POWERGEN PLC

GROUP REPORT AND ACCOUNTS

for the year ended 31 December 2001

Registered No: 3586615

The directors present their report and the audited accounts of Powergen plc (described herein also as 'Powergen' and 'the Company') for the year ended 31 December 2001.

Offer from E.ON AG

The recommended acquisition of Powergen by E.ON UK plc, a wholly-owned subsidiary of E.ON AG, ('E.ON') by means of a Scheme of Arrangement under Section 425 of the Companies Act 1985, was completed on 1 July 2002. From that date, the ultimate parent undertaking of Powergen plc is E.ON AG.

Activities

The Company is the holding company of a Group whose principal activities are the generation, distribution, transmission and sale of electricity and the sale of gas. Following the acquisition by the Company of LG&E Energy Corp ('LG&E'), completed in December 2000, the Group's activities are located mainly in the UK and the mid-West region of the US with other residual international investments.

Powergen's aim is to maintain its position as a leading integrated player in the UK's electricity and gas markets and exploit the opportunities available in the liberalisation of electricity and gas markets in the US.

A description of the development of the business during the financial year under report and the outlook for the future is given below and in the section headed `Financial Review`. The following section includes information about the Group's research and development activities, and events which have taken place since 31 December 2001.

UK business

Powergen is one of the UK's leading integrated electricity and gas companies, with a business built on:

- Marketing electricity, gas, telecoms and other essential services to domestic and business customers
- Asset management in electricity production and distribution
- Energy trading to support these activities.

Powergen's UK strategy is to sustain and develop its asset businesses, build competitive trading and retail businesses, and to use its competencies to support its activities outside the UK.

Retail

As part of its integrated UK business, Powergen sells electricity, gas, telecommunications and other services to three business segments: residential, small and medium enterprises ('SMEs') and large businesses ('Corporate'). By the end of the year, it had reached 3.5 million customer accounts, an increase of approximately 14 per cent since the beginning of the year. In addition, the business continued to focus on its cost base to improve margins by using lower cost sales channels and implementing systems to reduce back office costs.

Residential and SME Customers The residential business grew by 13 per cent to 3.1 million accounts during the year, making it one of only two UK utilities last year which successfully grew through purely organic growth. Customer accounts in the SME sector increased to 390,000 accounts. In the last two years, Powergen has grown the SME business by 90 per cent.

Of the residential and SME accounts, 65 per cent are electricity customers, 27 per cent are gas customers and 8 per cent are fixed line telephone customers. During the year, the number of customers taking more than one product increased, particularly among electricity residential customers.

Corporate In the corporate sector, Powergen has ended the year with annualised volumes of 13 TWh of electricity. The Company scaled back its corporate accounts business following the sale of generation capacity, and now focuses on the lower volume, higher margin part of the electricity business. Powergen consolidated its position as one of the leading gas suppliers in the UK industrial consumers` market, with annualised sales maintained at 23 TWh .

Customer Growth and Marketing Powergen continued to target residential consumers and SMEs through national marketing activity such as TV and media advertising, radio campaigns, targeted direct mail, public relations and online campaigns. Powergen also sought to continue to exploit the high level of national awareness of its brand and has taken steps to enhance the strength of the brand, including the sponsorship of a high profile national sports competition, the Powergen Cup in Rugby Union.

During the year, Powergen announced a number of new products and services for its residential customers, including the OneBill scheme to allow dual-fuel customers to receive a single quarterly bill. An environmental tariff called 'GreenPlan' was also launched, under which Powergen commits itself to buy or generate from renewable sources an equivalent amount of electricity to that purchased by consumers under the arrangement.

In addition to a selective use of face-to-face sales, Powergen continues to operate two telemarketing centres in Dearne Valley in Yorkshire and at Tannochside near Glasgow as well as running several customer service call centres across the Midlands.

Generation

Powergen generates electricity from a diverse portfolio of fuel sources. In the year ended 31 December 2001, 49 per cent of Powergen's electricity output was fuelled by coal, 50 per cent by gas, and 1 per cent generated by hydro, wind and oil-fired plant. Powergen is continuing its effort to secure a balanced and diverse portfolio of fuel sources, giving it the flexibility to respond to market conditions and to reduce costs.

Powergen's plant generated 29 TWh during 2001, down 33 per cent on 2000 as a result of plant divestments but still approximately 9.4 per cent of the total electricity output sold through the electricity Pool and under NETA (see below under 'Energy Trading') in England and Wales.

The sale of Rye House power station, with 715MW generating capacity was completed in March 2001. As a result of continuing high gas prices, Powergen announced in October 2001 plans to bring back into production a 485MW coal-fired generating unit at Kingsnorth and to mothball a 450MW gas-fired unit at Killingholme.

Powergen Renewables, a joint venture with the Abbot Group plc, is one of the United Kingdom's leading developers and owner/operators of wind farms. It has interests in 16 operational onshore and offshore wind farms in the United Kingdom and Eire with a total capacity of 103MW. This portfolio includes the United Kingdom's first offshore wind farm, a 4MW development at Blyth, off the Northumberland coast, which was commissioned in December 2000. In addition to the operational sites, construction work is underway on a 30MW wind farm in Scotland, the company's largest project to date. In April 2002, the UK Government granted consent for the construction of Powergen Renewables' Scroby Sands offshore wind farm, off the coast of Norfolk. Scroby Sands will be the United Kingdom's first commercial-size offshore wind farm and will consist of up to 38, 2 MW turbines. It is expected to become operational in 2003. Powergen Renewables also has a number of development projects that have either planning consents or energy sales contracts in place.

The Government has called for 10 per cent of all energy to be produced from renewable sources by 2010 and the recent Energy Review specified that 20 per cent should come from renewable sources by 2020. Powergen has announced that the Company is proposing a 1,000MW increase in its renewables capacity by 2010, the increase to be split 80-20 between the existing wind farm business and a new biomass business.

Powergen's combined heat and power (CHP) business was put up for sale in April 2001. However, none of the bids received were considered to reflect the full value of the business and it was decided in January 2002 not to proceed with the sale. CHP has now been incorporated into the core UK Generation business. Powergen's total operational CHP capacity is now 470 MWe ranging across a number of sectors, including pharmaceuticals, chemicals, paper and oil refining. Four projects with a total capacity of 142 MWe are currently under construction and are due to commission during 2002. There are no current plans to initiate any new development projects.

Distribution

Operating profit from electricity distribution increased during the year by £2 million, as a result of continuing operational improvements offsetting the reduction in regulated income from a full year's impact of the third distribution price review.

Building on the changes to organisational structures and rationalisation of operational sites in 2000 a programme of projects was delivered in 2001 which focussed on process and system improvements. The impact of these projects has been to increase the effectiveness of the field force and office-based staff. An outsourcing programme initiated in 2000 has been implemented in the year, creating a more flexible and cost effective base of internal and external resources.

On 1 October 2001, Powergen completed the full separation of its distribution and supply activities as required by the Utilities Act 2000.

Energy Trading

Energy Trading is at the centre of Powergen's integrated electricity and gas business in the United Kingdom. It engages in asset-based energy marketing in gas and electricity markets to assist in the commercial risk management and optimisation of both UK electricity and gas assets and to manage the price and volume risks associated with its UK retail business. The unit also co-ordinates market actions within the UK business and seeks to maximise the value from generation and customer assets. Powergen's plant portfolio is strictly monitored and controlled to ensure that changing levels of exposure are appropriately managed.

The introduction of the New Electricity Trading Arrangements ('NETA'), a new market structure designed to provide more transparency and better risk apportionment among participants, took place on 27 March 2001. Detailed preparation work and the change management skills available within Powergen facilitated the successful management of the transition to the new market system.

Powergen continues to seek to introduce innovations in its energy trading activities and has made arrangements to operate under the new Energy Markets Participant regime introduced under the Financial Services and Markets Act 2000.

Energy Trading achieved the first post-NETA spark spread trade and has also developed a number of innovative structured deals including a cross-border trade for climate change levy exempt renewable energy. Powergen has become a founder member of the International Commodity Exchange, a new trading organisation operating partially on-line and based in London, dealing in gas and other commodities.

Powergen International

Powergen International was established to develop integrated energy businesses in a small number of target countries. Following the disposal of or reduction in stake in a number of its European and other selected international assets, Powergen International has been renamed Asian Asset Management. At 31 December 2001, the business had equity investments in 1,270 MW of generating plant in four countries.

Powergen has made a number of announcements relating to the disposal of selected international assets:

In December 2000, it announced an agreement to sell its Australian, Indian and other Asian assets to companies that will be managed and 80 per cent owned by CLP Power International (CLP-PI). These disposals have now been completed, and Powergen retains a 20 per cent equity stake in the companies involved. The interests acquired by the companies are as follows:

- In India, Powergen's 88% stake in Gujarat Powergen Energy Corporation (GPEC), the company set up to build and operate a 655MW gas and naptha fired power station at Paguthan in India (acquisition completed after the year-end, in February 2002);
- In Australia, Powergen's 49.95% stake in the 1,450MW coal-fired Yallourn power station, along with a further 42.05% of the shares in the company owning Yallourn previously held by other shareholders (acquisition completed in February 2001); and
- In Thailand, Powergen's 50% interest in BLCP Power Ltd, the company developing a coal-fired power station at Map Ta Phut (acquisition completed in November 2001).

Companies set up under the agreement with CLP-PI have the option to acquire Powergen's 35% interest in PT Jawa Power, a joint venture company that owns Paiton 2, a 1,220MW coal-fired power station in Indonesia. The station is operated by PT Powergen Jawa Timur, which is owned by Powergen and which would also be sold as part of the transaction. This option may be exercised up to five years from the date of the agreement, subject to a number of conditions. Put and call options exist between the owners that may be exercised in certain circumstances, including a change of control in Powergen.

Under the agreement with CLP-PI, Powergen is entitled to sell up to 50% of its remaining interest in the assets described above in India, Australia and Thailand to CLP-PI in the second half of 2002 and the remainder in the second half of 2003. CLP-PI is entitled to buy these interests upon a change of control of Powergen. CLP is also entitled to buy all of Powergen's Australian assets before 30 November 2002.

Powergen has also announced the purchase of the remaining 12% stake in GPEC and has an agreement to sell-on the shares involved to a CLP-PI/Powergen joint venture company. The transaction is expected to complete during 2002.

In 2001, Powergen also completed the sale of its remaining interests in Europe, chiefly:

- 49.9% shareholding in Turbogas, a joint venture owning a 990MW CCGT at Tapada do Outeiro, Portugal;
- the Csepel I and Csepel II plants in Budapest, Hungary;
- a 33% shareholding in the MIBRAG mining complex in Germany; and
- a 22% shareholding in the Schkopau coal-fired power station in Germany.

<u>Other activities</u>

Powergen Property continued to focus on the estate management of the Group's property portfolio and the sale of its surplus sites. Income was gained from the disposal of further plots on the Company's site at Ham's Hall in the West Midlands. The sale to Leicester City Football Club of the former power station site in the city was also completed during the year, and agreements were also reached over the sale of a number of former operational sites in the East Midlands area.

