issued an unqualified audit report on the annual financial statements, which contained no statement therein under Section 237(2) or Section 237(3) of the Companies Act 1985.

Corporate Governance

The standards of corporate governance have continued to be refined over time through the reports of the Cadbury, Greenbury and Hampel committees and the Turnbull Working Party. The Powergen Board has been active in ensuring that the Company's practice has remained in line with best practice, and has operated procedures meeting the requirements of the Combined Code of the London Stock Exchange relating to internal control, as reflected in the Turnbull guidance. The Reports on Corporate Governance and Directors' Remuneration and Related Matters included in the letter from the Chairman which accompanies this document have been prepared in accordance with the provisions of the Combined Code.

Directors' Emoluments

The total emoluments of directors for the year ended 31 December 2000 were £12,025,686 (year ended 2 January 2000 £1,946,734). The figures for the year ended 31 December 2000 include sums paid to Mr R W Hale as part of the acquisition of LG&E, which are disclosed fully in the Annual Report.

Important Note

This summary financial statement is only a summary of information in the Group's accounts and the directors' report. It does not contain sufficient information to allow for a full understanding of the results of the Group and state of affairs of the Company or of the Group. For further information, the annual financial statements, the auditors' report on the financial statements, and the directors' report should be consulted. Shareholders have the right to demand, free of charge, a copy of the Group's latest full annual report and accounts.

Auditors' Statement

to the members of Powergen plc

We have examined the summary financial statement set out on pages 17 and 18.

Respective Responsibilities of Directors and Auditors

The directors are responsible for preparing the Powergen plc Annual Review which includes the summary financial statement. Our responsibility is to report to you our opinion on the consistency of the summary financial statement within the Powergen plc Annual Review with the full annual accounts and directors' report, and its compliance with the relevant requirements of Section 251 of the United Kingdom Companies Act 1985 and the regulations made thereunder. We also read the other information contained in the Powergen plc Annual Review and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the summary financial statement.

Basis of Opinion

We conducted our work in accordance with Bulletin 1999/6 'The auditors' statement on the summary financial statement' issued by the Auditing Practices Board.

Opinion

In our opinion the summary financial statement on pages 17 and 18 is consistent with the full financial statements and directors' report of Powergen plc for the year ended 31 December 2000 and complies with the applicable requirements of Section 251 of the United Kingdom Companies Act 1985, and regulations made thereunder.

PricewaterhouseCoopers

Chartered Accountants and Registered Auditors
London
2 March 2001

Summary Consolidated Profit and Loss Account for the year ended 31 December 2000

	Year ended 31 December 2000			Year ended 2 January 2000		
	Before exceptional items £m	Exceptional items £m	Total £m	Before exceptional items £m	Exceptional items £m	Total £m
Group turnover	4,191	–	4,191	3,746	–	3,746
Continuing activities	4,075	–	4,075	3,746	–	3,746
Acquisitions	116	–	116	–	–	–
Operating costs	(3,793)	(97)	(3,890)	(3,297)	(293)	(3,590)
Other operating income	182	–	182	191	–	191
Group operating profit/(loss)	580	(97)	483	640	(293)	347
Continuing activities	579	(79)	500	640	(293)	347
Acquisitions	1	(18)	(17)	–	–	–
Group's share of associates' and joint ventures' operating profit	73	–	73	83	–	83
Profit on disposal of fixed assets	–	337	337	–	543	543
Provision for loss on sale	–	(133)	(133)	–	–	–
Net interest payable						
Group	(151)	(81)	(232)	(156)	–	(156)
Associates and joint ventures	(60)	–	(60)	(55)	–	(55)
Profit on ordinary activities before taxation	442	26	468	512	250	762
Tax on profit on ordinary activities	(71)	44	(27)	(99)	49	(50)
Profit on ordinary activities after taxation	371	70	441	413	299	712
Minority interest	(12)	–	(12)	(4)	–	(4)
Profit attributable to shareholders	359	70	429	409	299	708
Dividends			(236)			(226)
Retained profit for the year			193			482
Earnings per ordinary share	66.7p ¹		65.9p	73.4p ¹		109.0p
Dividends per ordinary share			36.2p			34.8p
Diluted earnings per ordinary share			65.2p			108.5p

¹ Before goodwill amortisation of £75m (1999 £68m)

Statement of Total Recognised Gains and Losses for the year ended 31 December 2000

	Year ended 31 December 2000 £m	Year ended 2 January 2000 £m
Profit attributable to shareholders	429	708
Revaluation reserve arising on acquisition	–	25
Currency translation differences on foreign currency net investments	(32)	63
Total recognised gains for the year	397	796