Powergen's engineering and scientific development activities, carried out at its Power Technology Centre, are focused on supporting the Company's strategic business objectives and technology challenges in the UK and USA through delivery of R&D programmes, providing innovative services and products, and growing profitable new income streams. During 2001, these activities covered the full range of Powergen business interests, including power generation, gas and electricity distribution, trading and retail.

Power Technology also carries out collaborative and contract R&D, as part of its portfolio of technical support agreements to its wide external customer base. The collaborative work includes participation in UK and European research programmes. Powergen also retains membership of external R&D organisations, notably in the USA and in Germany.

US business

LG&E is a diversified energy services holding company with businesses in the following areas:

- Retail gas and electricity utility services;
- Power generation and project development; and
- Asset-based energy marketing.

Its power generation and retail electricity and gas services are located principally in Kentucky and Virginia and are divided between two utility subsidiaries, Louisville Gas & Electric ('LGEC') and Kentucky Utilities ('KU').

LG&E's operating profit for 2001 was £355 million before exceptional costs of £166 million which related predominantly to the programme of business re-organisation and restructuring. Of this profit £296 million related to the regulated public utility business and £59 million to the non-utility business.

<u>Retail</u>

Total aggregate electricity sales by LGEC in 2001 represented an increase of 0.9% over 2000. Equivalent gas sales saw an 18.8% decrease in 2001 against 2000. KU`s total aggregate electricity sales in 2001 represented a 0.8 % decrease against 2000. Wholesale figures were affected primarily by a decrease in brokered activity in the wholesale electricity sales market, and retail sales were influenced by various factors such as the weather, the level of economic activity generally and demand patterns.

<u>Generation</u>

LG&E owns or controls aggregate generating capacity at 31 December 2001 of approximately 9,744 MW, including leased and partially-owned capacity, compared with 9,423 MW at 31 December 2000. The plant involved includes nine independent power generation facilities.

In November 2001, LG&E reached an agreement to sell its Monroe and Tiger Creek facilities in Georgia to Progress Ventures Inc. Under the terms of the agreement, LG&E will also manage the completion of the Tiger Creek plant, which is expected to be operational by June 2003. The sale was completed in February 2002.

Energy marketing

Through a subsidiary, LG&E engages in asset-based energy marketing, which primarily involves the marketing of power generated by physical assets owned or controlled by LG&E and its affiliates.

Other activities

LG&E is one of a large number of transmission owning members of the Midwest Independent Systems Operations (MISO), one of the major regional grid operators in the US. MISO commenced commercial operations on 1 February 2002.

A subsidiary of LG&E provides energy services, commercial and industrial energy consulting services, and markets energy-related retail products. LG&E also owns CRC-Evans Pipeline International Inc (CRC), a provider of specialised equipment and services used in the construction and rehabilitation of gas and oil transmission pipelines. LG&E has announced its intention ultimately to sell CRC as it is a non-core activity.

In connection with its Argentinean gas distribution operations, LG&E has interests in entities which distribute natural gas to approximately two million customers in Argentina through three distributors. While the recent political and economic turmoil in Argentina had no impact on Powergen's investment in Argentina as disclosed in the accounts for the year under report, a provision will be made in the accounts for the year to 31 December 2002 (see Note 33 to the Accounts, on page 97 below).

LG&E also has an interest in a wind power generation facility in Spain.

Profit and dividends

Profit before taxation for the year ended 31 December 2001 was £43 million (a decrease of £425 million on the figure for the year to 31 December 2000 of £468 million).

The directors are not recommending a final dividend for the year. Dividends amounting to 36.8p net per ordinary share have been paid for the year ended 31 December 2001, compared with a total dividend paid for the year ended 31 December 2000 of 36.2p net per ordinary share.

After a tax benefit of £18 million and minority interest of £11 million, and after payment of the dividends of £240 million, the retained loss for the year amounted to £190 million.

Directors

During the year under report, the following directors have served on the Board.

	Date of appointment if during the year	Date of resignation if during the year
Nicholas Baldwin		
Sir Frederick Crawford		
Dr Christopher Gibson-Smith	30 May 2001	
Sydney Gillibrand CBE		
Peter Hickson		
Dr David Li		
Thomas Oates	3 August 2001	
Victor Staffieri	30 April 2001	
Edmund Wallis		
Peter Wilson	30 May 2001	
Paul Myners		3 August 2001
Roberto Quarta		3 August 2001
Roger Hale		30 April 2001
Anthony Habgood		31 January 2001

Dr Paul Golby was appointed as a director on 21 January 2002.

Following completion of the acquisition by E.ON, Mr Nicholas Baldwin, Sir Frederick Crawford, Dr Christopher Gibson-Smith, Mr Peter Hickson, Dr David Li and Sydney Gillibrand stood down as directors on 1 July 2002. Mr Ulrich Hartmann, Professor Rainer Elsässer, Dr Hans Michael Gaul, Dr Hans Dieter Harig and Michael Söhlke were appointed directors on 1 July 2002.

Information on directors` emoluments is given in Note 4 to the Accounts, on page 53.

Options held by the directors over ordinary shares of Powergen plc are as follows:

	Options over ordinary shares			
	At 31 December 2000 or on appointment	Exercised or lapsed during the year	Granted during the year	**At 31 December 2001**
Nick Baldwin	306,075	4,575	-	**301,500**
RSP*	30,703	-	22,920	**53,623**
Peter Hickson	382,283	-	-	**382,283**
RSP*	82,056	16,321	18,394	**84,129**
Edmund Wallis	674,283	-	-	**674,283**
RSP*	84,517	19,480	-	**65,037**
Vic Staffieri**	38,890	-	51,011	**89,901**

*holdings held in Trust on behalf of the directors under the Powergen Restricted Share Plan (either as a Bonus Enhancement Award or a Medium Term Bonus Award)

** Options held by Vic Staffieri relate to ADSs, each representing four Powergen shares.

Beneficial Interests

The beneficial interests of the directors in the ordinary share capital of Powergen plc are as follows:

	Beneficial holdings in ordinary shares	
Name	At 31 December 2000 or on appointment	**At 31 December 2001**
Nick Baldwin	4,866	**9,933**
Sir Frederick Crawford	7,398	**7,398**
Dr Christopher Gibson-Smith	-	**-**
Sydney Gillibrand CBE	6,858	**6,858**
Peter Hickson	28,551	**28,624**
Dr David Li	20,000	**20,000**
Thomas Oates	-	**-**
Victor Staffieri	-	**-**
Edmund Wallis	63,478	**65,359**
Peter Wilson	850*	**850***

*Non-beneficial interest

In addition, the Executive Directors have interests in shares held in the Powergen Employee Share Trust, a trust set up for the purposes of the administration of the Company's Restricted Share Plan.

Except as disclosed above there were no non-beneficial interests of the directors in the ordinary share capital of the Company.

No director had at any time during the period under report any interest (other than as a nominee on behalf of the Company) in the shares of any subsidiary company.

As at 31 December 2001, no director has any interest in the shares of the members of the E.ON Group.

Employees

The Company provides an environment in which communication is open and constructive. There are well-established arrangements for communication and consultation with employees and their representatives at local and Group level covering a wide range of business and employment issues. The views of staff are both sought and taken into account.

Powergen is committed to offering equal opportunities to both current and prospective employees. The Company continues to review and develop best practices and procedures to ensure that all staff are treated fairly in all aspects of employment. It also strives for a diverse environment that is supportive of all staff. In the 2001 Employee Opinion Survey this was recognised by staff as an area of strength. Individual differences which do not relate to job performance such as gender, marital status, sexual orientation, race, colour, ethnic origin, nationality, religion, age or disability are respected.

Powergen believes in ensuring that disabled people can compete fairly for job opportunities, training and development, through the promotion and development of best practices. Links and contacts with external disability networks and organisations are maintained to identify best practices and to provide work experience placements for disabled people. In the event of existing employees becoming disabled, Powergen will seek to maintain their employment through training, redeployment and adjustments to the job role and workplace, where it is reasonable and practicable to do so.

Training and development of staff remains a key priority in achieving Powergen's growth strategy and ensuring that all staff perform at the highest level. It remains our objective that all business units achieve the Investors in People standard.

The Company encourages employee share ownership and operates a number of arrangements to encourage ongoing commitment to Powergen. These include three employee share schemes approved by the Inland-Revenue for application in the UK: the Powergen ShareSave Scheme (1998), a share option scheme for employees; the Powergen Executive Share Option Scheme (1998), which is available for Powergen executives and senior management; and the Powergen 1998 Profit Sharing Scheme.

Contributions for political and charitable purposes

Donations to charitable organisations during the financial year by Powergen and its UK subsidiaries amounted to £ 189,399. No payments were made by LG&E.

No political donations were made.

Policy on payment of creditors

Where appropriate in relation to specific contracts, the Company's practice is to:

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

In the UK, the Company supports the Better Payments Practice Code, copies of which may be obtained from the Department of Trade and Industry, and has in place well developed arrangements with a view to ensuring that this is observed in all other cases. In the US and elsewhere overseas, Group companies are encouraged to adopt equivalent arrangements by applying local best practices.

The average number of days taken to pay the Company's trade suppliers calculated in accordance with the requirements of the Companies Act is 25 days for the UK business.

Authority to purchase own shares

General authority was given on 1 May 2001 for the purchase by the Company of up to 10 per cent of the Company's existing issued share capital. This authority was still valid at the end of the year ended 31 December 2001, being due to expire at the end of the 2002 Annual General Meeting. The directors do not intend that this power be exercised.

Summary financial statements

It is not proposed to prepare summary financial statements as have been prepared in previous years.

Auditors

A resolution to reappoint the auditors, PricewaterhouseCoopers, and to authorise the directors to fix their remuneration will be proposed at the forthcoming Annual General Meeting.

Annual General Meeting

Arrangements for the 2002 Annual General Meeting will be made in accordance with the requirements of the Companies Act.

Euro

The Powergen Group recognises the wide implications of the Euro for businesses, including impacts on commercial arrangements and financial systems. Appropriate preparation has been made by Powergen entities resident in Euro-land countries. Within the UK, the Powergen Group's preparations recognise the uncertain position regarding possible UK entry to the single currency, and the situation is monitored closely.

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 Group and of the profit or loss of the Group for that year. In preparing those financial statements, the directors are required to:

a) select suitable accounting policies and then apply them consistently;

b) make judgements and estimates that are reasonable and prudent;

c) state whether applicable accounting standards have been followed, subject to any material departure disclosed and explained in the financial statements; and

d) 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 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 Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the Board

D J Jackson
Company Secretary
Powergen plc
City Point
1 Ropemaker Street
London
EC2Y 9HT

1 July 2002

Financial review for the year ended 31 December 2001

Overview

2001 was a year of significant change and development for Powergen, with the announcement of the proposed acquisition by E.ON AG which completed on 1 July 2002. Within the existing Powergen Group, 2001 and early 2002 saw the substantial completion of the UK and International asset disposal programme, leaving the Group positioned as an Anglo-American business.

In Argentina, LG&E's gas distribution business had a strong operational performance in 2001. However, the economic crisis in the latter part of 2001 and the early weeks of 2002 caused the Argentinean government to renounce US dollar related obligations, including utility tariffs, and repeal the convertibility law that established a fixed exchange rate between the US dollar and Argentinean peso. The subsequent devaluation of the peso and change of functional currency from dollar to peso for LG&E's investments has led to a write-down of the Group's investments in Argentina during the first quarter of 2002. These economic conditions are also likely to substantially reduce the profit contribution of the Argentinean business in 2002.

Accounting Policies

During the year Powergen adopted three new UK accounting standards, Financial Reporting Standard ('FRS') 17 'Retirement benefits', FRS 18 'Accounting policies' and FRS 19 'Deferred tax'.

Powergen adopted the transitional provisions of FRS 17 in these accounts. FRS 17 aims to move to a market-based approach in valuing the assets and liabilities arising from an employer's retirement benefit obligations and any associated funding. The changes in accounting involved are substantial and therefore the new standard is being phased in over three years. Note 22 to the accounts illustrates the pension assets and liabilities which would have appeared in Powergen's accounts if FRS 17 had applied fully at 31 December 2001.

FRS 18 requires companies to benchmark and assess the appropriateness of their accounting policies. Following a detailed review, Powergen has concluded that no changes to its existing policies are required as a result of the introduction of this new standard.

FRS 19 has been adopted in these accounts with effect from 1 January 2001. The standard requires full provision to be made for deferred tax assets and liabilities, subject to certain exceptions. In common with many capital-intensive companies Powergen has chosen to discount the full provision required, as permitted by the standard. Full details of the impact of the adoption of the standard on prior year figures are set out in note 7 to the accounts, and the position at 31 December 2001 is set out in note 24 to the accounts.

Group financial results

The results for the year to 31 December 2001 included for the first time, a full year's trading from LG&E Energy Corp. (LG&E), which was acquired on 11 December 2000.

Profit before tax, exceptional items and goodwill amortisation was £464 million, compared to £517 million for the same period last year. Earnings per share on the same basis and before the effect of the adoption of FRS 19, was 62.8p, compared with 66.7p for the twelve months to 31 December 2000. After charging goodwill amortisation of £151 million, including £83 million in respect of LG&E, profit before tax and exceptional items was £313 million, compared with £442 million in the previous year.

Turnover

Group turnover grew by £1,468 million during the year to £5,659 million, an increase of 35 per cent. The increase was largely due to a full year's contribution of £1,644 million from LG&E, of which £1,247 million was from the two regulated utilities. Turnover in the UK remained similar to the previous year with higher retail sales offset by lower turnover in distribution and the wholesale and trading business. In International Operations, turnover fell by £59 million to £166 million reflecting lower sales volumes at GPEC in India, down by £76 million to £130 million, partly offset by sales of £36 million from Csepel in Hungary, prior to the disposal of that company in June 2001.

Turnover is analysed at Figure 1 below:

Figure 1

Turnover	**Year ended 31 December 2001 £m**	Year ended 31 December 2000 £m
UK Operations		
Electricity and gas - wholesale and trading	**1,839**	1,893
Electricity - distribution	**288**	307
Electricity and gas - retail	**1,738**	1,726
Cogeneration	**130**	115
Internal charges from distribution to retail	**(146)**	(191)
	3,849	3,850
US Operations		
Regulated	**1,247**	95
Non-regulated	**397**	21
	1,644	116*
International Operations	**166**	225
	5,659	4,191

* from 11 December 2000

Operating Costs

Details of the Group's operating costs are set out in note 2 to the accounts. The figures are summarised below.

Figure 2

Operating costs	**Year ended 31 December 2001 £m**	Year ended 31 December 2000 £m
Fuel costs	**799**	707
Power purchases and other costs of sales	**2,920**	2,202
Staff costs	**377**	213
Depreciation, including exceptional charges	**426**	292
Goodwill amortisation	**151**	75
Other operating charges, including restructuring costs	**805**	401
	5,478	3,890

Total fuel costs within the group rose from £707 million to £799 million. This figure included £388 million in respect of US Operations, £355 million in respect of UK Operations and £56 million in International Operations. This overall increase was the net result of several factors, the most significant being the inclusion of a full year's fuel costs of £388 million from US Operations for the first time. In contrast, UK fuel costs fell significantly. Wholesale and trading costs fell by £213 million, as generation fell from 43.2TWh in 2000 to 29.0TWh in 2001 following the disposal of Rye House and Cottam power stations. In the CHP business costs rose by £10 million in line with the increase in turnover following the commissioning of new plant. International Operations costs fell from £120 million to £56 million primarily due to a combination of lower output and cheaper fuel costs at GPEC.

In the UK, power purchases and other costs of sales continued to include the cost of electricity purchased to meet customer sales obligations, charges from the National Grid Group and Regional Electricity Companies for the use of their transmission and distribution systems, and costs of the gas trading and retail businesses. In the US, they included purchased power, fuel purchased for resale and related costs. The increase in costs during the year again reflected the inclusion of a full year's costs from LG&E, which totalled £392 million, together with increased costs in the UK due to higher volumes of purchases to supply the retail business and higher gas prices.

Staff costs at £377 million were significantly higher than in the previous year due to the inclusion of a full year's costs from LG&E totalling £177 million. Staff numbers at 31 December 2001 totalled 10,253 of whom 5,629 were in the UK, 4,160 in the US and 464 in International Operations.

The Group's depreciation charge for the year rose by £134 million compared with the previous 12 months. The figure for 2001 included £100 million of exceptional charges in respect of UK and US asset impairments. The underlying annual charge was £326 million compared with an underlying charge of £213 million in 2000. This increase of £113 million reflects the inclusion of £139 million of depreciation charges in the US together with a small reduction in costs in the UK following the disposal of Rye House and Cottam power stations.

Goodwill amortisation rose from £75 million in 2000 to £151 million in 2001. The increase was principally due to the acquisition of LG&E, which comprised £83 million of the charge during the year.

Other operating charges included the costs of running the UK, US and International businesses, together with the supporting corporate infrastructure. Major business costs included maintenance and overhaul costs at power stations, business rates and insurance costs, and leasing costs in the US. The 2001 figure of £805 million included £215 million of exceptional costs, primarily in respect of business restructuring in the UK and US and E.ON related costs. These costs are further discussed under 'exceptional items' below.

Operating income

Other operating income was £138 million this year compared with £182 million in the year to 31 December 2000. Both the 2001 and the 2000 figures include £99 million of deferred warranty income as part of the disposal arrangements for Fiddler's Ferry and Ferrybridge C power stations in July 1999. The warranty income is earned as Powergen has agreed to provide services associated with a major parts warranty in respect of future operations, capability and maintenance of each station. Other operating income in 2001 also included £33 million of income from the asset disposal arrangement entered into with Eastern (now part of TXU Corp.) during 1996. The figure this year fell due to lower generation by Eastern, and the ending of certain earn-out arrangements in March 2000.

Exceptional items

The Group's results included a number of exceptional items totalling £270 million which are fully disclosed in note 3 to the accounts. These exceptionals fall into four main categories:

- Business restructuring in US and UK Operations
- Asset impairment in US and UK Operations
- Restructuring costs in relation to the acquisition of Powergen by E.ON
- UK, US and International business and asset disposals arising from the major disposal process announced in 2000

Following the LG&E acquisition a major business re-structuring programme was implemented during 2001, at a cost of £162 million, reflecting mainly severance costs. In the UK a smaller programme was undertaken at a cost of £22 million.

Management regularly reviews the carrying value of business assets. Following a review at the year end, management concluded that it was necessary to take an impairment charge of £80 million against the carrying value of its UK CHP plant portfolio and £20 million against the carrying value of its Western Kentucky Energy un-regulated operations in the US. Both these businesses were affected by adverse movements in wholesale electricity prices and fuel purchasing costs.

As part of the arrangements for the acquisition of Powergen by E.ON, Powergen incurred a number of costs, including legal, regulatory and other advisors fees, both in the UK and US. These fees total £31 million.

During the year, Powergen disposed of all its operations in continental Europe and significantly reduced its shareholding in Australia. Since the year end it has also reduced its shareholding in India, and the implications of that sale on carrying values were reflected in these accounts. Powergen also completed the sale of two power stations and its metering business in the UK, and several coal-fired cogeneration plants in the US. All these transactions have been recorded as exceptional items in these accounts.

Operating profits

Operating profits including share of associates and joint ventures, but excluding exceptional items and goodwill amortisation, totalled £886 million for the year compared with £728 million in the same period to 31 December 2000.

Within UK Operations, profits fell by £207 million to £439 million. Wholesale and trading profits fell by £152 million to £136 million, primarily due to lost generation volume as the result of the divestment of Cottam and Rye House power stations, together with the impact of lower wholesale prices, particularly in the first half of 2001.

The distribution business saw profits increase by £2 million to £118 million. This was the net result of a £17 million reduction from the P0 cut offset by £19 million of cost savings in the distribution business, as a result of the major restructuring programme in the business during 2001.

Within the retail business, profits increased by £7 million from £42 million to £49 million. Improvements in margins and increases in customer numbers more than offset increased marketing spend and the costs associated with signing up new customers.

Cogeneration profits rose by £14 million to £32 million with the first full year's contribution from the Winnington CHP scheme, the Group's largest scheme, which became fully operational in the second half of 2000.

There was also a £78 million reduction in lease and other income and charges due to lower income received under the Eastern lease arrangements, lower property sales and additional costs from various support activities including IT and communications formerly performed in the corporate centre.

2001 saw the first full year's contribution from Powergen's US Operations, LG&E, which were acquired by Powergen on 11 December 2000. The majority of operating profits were from the two regulated businesses: Louisville Gas and Electric Company and Kentucky Utilities Company.

Results from International Operations totalled £111 million, compared with £121 million in the year to 31 December 2000. 2001 figures included a full year's contribution of £20 million from Paiton, which commissioned in the second half of 2000. There was a lower contribution of £32 million from European assets with the completion of the asset disposal programme in that region by June 2001, and profits from India also fell slightly with lower output volumes at GPEC. Development and administration costs fell significantly with the winding down of development activities and the closure of overseas offices.

Corporate costs fell from £47 million in 2000 to £19 million in 2001 with the transfer of a number of support activities to UK Operations at the start of the year.

A more detailed analysis of operating profits is set out below, at Figure 3:

Financial review for the year ended 31 December 2001 (continued)

Figure 3

Operating profits	Year ended 31 December 2001 £m	Year ended 31 December 2000 £m
UK Operations		
Electricity and gas - wholesale and trading	**136**	288
Electricity - distribution	**118**	116
Electricity and gas - retail	**49**	42
Cogeneration	**32**	18
Lease and other income and charges	**104**	182
	439	646
US Operations		
Regulated	**296**	13
Non-regulated	**59**	(5)
	355	8*
International Operations	**111**	121
Corporate costs	**(19)**	(47)
Operating profit before exceptional items and goodwill amortisation	**886**	728

* from 11 December 2000

Interest costs

Interest costs totalled £422 million for the year. Within this figure, group interest costs rose by £208 million to £359 million, reflecting a full year's impact of the debt used to fund the acquisition of LG&E, and interest costs in associates and joint ventures rose by £3 million to £63 million. The group interest charge included £94 million of interest costs in respect of LG&E and £103 million of interest costs on the debt used to finance the purchase of LG&E. There were no exceptional interest costs in 2001.