Summary Consolidated Balance Sheet as at 31 December 2000

	31 December 2000 £m	2 January 2000 £m
Fixed assets		
Goodwill	2,627	1,309
Tangible assets	5,964	3,232
Investments	600	470
	9,191	5,011
Current assets	1,901	1,506
Creditors: amounts falling due within one year	(3,877)	(1,204)
Net current (liabilities)/assets	(1,976)	302
Total assets less current liabilities	7,215	5,313
Creditors: amounts falling due after more than one year	(4,105)	(2,987)
Provisions for liabilities and charges	(731)	(295)
Deferred tax	(93)	(47)
Net assets	2,286	1,984
Capital and reserves		
Shareholders' funds (including non-equity shareholders' funds)	2,086	1,919
Minority interests (including non-equity)	200	65
	2,286	1,984

Approved by the Board on 2 March 2001

E A Wallis
Chairman

P C F Hickson
Group Finance Director

Shareholder information

Dividend history

To assist shareholders with the completion of their tax returns, a dividend history is set out below:

Payment	Date	Net amount per share	Scrp: Price of New Share
1	21 Oct 1991	5.55p	—
2	27 Mar 1992	3.05p	—
3	19 Oct 1992	6.20p	261.0p
4	26 Mar 1993	3.35p	294.2p
5	31 Mar 1993	7.15p	—
6	12 Nov 1993	3.95p	417.0p
7	29 Jul 1994	8.70p	465.6p
8	20 Dec 1994	5.00p	550.6p
9	28 Jul 1995	10.00p	498.0p
10	20 Dec 1995	6.50p	531.8p
11	31 Jul 1996	14.50p	485.0p
12	20 Dec 1996	7.80p	579.1p
13	31 Jul 1997	17.40p	658.5p
14	31 Dec 1997	9.00p	781.6p
15	31 Jul 1998	20.00p	776.8p
16	8 Dec 1998	10.00p	—
17	13 May 1999	14.10p	—
18	29 October 1999	10.80p	—
19	10 May 2000	24.00p	—
20	3 November 2000	10.80p	—

Capital Gains Tax: The price paid for the Company's Ordinary share at certain key events is listed below:

Event	Date	Price paid per share
Flotation: First Instalment	12 March 1991	100p
Flotation: Second Instalment*	4 February 1992	75p
40% Sale: First Instalment	6 March 1995	185p
40% Sale: Second Instalment*	6 February 1996	185p
40% Sale: Third Instalment*	17 September 1996	142p

*An instalment discount incentive was available under both offers, which offered a reduction on the instalments shown to shareholders who elected for that incentive.

The market price of the Company's Ordinary share on the issue of the bonus shares was:

Event	Date	Market price per share
Flotation: Bonus Shares	31 March 1994	538.5p
40% Sale: Bonus Shares	31 March 1998	835.5p

Financial calendar

The Company will henceforth be announcing results and paying dividends on a quarterly basis. In addition from Q1 onwards the US\$ dividend rate to be paid on the ADRs will be set at the time of the relevant announcement of results, and paid on the same day as the UK dividend.

The Financial Calendar for 2001 is as follows:

	Preliminary Results	Q1 results	Q2 results	Q3 results
Announcement date	21 Feb	3 May	2 Aug	1 Nov
Ex-Dividend date	28 Feb	16 May	8 Aug	7 Nov
Record date	2 Mar	18 May	10 Aug	9 Nov
Payment date	30 Mar	15 Jun	14 Sep	14 Dec

Dividend Re-Investment Plan (DRIP)

Powergen is offering a Dividend Re-Investment Plan (DRIP) to shareholders, operated by our Registrars, Computershare Services PLC. Full details of the Plan, which uses shareholders' dividends to purchase extra shares to be added to their holdings may be obtained from the Registrars at the address below under 'Shareholder enquiries'. A small commission will be charged for the service.

Company Nominee Service

Powergen offers a Company Nominee Service, which is likely to be of most interest to private investors who deal frequently in the Company's shares – say more than twice a year.

The key features of the Company Nominee Service are:

- > shares are held in a nominee account, and regular statements of account are provided, rather than share certificates;
- > it provides a facility to allow shareholders to deal in Powergen shares rapidly and cost effectively through the CREST electronic settlement system;
- > the benefits of direct shareholding are retained, such as prompt payment of dividends, a copy of the Annual Review, and attendance and voting at the Annual General Meeting;
- > the Nominee Service is provided at no cost to the shareholder. However, if the facility to deal in Powergen shares is used, charges are payable. Basic commission is one per cent with a £10 minimum charge.

Full details of the Company Nominee Service may be obtained from the Registrar at the address shown under 'Shareholder enquiries'.

Low Cost Share Dealing Service

A simple and economic way of buying or selling certificated shareholdings is still available through Hoare Govett. This is a postal dealing service, with a basic one per cent commission subject to a £10 minimum charge. Full details may be obtained from Pershing Securities on 020 7661 6616 (Purchases) or 020 7661 6617 (Sales).