Inflation

In the view of the Company, inflation had only a minimal impact on the Group's results from operations and financial position during the period under review.

Treasury management

During 2001, Treasury management in the Powergen group has focused on managing the risks associated with the high levels of debt in the Group's balance sheet. A refinancing programme, described in 'Refinancing' below has reduced both debt and the cost of debt. An interest rate risk management programme (described below in 'Interest rate risk management') has significantly reduced the interest cost of the debt, and a foreign exchange risk management programme (described below in 'Foreign exchange risk management') has hedged the Group against the US dollar exchange rate risk presented by the US assets acquired with the purchase with LG&E.

Powergen has a central Group treasury department. It is responsible for treasury strategy, all funding requirements, the management of financial risks including interest rate and currency exposure, banking relationships, cash management and other treasury business throughout the Group. In addition, there are operational treasury teams in the UK and the US which service the treasury requirements of the UK and US businesses. Powergen's treasury activities are carried out in accordance with Board approved treasury policies, and all treasury operations comply with detailed treasury procedures which are approved at Board level. All treasury interfaces with banks and other third parties are governed by dealing mandates, facility letters and other agreements. Within treasury there is a segregation of front, middle and back office activities.

Treasury employs a continuous forecasting and monitoring process to ensure that the Group complies with all its banking and other financial covenants, and also the regulatory constraints that apply to the financing of the UK and US businesses.

Powergen does not enter into speculative treasury arrangements in that all transactions in financial instruments are matched to an underlying business requirement, such as planned purchases or forecast debt requirements. All treasury operations and planned activities are reported and discussed at a monthly treasury committee that is chaired by the Group Finance Director. Treasury activities are internally audited several times each year.

Treasury works in close liaison with the various businesses within the Group, when considering hedging requirements on behalf of their activities. A group-wide cash forecasting and currency exposure reporting process exists which ensures regular reporting into treasury of future positions, both short and medium term.

The year end position described in more detail below is representative of the Group's current position in terms of its objectives, policies and strategies. These will continue to evolve as the Group's business develops, in line with the requirements, objectives, policies and strategies of E.ON as the new parent company of the Powergen Group.

Credit risk management

Powergen takes steps to limit its credit exposure to banks and other counterparties. Exposure limits are set following credit analysis, and aggregate exposures are monitored on a group-wide basis.

Events in the global utility industry in 2001 have increased the importance of careful credit risk management, and Powergen has re-emphasised its credit risk procedures as a result.

Foreign exchange risk management

During 2001, many of Powergen's international assets were sold and this reduced Powergen's exposure to a number of currencies. Powergen's principal currency exposure is to the US dollar, and there is a secondary exposure to the Indian rupee. In addition, since the year end a secondary exposure to the Argentinean peso arose as a result of events in that country.

Powergen has Board approved policies dealing with transaction exposures (typically trading cash flows which impact the profit and loss account) and translation exposures (the value of liabilities and assets in the balance sheet). Powergen's policy is to hedge all contractually committed transaction exposures, as soon as the commitment arises. Powergen also covers a proportion of forecast foreign currency cash flows, and will also hedge more uncertain cash flows if this is appropriate, using flexible financial instruments that do not commit the Group.

Powergen's policy towards translation exposures is to hedge these exposures where practicable, with the intention of protecting the Sterling net asset value. These hedges are normally achieved through a combination of borrowing in local currency, forward currency contracts or foreign currency swaps. The investment value of the LG&E acquisition has been hedged in this way. The ability to hedge the Argentinean peso was severely curtailed towards the end of 2001 by a lack of liquidity in the relevant foreign currency markets. As a result it was not possible for Powergen to hedge its assets in Argentina.

Where the foreign currency exposure is hedged, the value of the exposure is translated into Sterling at the exchange rate achieved in the associated hedging contracts. Details of the Group's foreign exchange contracts and swaps are set out in note 30 to the accounts.

Interest rate risk management

The Powergen Group has a significant portfolio of debt, and is exposed to movements in interest rates. This exposure is to both Sterling and US Dollar interest rates, and Powergen manages these interest rate movements primarily through the use of fixed and floating rate borrowings and interest rate swaps. Powergen's policy is to target a ratio of fixed rate debt to floating rate debt of 50 per cent/50 per cent. However, this is managed within a 66 per cent/34 per cent and 34 per cent/66 per cent band, split between three debt portfolios (UK business, US business and US acquisition debt).

During 2001, in anticipation of falls in interest rates, particularly in the US, Powergen moved its debt portfolio towards a higher proportion of floating rate debt. This was achieved by issuing floating rate debt, and through the use of interest rate swaps. This allowed Powergen to benefit from the falls in UK and US interest rates during 2001, and at the year end the debt portfolio was 42% fixed and 58% floating.

Group funding

Powergen's Board approved policy towards funding is to ensure that the Group is not constrained by lack of funds at any time, and not unreasonably or imprudently bound by restrictive covenants, or liquidity risks. Within this objective, the Group seeks to manage its cost of borrowing to minimise interest charges, while maintaining a stable, long-term funding base.

Sources of liquidity

Powergen has always taken a prudent approach to liquidity management. The first source of liquidity is cash from operations, both in the UK and in the USA. This cash is supplemented by borrowings. The majority of the Group borrowings are in the form of term debt from the capital markets, which brings stability to the balance sheet. There is a suitable spread of maturities for this debt, some of which extends over 25 years. The term debt is supplemented by short-term facilities that give the flexibility to manage peaks of working capital requirements.

Powergen has short-term facilities available in a number of places within the group to ensure liquidity is available to the business that requires it. These facilities include three US Commercial paper programmes and a Euro commercial paper programme. These programmes are all 100% backed up by committed bank lines. In addition there are other committed bank facilities. Powergen also has overdraft facilities that it regards as committed on a short term basis, and two receivables securitisation programmes (see below). Some of the term debt is remarketed frequently on a short-term basis, and committed bank facilities provide backup for this position.

Off balance sheet finance

Powergen has two securitisation facilities for $125 million and £300 million. These facilities provide additional liquidity and each is 100 per cent backed up by separate committed bank facilities. The majority of these facilities qualify for off balance sheet treatment, that is, the debt can be offset against trade debtors in the balance sheet. Powergen has minority equity interests in a number of joint ventures which are principally financed by debt. In each case the joint venture debt is secured against the assets of the project and has no, or very limited, recourse back to Powergen. Powergen also has small operating lease financings typical for a company of its size.

Liquidity planning, trends and risks

Powergen has sufficient committed borrowing facilities to meet planned liquidity needs. This planning as a matter of prudence, covers an adjustment for a downturn in the business, and also covers any known near-term refinancing requirements. During 2001, debt has reduced, in particular due to a programme of asset disposals. This level of disposals is unlikely to continue through 2002. Falls in electricity prices have had some impact on operating cash flows, and as electricity generation is a capital intensive business, planned capital spending remains at significant levels. These trends will increase the use of short-term borrowing facilities.

It is anticipated that the acquisition of Powergen by E.ON will significantly improve availability of liquidity to Powergen.

Powergen's liquidity faces certain risks. The level of operating cash is affected by the performance of the business, market prices and margins, amongst other things. Some of these factors are outside our control. Our ability to access our borrowing facilities will also be affected by our ability to comply with the terms of those facilities, and other factors. Powergen's bank facilities have financial covenants requiring us to meet certain ratios and other measures, which may be affected by a business downturn. Our securitisation facilities also require the relevant businesses to achieve certain performance targets for billing and collection of receivables. Most of our capital market bond financings do not have financial covenants, but a fall in our credit rating below investment grade could, in some circumstances, require repayment of these bonds. Illiquidity in the commercial paper markets, or the US tax exempt debt markets, could temporarily close these sources of borrowing to Powergen. This could occur as a result of a fall in our credit rating, or due to other factors outside our control.

Credit rating

Powergen's credit rating is currently BBB+ with Standard and Poors and Baa1 with Moodys. In both cases Powergen is on positive credit watch as a result of the acquisition by E.ON.

Refinancing

In order to improve the terms, reduce the amount and reduce the cost of the Group's levels of debt following the acquisition of LG&E, a refinancing programme was initiated at the end of 2000, and completed during 2001. The acquisition was originally funded by drawings from a US$4 billion bank facility. The first two steps of the refinancing programme were the establishment of a $3 billion US commercial paper programme and a £300 million receivables securitisation facility, both of which were completed in December 2000. The third step was a series of disposals by Powergen of international and UK assets, which again commenced in 2000. Cash proceeds received during 2001 were loaned from Powergen UK plc to Powergen US Holdings Limited allowing the acquisition bank debt to be reduced by repayment.

The fourth step of the refinancing programme was the issue by Powergen US Funding LLC, a subsidiary of Powergen US Holdings Limited, of $1.2 billion of global notes, in October 2001. Finally, the original acquisition bank facility, and the Powergen UK bank facility were both renegotiated as smaller facilities with improved terms and lower costs. The refinancing benefits have been achieved whilst maintaining fully adequate liquidity at all times.

The Group continues to manage its overall funding profile through a combination of committed bank term facilities, long-term capital market funding, and short-term uncommitted capital market and bank facilities. Details of the bank term facilities available to the Group at 31 December 2001, including the amounts undrawn on the facilities, and their expiry dates are fully set out in note 20 to the accounts, together with details of the Group's long-term and short-term bonds raised on UK and US capital markets. Amounts available under short-term uncommitted facilities, the Group's commercial paper programmes, are set out in note 18 to the accounts. The Group's abilities to raise commercial paper under these uncommitted programmes will be affected by prevailing market conditions, and its credit rating.

At 31 December 2001, the Powergen Group had total borrowings of £5,278 million (31 December 2000 £5,931 million) including £3,737 million of long-term loans and £1,541 million of short-term loans and overdrafts.

At 31 December 2001, the Group had £117 million of cash and short-term investments (31 December 2000 £609 million). Powergen's policy is to place any surplus funds on short-term deposit with approved banks and financial institutions. Strict limits governing the maximum exposure to these banks and financial institutions are applied.

The Group's net borrowing position at 31 December 2001 therefore was £5,161 million, compared to £5,322 million at 31 December 2000. The overall interest rate for the year, when compared to average net borrowings, was 6.1 per cent compared with 6.7 per cent in the previous year. Gearing (net debt as a percentage of net assets plus net debt) was 71 per cent at 31 December 2001, a similar figure to that at the end of the previous year.

Commodity risk management

As part of its operating activities, Powergen in the UK engages in asset based energy marketing in the gas, electricity and oil markets. This activity is primarily focused around the commercial risk management and optimisation of both UK electricity and gas assets and to manage the price and volume risks associated with its UK retail business, but also encompasses trading for profit in the UK and some European energy markets. Cover is built up throughout the year, and at 31 December 2001 a significant proportion of UK Operations' exposure to electricity and gas price variations for the year 2002 was covered.

The Group's portfolio is strictly monitored and controlled through delegated authorities and procedures, transaction limits and credit risk management which ensure that changing levels of exposure are appropriately managed. To achieve this portfolio optimisation Powergen uses fixed price bilateral contracts, futures and option contracts traded on commodity exchanges and swaps and options traded in over-the-counter financial markets.

In the US, the two regulated utilities, LGEC and KU have a limited exposure to market price volatility in prices of fuel and electricity, as long as cost based regulation applies to these businesses. US Operations also have a merchant energy trading and sales business that LG&E discontinued in 1998 that has an exposure to market volatility in electricity prices and load requirements.

Cash flow from operations

The consolidated cash flow statement on page 37 is prepared in accordance with FRS1 (revised). Net cash flow can be summarised below, at Figure 4:

Figure 4

Cash flow statement	**Year ended 31 December 2001 £m**	Year ended 31 December 2000 £m
Operating cash flow	**746**	847
Interest and preference dividends	**(345)**	(129)
Exceptional interest	**-**	(107)
Tax	**5**	10
Dividends	**(346)**	(227)
Free cash flow	**60**	394
Capital expenditure and investment	**(599)**	(306)
Acquisition expenditure - LG&E	**-**	(3,918)
Acquisition expenditure - other	**-**	(73)
Disposal of associates	**264**	-
Disposal of subsidiaries	**166**	-
Sale of investments	**30**	55
Asset disposal proceeds	**252**	398
Other	**50**	47
Trading cash flow	**223**	(3,403)
Exchange movements	**(75)**	99
Issue of shares	**13**	6
Net cash flow	**161**	(3,298)

Cash flow from operations of £746 million was £101 million lower than in the previous year, reflecting lower operating profits within the Group.

Interest payments rose to £345 million which reflected the significantly higher debt levels in the Group following the acquisition of LG&E on 11 December 2000. The figure shown for 2001 also includes £5 million of preference dividends paid to LG&E shareholders during the year. In 2000 Powergen also paid £107 million of exceptional interest costs for the bond buy-backs and financing costs of the LG&E acquisition.

The tax position shows a net receipt of £5 million. This consists of £23 million of refunds received from the Inland Revenue in the UK following the agreement of prior year tax computations and £18 million of tax payments in respect of US and International Operations.

The dividend figure in 2001 represents the first three quarterly dividends for 2001 and the final payment for 2000 paid at the end of March 2001. The previous year's figure was lower since it included only the final dividend for 2000, prior to the introduction of quarterly dividend payments.

Free cash flow was £60 million. This was significantly lower than in the previous year due to higher interest and dividend payments.

Capital expenditure and investment totalled £599 million. It included £366 million within the US, £191 million in the UK and £42 million on other overseas projects. A full analysis of expenditure is set out at figure 5.

The disposal of associates figure included £130 million for the Portuguese assets, £47 million for MIBRAG and Schkopau, £61 million from Yallourn and £26 million from the sale of the Virginia coal-fired cogeneration plants in the United States.

The disposal of subsidiaries figure included £78 million of proceeds from the sale of Csepel in Hungary together with £88 million of Csepel's own debt which was disposed of with the subsidiary.

Asset disposal proceeds included £213 million for Rye House power station and £39 million for the East Midlands metering business, both within UK Operations.

Exchange movements for the year totalled £75 million as the US Dollar/Sterling exchange rate moved from $1.4938/£ at the end of 2000 to $1.4554/£ at the end of 2001.

In summary, after the impact of proceeds from the asset disposal programme, net cash flow for the year was positive at £161 million. Net debt fell by that amount during the year from £5,322 million at 31 December 2000 to £5,161 million at 31 December 2001.

Figure 5

Capital expenditure and investment	Year ended 31 December 2001 £m	Year ended 31 December 2000 £m
UK:		
Wholesale and trading	**35**	25
Distribution	**71**	101
Cogeneration	**50**	97
Retail	**14**	5
Others	**21**	26
	191	254
US:		
Regulated	**238**	18
Non-regulated	**128**	9
	366	27
International:		
GPEC	**-**	6
Paiton	**8**	9
Csepel	**2**	14
Mibrag/Schkopau	**13**	-
CLP/Yallourn	**18**	-
Others	**1**	(4)
	42	25
	599	306

In addition to the amounts shown above, at 31 December 2001 the Group had commitments of £129 million for capital expenditure and investment, of which £33 million relates to UK expenditure, £22 million to US expenditure and £74 million relates to international projects.

Taxation

The tax charge, excluding exceptional items, amounted to £58 million for the year compared with £107 million for the same period to 31 December 2000. The effective rate, before exceptional items and goodwill, was 12 per cent compared with 21 per cent in the year to 31 December 2000. The decrease in the effective tax rate was due to the effect of ‘double dip’ taxation relief on the interest expense associated with the acquisition of LG&E Energy Corp. completed on 11 December 2000.

An exceptional tax credit of £76 million arose on the exceptional items booked in these accounts. Full details of these tax credits are set out in note 3 to the accounts. Tax credits on exceptional items in 2000 totalled £43 million.

Dividends

The fourth quarterly dividend paid on 28 March 2002 was 9.2p, giving a total dividend payment of 36.8p for the year. This represented a two per cent increase on the total figure paid in respect of 2000.

US GAAP information

A reconciliation between the Group’s results in accordance with UK GAAP and those results in accordance with US GAAP is set out on pages 108 to 117 of the accounts. The major movement this year resulted from the implementation of FRS 19 on deferred tax which brought UK GAAP closer to US GAAP and reduced the divergence in this area. The principal differences between UK GAAP and US GAAP remained in the areas of deferred tax, pensions and goodwill.

Independent auditors' report to the members of Powergen plc

We have audited the financial statements which comprise the profit and loss account, the balance sheet, the cash flow statement, the statement of total recognised gains and losses 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 and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the United Kingdom Companies Act 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 or the Listing Rules regarding directors' remuneration and transactions is not disclosed.

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

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the United Kingdom Auditing Practices Board and with auditing standards generally accepted in the United States of America. 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.

Independent auditors' report to the members of Powergen plc (continued)

United Kingdom Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group at 31 December 2001 and of the results and cash flows of the Group for the year then ended and have been properly prepared in accordance with the United Kingdom Companies Act 1985.

United States Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Group at 31 December 2001 and 31 December 2000 and the results of their operations and their cash flows for the year ended 31 December 2001, the year ended 31 December 2000, and the year ended 2 January 2000, in conformity with accounting principles generally accepted in the United Kingdom. These principles differ in certain respects from accounting principles generally accepted in the United States. The effect of the differences in the determination of net income and shareholders' equity is shown in the summary of differences between UK and US generally accepted accounting principles.

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
London
1 July 2002

POWERGEN PLC

CONSOLIDATED PROFIT AND LOSS ACCOUNT
for the year ended 31 December 2001

		Year ended 31 December 2001			Year ended 31 December 2000			Year ended 2 January 2000
	Note	Before exceptional items	Exceptional items (note 3)	Total	Before exceptional items	Exceptional items (note 3)	Total	Total
		£m	£m	£m	£m	£m	£m	£m
Turnover		**6,343**	**-**	**6,343**	4,485	-	4,485	3,989
Group's share of associates' and joint ventures' turnover		**(684)**	**-**	**(684)**	(294)	-	(294)	(243)
Group turnover – continuing activities	1	**5,659**	**-**	**5,659**	4,191	-	4,191	3,746
Operating costs	2,3	**(5,163)**	**(315)**	**(5,478)**	(3,793)	(97)	(3,890)	(3,590)
Other operating income	2	**138**	**-**	**138**	182	-	182	191
Group operating profit/(loss) – continuing activities	2	**634**	**(315)**	**319**	580	(97)	483	347
Group's share of associates' and joint ventures' operating profit		**101**	**-**	**101**	73	-	73	83
Profits less losses on disposal of fixed assets and investments	3	**-**	**79**	**79**	-	337	337	543
Profits less losses on disposal of businesses (including provisions)	3	**-**	**(34)**	**(34)**	-	(133)	(133)	-
Net interest payable	5							
– Group		**(359)**	**-**	**(359)**	(151)	(81)	(232)	(156)
– Associates and joint ventures		**(63)**	**-**	**(63)**	(60)	-	(60)	(55)
Profit/(Loss) on ordinary activities before taxation	6	**313**	**(270)**	**43**	442	26	468	762
Tax on profit/(loss) on ordinary activities	7	**(58)**	**76**	**18**	(107)	43	(64)	(26)
Profit/(Loss) on ordinary activities after taxation		**255**	**(194)**	**61**	335	69	404	736
Minority interest		**(17)**	**6**	**(11)**	(12)	-	(12)	(4)
Profit/(Loss) attributable to shareholders		**238**	**(188)**	**50**	323	69	392	732
Dividends	8			**(240)**			(236)	(226)
Retained (loss)/profit for the year				**(190)**			156	506
Earnings per ordinary share	10			**7.7p**			60.2p	112.7p
Earnings per ordinary share (excluding goodwill amortisation, exceptional items and effect of FRS 19)	10			**62.8p**			66.7p	73.4p
Effect of FRS 19 (note 7)				**(3.2p)**			(5.6p)	(0.1p)
Earnings per ordinary share (excluding goodwill amortisation and exceptional items)	10			**59.6p**			61.1p	73.3p
Diluted earnings per ordinary share	10			**7.6p**			59.6p	112.1p
Dividends per ordinary share	8			**36.8p**			36.2p	34.8p

In accordance with Financial Reporting Standard 3 'Reporting financial performance', the post-acquisition results of LG&E Energy Corp. group are included within continuing operations from 11 December 2000.

The notes on pages 46 to 107 form part of these financial statements.

POWERGEN PLC

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
for the year ended 31 December 2001

	Year ended 31 December 2001 £m	Year ended 31 December 2000 £m	Year ended 2 January 2000 £m
Profit attributable to shareholders	**50**	392	732
Revaluation reserve arising on acquisition	**-**	-	25
Currency translation differences on foreign currency net investments	**23**	(32)	63
Total recognised gains for the year	**73**	360	820
Prior year adjustment for the implementation of FRS 19 (note 7)	**(121)**		
Total losses recognised since last annual report	**(48)**		

The notes on pages 46 to 107 form part of these financial statements.