Shareholder enquiries

> On your shareholding

Enquiries on your shareholding can be made using the link to the Registrars from the Company's website www.powergenplc.com. Shareholders will need their Shareholder Reference Number (SRN) which appears on the Proxy Form and other communications from the Company.

Alternatively, enquiries may be made to the Registrar at the following address: Computershare Services PLC, PO Box 96, The Pavilions, Bridgwater Road, Bristol BS99 7ZG
Telephone: 0870 702 0103 (Calls charged at National Rate)
Fax: 0870 703 6119

> On the Company

General information about the Company can be seen on the website at www.powergenplc.com

You may email the Company Secretary on: david.jackson@pgen.com
Alternatively you may contact him at: Powergen plc,
53 New Broad Street, London EC2M 1SL
Telephone: 020 7826 2826 Fax: 020 7826 2890

> On ADR holdings

Enquiries on ADR holdings should be made to the Depository for American Depositary Receipts: Bank of New York, Attention ADR Department, 101 Barclay Street, New York, NY 10286, USA
Telephone: (800) 524 4458 toll free.

Unsolicited mail

The Share Register is a public document under the law, and some shareholders may have received unsolicited mail from other organisations taking advantage of this situation. If you wish to limit the amount of such mail, please write to the Mailing Preference Service, FREEPOST 22, London W1E 7EZ. You may still however receive mail from organisations which do not subscribe to this service.

Telephone information service

For a short commentary on Powergen's business together with the latest share price, telephone 0839 505900 (calls charged at 50p/min at all times, including VAT).

Powergen plc 53 New Broad Street, London EC2M 1SL
Registered in England and Wales No. 3586615
Internet website address: www.powergenplc.com

What can Powergen offer you?

As a Powergen shareholder, you can benefit from an exclusive cashback offer, worth up to £45!

- > Switch to us for gas and we'll give you £20 cashback.
- > Switch to us for electricity and we'll give you £10 cashback.
- > Switch to us for telephone service and we'll give you £15 cashback.

That's on top of the savings you could make by switching to us – to find out how much, call us on 0800 917 3350 for a personalised quote.

And that's not all! You will also have the chance to enter our Free Prize Draw to win two nights at the Savoy, PLUS a night out at a top West End show of your choice.

Shareholder offers

What else can we do for you?

- > We can give you fast, reliable internet access. Visit us online at www.pgen.net
- > We can look after your gas boiler and your heating system. Just call 0800 917 3350
- > We can help you go green with GreenPlan, our tariff designed to help you help the environment. Call us now on 0800 917 3350

TERMS AND CONDITIONS

Terms and conditions of the Powergen shareholder cashback offer

Available to shareholders, employees and retired employees only living on mainland UK. Offer does not apply to No Standing Charge product. Only one application per household. Supply of mains gas only. You need to have the use of an existing BT telephone line. Not available in conjunction with any other cashback/voucher offer.

Prize Draw Rules

Only one entry per household is permitted. The competition will be open from 24 March until 10 May 2001. The draw will be made by 24 May 2001 and the winner will be notified in writing. No purchase is necessary – to enter the competition, please send your details to: Free Prize Draw, Powergen, FREEPOST MID 22522, Sheffield S20 4ZZ. All customers who switch to Powergen between 24 March and 10 May 2001 will be automatically entered into the draw. Prize must be taken by 31 December 2001. Accommodation and theatre tickets are subject to availability. Accommodation must include a Friday or Saturday night.

Offer from Legal & General

Seven index tracking ISAs are free of management charges until January 2002.

Powergen is delighted to announce an association with Legal & General which enables us to inform our customers and shareholders about their financial services.

Invest a lump sum in a Legal & General index-tracking ISA before 30 April and the management charges applied until January 2002 will be refunded. With Legal & General's range of tracker funds you can spread your investment among a choice of trusts in any proportion you choose. What's more, there are no initial or withdrawal charges on your ISA.

Invest right now on-line at www.LandG.com/free19, call Legal & General today on 0800 092 0092* or write to them at Legal & General (Unit Trust Managers) Limited, Freepost SWC 0467, Cardiff CF24 0GY.

Please quote reference F115 IS01. *For your protection, Legal & General may record and monitor calls.

Terms and conditions of the Legal & General ISA offer

Only available to UK residents. Investments must be held until 31 December 2001. Subject to terms and conditions. The range of index tracking ISAs are provided by Legal & General (Unit Trust Managers) Limited. The value of units may go down as well as up. Full written details on request. The management charges will be refunded to the investor by cheque in early 2002. Powergen is a representative only of the Legal & General marketing group, members of which are regulated by the Personal Investment Authority and IMRO, for the purposes of making introductions to other representatives for recommending, advising on and selling life assurance and investment products bearing Legal & General's name. Registered address: Powergen, 53 New Broad Street, London EC2M1SL. Registered in England and Wales No. 2366970.