POWERGEN PLC

BALANCE SHEETS
as at 31 December 2001

	Note	The Group 31 December 2001 £m	The Group 31 December 2000 £m	The Company 31 December 2001 £m	The Company 31 December 2000 £m
Fixed assets					
Goodwill	12	**2,641**	2,687	**-**	-
Tangible fixed assets	13	**5,625**	5,964	**-**	-
Investments	14	**402**	600	**3,100**	3,100
		8,668	9,251	**3,100**	3,100
Current assets					
Stocks	15	**273**	258	**-**	-
Debtors: amounts falling due after more than one year	16	**118**	125	**-**	-
Debtors: amounts falling due within one year		**1,021**	1,061	**144**	181
Less: securitisation of trade debtors		**(227)**	(152)	**-**	-
Net debtors falling due within one year	17	**794**	909	**144**	181
Cash and short-term deposits		**117**	609	**-**	-
		1,302	1,901	**144**	181
Creditors: amounts falling due within one year					
Loans and overdrafts	18	**(1,541)**	(2,303)	**-**	-
Trade and other creditors	19	**(1,423)**	(1,574)	**(60)**	(166)
Net current (liabilities)/assets		**(1,662)**	(1,976)	**84**	15
Total assets less current liabilities		**7,006**	7,275	**3,184**	3,115
Creditors: amounts falling due after more than one year					
Long-term loans	20	**(3,737)**	(3,628)	**-**	-
Other creditors	21	**(423)**	(477)	**-**	-
Provisions for liabilities and charges	23	**(568)**	(731)	**-**	-
Deferred tax	24	**(254)**	(274)	**-**	-
Net assets		**2,024**	2,165	**3,184**	3,115
Capital and reserves					
Called-up share capital	25	**327**	326	**327**	326
Share premium account	26	**21**	9	**21**	9
Other reserves	26	**656**	656	**-**	-
Revaluation reserve	26	**22**	23	**-**	-
Profit and loss account	26	**800**	951	**2,836**	2,780
Shareholders' funds (including non-equity shareholders' funds)	28	**1,826**	1,965	**3,184**	3,115
Minority interests (including non-equity)	27	**198**	200	**-**	-
		2,024	2,165	**3,184**	3,115

Approved by the Board on 1 July 2002

P C F Hickson
Director

The notes on pages 46 to 107 form part of these financial statements.

POWERGEN PLC

CONSOLIDATED CASH FLOW STATEMENT
for the year ended 31 December 2001

	Note	**Year ended 31 December 2001 £m**	Year ended 31 December 2000 £m	Year ended 2 January 2000 £m
Cash flow from operating activities	29a	**746**	847	(27)
Dividends from associates and joint ventures		**30**	2	1
Returns on investments and servicing of finance				
Interest received		**26**	59	56
Exceptional interest paid		**-**	(107)	-
Interest paid		**(366)**	(188)	(210)
Non-equity dividends paid to preference shareholders		**(5)**	-	-
Dividends paid to minority shareholders		**(12)**	-	-
		(357)	(236)	(154)
Taxation		**5**	10	26
Capital expenditure and financial investment				
Purchase of tangible fixed assets		**(535)**	(286)	(329)
Purchase of fixed asset investments		**(37)**	(32)	(53)
(New)/Repayment of loans to associates and joint ventures		**(18)**	12	(5)
Sale of fixed asset investments		**30**	55	203
Sale of tangible fixed assets		**19**	39	18
Net receipts from disposals		**252**	398	1,282
		(289)	186	1,116
Acquisitions and disposals				
Purchase of subsidiary undertakings		**-**	(2,253)	(261)
Net cash acquired with subsidiary undertakings		**-**	13	-
Purchase of associates and joint ventures		**(9)**	(39)	-
Purchase of increased stake in subsidiary undertaking		**-**	(34)	-
Receipt from sale of subsidiary undertakings		**78**	-	5
Net cash disposed with subsidiary undertaking		**(31)**	-	-
Disposal of associates and joint ventures		**264**	-	-
Receipt of option fee for Indonesian assets		**14**	-	-
		316	(2,313)	(256)
Equity dividends paid		**(346)**	(227)	(162)
Net cash inflow/(outflow) before use of liquid resources and financing		**105**	(1,731)	544
Management of liquid resources				
Cash withdrawn from/(paid for) short-term deposits		**461**	146	(493)
Financing				
Issue of ordinary share capital		**13**	6	4
Debt due within one year:				
Movement in US Dollar term facility		**(1,169)**	1,173	-
Movement in Sterling term facility		**(535)**	535	-
Issue of commercial paper		**785**	34	-
Repayment of medium-term US Dollar notes 2001		**(105)**	-	-
Other movement in short-term loans		**15**	(345)	(76)
Debt due beyond one year:				
Redemption of bonds		**-**	(427)	-
Movement in US Dollar term facility		**(603)**	1,038	-
Issue of Global US Dollar 4.5% bond		**809**	-	-
Movement in Sterling term facility		**-**	(300)	(600)
Increase in capital elements of finance leases		**98**	-	-
Issue of Eurobonds		**-**	-	570
Termination of cross-currency swaps		**55**	-	-
Movement in Sterling equivalent long-term loans		**20**	14	41
		(617)	1,728	(61)
(Decrease)/Increase in cash in the year	29b	**(51)**	143	(10)

The notes on pages 46 to 107 form part of these financial statements.

Principal Accounting Policies

Nature of operations

During the year, the Powergen Group had three main businesses; UK Operations, US Operations and International Operations. Powergen's principal business in the UK is the generation, distribution and sale of electricity and the sale of gas. Powergen's principal business in the US is the generation of electricity and the transmission, distribution and sale of electricity and gas. Powergen's principal business overseas, other than in the US, is the generation of electricity and associated energy-related businesses.

Basis of preparation of accounts

The financial statements are prepared under the historical cost convention and in accordance with applicable UK accounting standards. The accounts have been prepared in accordance with UK GAAP, which differs in certain respects to US GAAP. A summary of the main differences between UK and US GAAP is set out on pages 108 to 117.

There is no difference between the profit on ordinary activities before taxation and the retained profit for the year stated on the face of the consolidated profit and loss account and their historical cost equivalents. Values of assets and liabilities vested in the Company on 31 March 1990 under the Transfer Scheme made pursuant to the Electricity Act 1989 are based on their historical cost to the Central Electricity Generating Board (CEGB).

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions which affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting year. Actual results can differ from those estimates.

During the year Financial Reporting Standard 18 'Accounting policies' (FRS 18) has been adopted by Powergen. This has had no impact on the results for the year or on amounts disclosed in previous years. In addition, Financial Reporting Standard 19 'Deferred tax' (FRS 19) was adopted (see 'Deferred taxation' below and note 7). The adoption of this standard represents a change in accounting policy and comparatives have been restated accordingly. The transitional arrangements under FRS 17 'Retirement benefits' have been adopted as detailed in 'Pensions and post-retirement benefits' below.

Basis of consolidation

The consolidated accounts include the financial statements of the Company and all of its subsidiary undertakings, together with the Group's share of the results and net assets of associated undertakings and joint ventures. The results of subsidiaries sold or acquired are included in the consolidated profit and loss account up to, or from, the date on which control passes. Intra-group sales and profits are eliminated on consolidation.

Associated undertakings and joint ventures

The Group's share of profits less losses of associated undertakings and joint ventures is included in the consolidated profit and loss account. The results of associates and joint ventures sold or acquired are included in the consolidated profit and loss account up to, or from, the date on which significant influence passes. These amounts are taken from the latest audited financial statements of the relevant undertakings, except where the accounting reference date of the undertaking is not coterminous with the parent company, where management accounts are used.

The accounting reference dates of associated undertakings and joint ventures are set out in note 14. Where the accounting policies of associated undertakings and joint ventures do not conform to those of the Group, adjustments are made on consolidation where the amounts involved are material to the Group.

Turnover

Turnover within the United Kingdom comprises sales of electricity under the New Electricity Trading Arrangements ('NETA'), revenue from the sale of electricity and gas to industrial and commercial customers; sales of electricity, gas and telephony services to domestic customers; revenue from the distribution of electricity and the sale of electricity and steam under combined heat and power schemes.

Income from the sale of electricity and gas to industrial, commercial and domestic customers in both the United Kingdom and the United States is recognised when earned and reflects the value of units supplied, including an estimated value of units supplied to customers between the date of their last meter reading and the year end.

In the United States the amount of regulated income received from sales of electricity and gas to customers is determined by the Kentucky Public Services Commission. Under a three year rates order issued on 7 January 2000, Louisville Gas and Electric Company (LGEC) and Kentucky Utilities Company (KU) will operate under an earnings sharing mechanism until 31 December 2002. With regard to electricity income under this mechanism, incremental annual earnings for each utility resulting in a rate of return either above or below a range of 10.5% to 12.5% will be shared between shareholders and customers in the ratio 60:40.

Principal Accounting Policies (continued)

Restructuring costs

Amounts are set aside for the Group's restructuring programme that involves the reorganisation or future closure of power station and other sites and specific reductions in staff numbers, where the Group is demonstrably committed to such actions.

Depreciation

Provision for depreciation of generating and other assets is made so as to write off, on a straight-line basis, the book value of tangible fixed assets. Assets are depreciated over their estimated useful lives or, in the case of leased assets, over the lease term if shorter. Estimated useful lives are reviewed periodically. No depreciation is provided on freehold land or assets in the course of construction.

The estimated useful lives for the other principal categories of fixed assets are:

Asset	*Life in years*
Generating assets	20-60
Distribution and transmission networks	30-65
Other assets	3-40

Overhaul of generation plant

Overhaul costs are capitalised as part of generating assets and depreciated on a straight-line basis over their estimated useful life, typically the period until the next major overhaul. That period is usually between four and seven years.

Decommissioning

A fixed asset and related provision is recognised in respect of the estimated total discounted cost of decommissioning generating assets. The resulting fixed asset is depreciated on a straight-line basis, and the discount on the provision is amortised, over the useful life of the associated power stations.

Foreign exchange

Assets and liabilities expressed in foreign currencies, including those of subsidiaries, associated undertakings and joint ventures, are translated to Sterling at the rate of exchange ruling at the end of the financial year. The results of foreign subsidiaries, associated undertakings and joint ventures are translated to Sterling using average exchange rates.

Transactions denominated in foreign currencies are translated to Sterling at the exchange rate ruling on the date payment takes place unless related or matching forward foreign exchange contracts have been entered into when the rate specified in the contract is used.

Differences on exchange arising from the re-translation of the opening net investment in and results of subsidiaries, associated undertakings and joint ventures are taken to reserves and, where the net investments are hedged, are matched with differences arising on the translation of related foreign currency borrowings and forward exchange contracts. Any differences arising are reported in the statement of total recognised gains and losses. All other foreign exchange differences are taken to the profit and loss account in the year in which they arise.

Exchange rates

The US Dollar exchange rates used during the year ended 31 December 2001 in the preparation of these accounts were as follows:

Average rate for the quarter ending:	
31 March	US$1.4582/£
30 June	US$1.4223/£
30 September	US$1.4394/£
31 December	US$1.4420/£
Opening rate at 31 December 2000	US$1.4938/£
Closing rate as at 31 December 2001	US$1.4554/£

Deferred income

Amounts received in advance in respect of the provision of services under warranty arrangements are taken to deferred income and recognised in operating income over the period to which the warranty cover relates. Costs associated with the provision of services under the warranty arrangements are netted against the operating income, and are recognised when incurred.

Financial instruments

The Group uses a range of derivative instruments including interest rate swaps, cross-currency swaps and energy based futures and options contracts and foreign exchange contracts and swaps. Derivative instruments are used for hedging purposes, apart from energy based options and futures contracts, which are used for trading purposes. The accounting policy for each instrument is set out below. Interest differentials on derivative instruments are charged to the profit and loss account as interest costs in the period to which they relate. Accounting for foreign currency transactions is described in the foreign exchange policy set out above. Changes in the market value of energy based futures and options trading contracts are reflected in the profit and loss account in the period in which the change occurs.

Debt instruments

Following the issue of Financial Reporting Standard 4 'Capital instruments' (FRS 4) all borrowings are initially stated at the fair value of consideration received after deduction of issue costs. The issue costs and interest payable on bonds are charged to the profit and loss account at a constant rate over the life of the bond. Any premium or discount arising on the early repayment of borrowings is written off to the profit and loss account as incurred.

Interest rate swaps

Interest rate swap agreements are used to manage interest rate exposures. Amounts payable or receivable in respect of these agreements are recognised as adjustments to interest expense over the period of the contracts. The cash flows from interest rate swaps and gains and losses arising on terminations of interest rate swaps are recognised as returns on investments and servicing of finance.

Forward currency contracts

The Group enters into forward currency contracts for the purchase and/or sale of foreign currencies in order to manage its exposure to fluctuations in currency rates. Unrealised gains and losses on currency contracts are not accounted for until the maturity of the contract. The cash flows from forward purchase currency contracts are classified in a manner consistent with the underlying nature of the hedged transaction.

Currency swaps

Currency swap agreements are used to manage foreign currency exposures and are accounted for using hedge accounting. In order to qualify for hedge accounting the instrument must be identified to a specific foreign currency asset or liability and must be an effective hedge. Foreign currency loans, where the repayment of principal is hedged by currency swaps, are included in the balance sheet at the Sterling equivalent of the hedged rate. Interest on the loan is charged to the profit and loss account at the hedged rate.

Goodwill

Goodwill arising on consolidation represents the excess or shortfall of the fair value of the consideration given compared to the fair value of the identifiable assets and liabilities acquired. Purchased goodwill is capitalised in the balance sheet and amortised on a straight-line basis through the profit and loss account over a period of 20 years in line with the directors view of its estimated minimum useful economic life. Goodwill relating to associates and joint ventures is included within 'investments' in the consolidated balance sheet. Prior to the adoption of Financial Reporting Standard 10 'Goodwill and intangible assets' (FRS 10) from 30 March 1998, goodwill arising was written off on acquisition against retained earnings. On disposal of trading entities, the goodwill previously written off to reserves is charged to the profit and loss account and matched by an equal credit to reserves.

Goodwill arising on overseas acquisitions is regarded as a currency asset and is re-translated at each period end at the closing rate of exchange.

Tangible fixed assets

Tangible fixed assets are stated at original cost, net of customer contributions, less accumulated depreciation and any provision for impairment. Impairment losses are recognised in the period in which they are identified. In the case of assets constructed by the Company and its subsidiaries, directly related overheads and commissioning costs are included in cost. Major assets in the course of construction are included in tangible fixed assets on the basis of expenditure incurred at the balance sheet date. Where borrowings are specifically financing the construction of a major capital project with a long period of development, interest payable, not exceeding the actual amount incurred during the relevant period of construction, is capitalised as part of the cost of the asset and written off over the operational life of the asset.

Leased assets

Assets leased under finance leases are capitalised and depreciated over the shorter of the lease periods and the estimated operational lives of the assets. The interest element of the finance lease repayments is charged to the profit and loss account in proportion to the balance of the capital repayments outstanding.

Rents payable under operating leases are charged to the profit and loss account evenly over the term of the lease. Income from operating leases is included within other operating income in the profit and loss account. Income is recognised on a straight-line basis except where income receipts vary with output or other factors. Any variable element is recognised as earned.

Fixed asset investments

The Group's share of the net assets of associated undertakings and joint ventures is included in the consolidated balance sheet. Other fixed assets investments are stated at cost less any provision for impairment in value. Investments in subsidiary undertakings are stated in the balance sheet of the parent company at cost, less any provision for impairment in value.

Fuel stocks and stores

Fuel stocks and general and engineering stores are stated at the lower of cost and net realisable value. In general, stocks are recognised in the profit and loss account on a weighted average cost basis. The Companies Act 1985 requires stocks to be categorised between raw materials, work in progress and finished goods. Fuel stocks and stores are raw materials under this definition.

Principal Accounting Policies (continued)

US regulatory assets and liabilities

Statement of Financial Accounting Standard 71 'Accounting for the Effects of Certain Types of Regulation' (SFAS 71) sets out the appropriate accounting treatment for US utilities whose regulators have the power to approve or regulate charges to customers. As long as, through the regulatory process, the utility is substantially assured of recovering its allowable costs from, or is obligated to refund amounts to, customers, any costs/revenues not yet recovered, or refunded, may be deferred as regulatory assets/liabilities. Due to the different regulatory environment, no equivalent policy applies in the United Kingdom.

Under UK generally accepted accounting principles (GAAP), Powergen's policy is to recognise regulatory assets/liabilities established in accordance with SFAS 71 only where they comprise rights or other access to future economic benefits which have arisen as a result of past transactions or events which have created an obligation to transfer economic benefits to a third party. Measurement of the past transaction or event and therefore the amount of the regulatory asset/liability, is determined in accordance with UK GAAP.

Cash and short-term deposits

Short-term deposits include cash at bank and in hand, and certificates of tax deposit.

Deferred taxation

Deferred taxation arises in respect of items where there is a timing difference between their treatment for accounting purposes and their treatment for taxation purposes. Financial Reporting Standard 19 'Deferred tax' (FRS 19), which requires full provision for such timing differences, has been adopted with effect from 1 January 2001. As allowed by FRS 19, the provision required has been recognised on a discounted basis since that date. The effect of this change in accounting policy on the retained profits and net assets of the Group is set out in note 7 to the accounts. Prior year figures have been restated. Previously provision for deferred taxation was made using the liability method, on a partial provisioning basis, and timing differences were only provided for to the extent that it was probable that a liability or asset would crystallise in the foreseeable future.

Pensions and post-retirement benefits

The Group provides pension benefits through both defined benefit and defined contribution schemes. Defined benefit pension scheme costs are charged to the profit and loss account so as to spread the cost of pensions over employees' remaining working lives. The regular cost, and any variation from regular cost which is identified as a result of actuarial valuations, is amortised over the average expected remaining service lives of members. Differences between the amounts funded and the amounts charged to the profit and loss account are treated as either creditors or debtors in the balance sheet. Payments to defined contribution schemes are charged against profits as incurred.

Principal Accounting Policies (continued)

Certain additional post-retirement benefits, principally health care benefits, are provided to eligible retirees within the Group's US Operations. The estimated cost of providing such benefits is charged against profits on a systematic basis over the average expected service lives of employees.

Powergen has adopted the transitional provisions of Financial Reporting Standard 17 'Retirement benefits' (FRS 17) in these accounts. Full implementation of FRS 17 is required for accounting periods ending after 22 June 2003. The disclosures required by the transitional arrangements are set out in note 22 to the accounts.

POWERGEN PLC

Notes to the financial statements
for the year ended 31 December 2001

1 Turnover

Turnover is analysed as follows:

			Year ended
	31 December 2001 £m	31 December 2000 £m	2 January 2000 £m
UK Operations			
Electricity and gas – wholesale and trading	**1,839**	1,893	1,685
Electricity – distribution	**288**	307	376
Electricity and gas – retail	**1,738**	1,726	1,751
Cogeneration	**130**	115	95
Internal charges from distribution to retail	**(146)**	(191)	(245)
	3,849	3,850	3,662
US Operations			
Regulated	**1,247**	95	-
Non-regulated	**397**	21	-
	1,644	116	-
International Operations	**166**	225	84
	5,659	4,191	3,746

Turnover analysed by geographic destination is not materially different from the analysis by origin shown above.

2 Operating costs

Operating costs were as follows:

			Year ended
	31 December 2001 £m	31 December 2000 £m	2 January 2000 £m
Fuel costs	**799**	707	840
- burnt in power stations	**799**	707	643
- gas buy-outs	**-**	-	197
Power purchases and other costs of sales	**2,920**	2,202	1,722
Staff costs (note 4)	**377**	213	235
Depreciation, including exceptional charges	**426**	292	263
Goodwill amortisation	**151**	75	68
Other operating charges, including restructuring costs	**805**	401	462
Operating costs, after exceptional items	**5,478**	3,890	3,590
Operating costs, before exceptional items	**5,163**	3,793	3,297
Exceptional depreciation charges (note 3)	**100**	79	-
Exceptional operating charges (note 3)	**215**	18	293

2 Operating costs (continued)

The directors believe that the nature of the Group's business is such that the analysis of operating costs set out in the Companies Act 1985 format is not appropriate. As required by the Act, the directors have therefore adopted the presented format so that operating costs are disclosed in a manner appropriate to the Group's principal activities.

Other than exceptional foreign exchange gains disclosed in note 3, £7 million of foreign exchange gains were recognised in the profit and loss account (year ended 31 December 2000 £14 million loss, year ended 2 January 2000 £nil).

Operating costs also include:	Year ended		
	31 December 2001 £m	31 December 2000 £m	2 January 2000 £m
Repairs and maintenance costs	**184**	88	99
Research and development costs	**4**	4	5
Operating leases – plant and machinery	**38**	11	6
Loss/(Profit) on disposal of fixed assets	**14**	(21)	1
Auditors' remuneration for Group audit of which £0.6 million paid to PricewaterhouseCoopers (year ended 31 December 2000 £0.6 million, year ended 2 January 2000 £0.5 million)	**0.6**	0.7	0.5
Auditors' remuneration for non-audit services	**6.0**	2.6	4.7

Fees for non-audit services comprise due diligence, accounting advisory, tax advisory services and other general consultancy. Of the £6.0 million non-audit services for the year ended 31 December 2001, £3.5 million was in respect of a cost reduction programme in the UK distribution business. Auditors' remuneration in respect of the Company was £nil for the three years ended 31 December 2001.

Other operating income includes £33 million (year ended 31 December 2000 £60 million, year ended 2 January 2000 £84 million) of income from operating leases. It also includes the recognition of £99 million (year ended 31 December 2000 £99 million, year ended 2 January 2000 £60 million) of deferred income in respect of the provision of services under warranty arrangements associated with the disposal of Fiddler's Ferry and Ferrybridge C power stations to Edison Mission Energy during 1999 (see note 3). This figure represents £100 million of deferred income recognised less £1 million of associated costs incurred during the years ended 31 December 2001 and 2000. In the year ended 2 January 2000, £60 million of deferred income was recognised less £nil of associated costs.

3 Exceptional items

Exceptional items comprise:

	31 December 2001 £m	31 December 2000 £m	Year ended 2 January 2000 £m
Charged against operating profit	**(315)**	(97)	(293)
Charged against interest costs	**-**	(81)	-
Profits less losses on disposal of fixed assets and investments	**79**	337	543
Profits less losses on disposal of businesses (including provisions)	**(34)**	(133)	-
	(270)	26	250

Charged against operating profit

Year ended 31 December 2001

US Operations and UK Operations

The Group has undertaken a detailed review of its US Operations and established a business reorganisation and restructuring programme. £162 million has been charged in these accounts in respect of that programme, which primarily comprises committed severance and related payments to approximately 1,200 employees. A tax credit of £65 million arises in respect of this programme. In addition, during 2001, a business transformation and restructuring programme has been established within UK Operations. £22 million has been charged in these accounts in respect of that programme, which primarily comprises committed severance and related payments to approximately 240 employees. A tax credit of £6 million arises in respect of this programme.

In the year ended 31 December 2001, following a review in the year ended 31 December 2000 described below, a further review of the Group's UK CHP plant portfolio was made, on the same basis as the review in the previous year (see below). The cash flows used in this impairment review were discounted at Powergen's cost of capital for CHP Operations. A further impairment provision of £80 million was identified and has consequently been recorded in these accounts. A tax credit of £16 million arises in respect of this item.

An impairment provision of £20 million has been recognised in these accounts in respect of the unregulated Western Kentucky Energy business within US Operations, in the light of changes in wholesale electricity and coal prices. The cash flows used in this impairment review were discounted at Powergen's cost of capital for US unregulated businesses. A tax credit of £6 million arises in respect of this item.

3 Exceptional items (continued)

Corporate

On 9 April 2001, E.ON announced a pre-conditional cash offer for the whole of the issued share capital of Powergen plc. The acquisition of Powergen's shares by E.ON completed on 1 July 2002 and accordingly, Powergen has provided for the anticipated total cost of advisors' and other fees associated with the successful completion of the transaction, of £31 million, in these accounts. No tax credit arises on these costs.

Year ended 31 December 2000

UK Operations

In the year ended 31 December 2000, an impairment provision of £79 million was made in respect of the Group's UK CHP plant portfolio in the light of changes in wholesale electricity and gas prices. The cash flows used in this impairment review were discounted at Powergen's cost of capital for CHP Operations. A tax credit, which has now been restated following the implementation of FRS 19, of £17 million arose on this item.

US Operations

As a consequence of the acquisition of LG&E, on 11 December 2000, the Group incurred costs totalling £18 million reflecting agreed payments to certain senior executives of LG&E. A tax credit of £5 million arose on these costs.

Year ended 2 January 2000

UK Operations

On 19 October 1999, the Group agreed to pay £197 million to Liverpool Bay owners BHP Petroleum, LASMO and Monument Oil and Gas in exchange for modifications to their existing long-term gas supply contracts to Connah's Quay power station. This amount was paid in November 1999. A tax credit of £60 million arose on this item.

Reorganisation, restructuring and closure costs in UK Operations during 1999 totalled £96 million. These represented the costs of restructuring and integrating the UK business consequent upon the acquisition of East Midlands Electricity Distribution plc (formerly East Midlands Electricity plc) in July 1998. The amount included committed severance payments and reorganisation costs. A tax credit of £29 million arose on these costs.

3 Exceptional items (continued)

Charged against interest costs

Year ended 31 December 2000

UK Operations

On 28 December 2000, Powergen repaid three Sterling Eurobonds issued by East Midlands Electricity Distribution plc (formerly East Midlands Electricity plc). The repayment of these bonds facilitated the financial separation of its distribution and supply business, which took place subsequently on 1 October 2001. The consideration paid to bond holders and the unwinding of hedging costs totalled £493 million. At 28 December 2000 the carrying value of these bonds was £427 million, giving a premium payable to buy out the bonds of £66 million. A tax credit, which has now been restated following the implementation of FRS 19, of £25 million arose on these costs.

Corporate

During the year ended 31 December 2000, Powergen incurred arrangement and commitment fees totalling £28 million in respect of the $4,000 million term and revolving credit facility put in place to finance the acquisition of LG&E. Powergen also entered into an interest rate swaption arrangement to cap the interest rate payable under this facility at a cost of £13 million. As part of the financing arrangements for the acquisition, in early December 2000, the Group entered into certain US Dollar denominated loan arrangements, which, on the acquisition date, crystallised foreign exchange gains totalling £26 million. These items, with a net cost of £15 million, were included within exceptional US financing costs in the accounts for the year ended 31 December 2000. A net tax credit of £4 million arose on these costs.

Profit less losses on disposal of fixed assets and investments

Year ended 31 December 2001

UK Operations

On 8 March 2001, Powergen's UK Operations completed the sale of Rye House power station and transfer of its associated gas contract to Scottish Power UK plc, for £217 million in cash. Net assets disposed of, together with disposal and other related costs, totalled £178 million giving rise to an exceptional profit of £39 million. A tax charge of £7 million arises on this disposal.

US Operations

In November 2000, LG&E entered into an option transaction with Dominion Virginia Power (Dominion) to sell its 50 per cent stake in three 63MW coal-fired cogeneration power projects in Virginia. During March 2001 Dominion exercised its call option on this plant, and on 23 March 2001 the sale was completed for proceeds of £26 million in cash. Net assets disposed of, together with disposal costs totalled £26 million, giving rise to a £nil profit on disposal. No tax charge arises on this transaction. LG&E Power Services Inc., a wholly owned subsidiary of LG&E will provide certain O&M services under a separate contract with Dominion.

3 Exceptional items (continued)

International Operations

On 27 February 2001, Powergen completed the sale of its Australian interests to a joint venture company that is 80 per cent owned by CLP Power International (CLP) and 20 per cent owned by Powergen. This gave the joint venture a 92 per cent stake in the holding company for Yallourn power station. Powergen therefore retains an effective stake of 18.4 per cent in Yallourn. Sale proceeds totalled £69 million in cash. Net assets disposed of, together with disposal and related hedging and swap costs totalled £70 million, giving rise to an exceptional loss on disposal of £1 million. A £1 million tax charge arises on this disposal.

On 27 April 2001, Powergen completed the sale of its German assets to NRG Energy, Inc. Sale proceeds totalled £50 million in cash. Net assets disposed of, together with related disposal costs, totalled £112 million, giving rise to an exceptional loss on disposal charged against profits of £62 million. No tax charge arises on this disposal.

On 11 May 2001, Powergen completed the sale of its Portuguese assets to RWE Power for £131 million in cash. Net assets disposed of, together with related disposal costs totalled £27 million. After writing back £12 million of goodwill previously charged directly against reserves, this transaction resulted in an exceptional profit on disposal of £92 million. No tax charge arises on this disposal.

On 7 August 2001, CLP acquired an option for first refusal from Powergen to purchase Powergen's Indonesian assets, PT Jawa Power, at a future date. Powergen received £14 million in cash for this option. After charging £3 million of associated costs, this transaction resulted in an exceptional profit of £11 million. A £4 million tax charge arises on this item.

Year ended 31 December 2000

UK Operations

On 31 December 2000, Powergen completed the sale of Cottam power station to Societe C2, a subsidiary company of London Electricity Group plc, for £398 million in cash. At the same time Powergen entered into arrangements to supply coal to the station for a 27 month period on terms consistent with Powergen's overall coal commitments. Net assets disposed of, together with disposal costs, totalled £61 million, giving rise to an exceptional profit on disposal of £337 million. A £12 million tax charge, which has now been restated following the implementation of FRS 19, arose on this disposal.

3 Exceptional items (continued)

Year ended 2 January 2000

UK Operations

On 19 July 1999, Powergen completed the sale of Fiddler's Ferry and Ferrybridge C power stations to Edison Mission Energy, and entered into arrangements to supply coal to the stations for a four year period on terms consistent with Powergen's overall coal commitments. Powergen also agreed to provide services associated with a major parts warranty in respect of the future operations, capability and availability of each station. Under the terms of the warranty, Powergen will repay up to £100 million per annum (£50 million per station) during each of the five years following the disposal should the plant be unavailable during the specified periods. The warranty arrangements continued after the sale of these stations from Edison Mission Energy to American Electric Power on 21 December 2001.

The total consideration received from Edison Mission amounted to £1,296 million. £500 million of this amount was received in advance in respect of the provision of services under warranty arrangements and taken to deferred income. Net assets disposed of, together with disposal costs, totalled £253 million, giving rise to an exceptional profit on disposal of £543 million, net of deferred income in respect of services under the warranty arrangements. A tax charge of £65 million, which has now been restated following the implementation of FRS 19, arose on this disposal.

Profits less losses on disposal of businesses (including provisions)

Year ended 31 December 2001

UK Operations

On 20 February 2001, Powergen completed the sale of its East Midlands Electricity metering business to Siemens Metering Limited for £40 million in cash. Net assets disposed of, together with disposal costs and unamortised goodwill totalled £25 million leading to an exceptional profit on disposal of £15 million. A tax charge of £6 million arises on this disposal. The sale excluded non half-hourly meters.

International Operations

On 29 June 2001, Powergen completed the sale of its Hungarian assets to NRG Energy, Inc. Sale proceeds totalled £80 million in cash. Net assets disposed of, together with related disposal costs, totalled £59 million, giving rise to an exceptional profit on disposal of £21 million. No tax charge arises on this disposal.

On 21 December 2001, Powergen finalised the terms of the sale of its 88 per cent stake in GPEC to a joint venture company that is 80 per cent owned by CLP Power International and 20 per cent owned by Powergen. During 2002, Powergen has purchased the remaining 12 per cent stake in GPEC from the other minority shareholders, and this stake will then be sold on to the joint venture company. As a result of these transactions, the joint venture will hold 100 per cent of GPEC and Powergen will retain a 20 per cent stake in the company.

Notes to the financial statements
for the year ended 31 December 2001 (continued)

3 Exceptional items (continued)

The value of Powergen's investment in GPEC has been further reduced by £66 million to reflect the value implicit in this sale arrangement. No tax credit arises on this item.

During the year ended 31 December 2001, Powergen incurred £4 million of costs in connection with the disposal of its International business, including office closure costs. Tax credits totalling £1 million arise on these costs.

Year ended 31 December 2000

International Operations

During the year ended 31 December 2000, the carrying value of the Group's international asset portfolio was reviewed. The value of its Indian and Australian assets was reduced by £107 million, including goodwill written off of £48 million, to reflect the value implicit in the sale of these assets as part of the arrangement with CLP Power International described above. No tax credits arose on this item.

During the year ended 31 December 2000, an amount of £26 million was charged against profits in respect of the closure of International Operations, principally in respect of employee severance costs. £4 million of tax credits arose on this item.

4 Employee information, including directors' remuneration

The average number of persons employed by the Group, including directors, analysed by activity was:

			Year ended
	31 December 2001	31 December 2000	2 January 2000
UK Operations	**5,530**	5,903	7,130
US Operations	**4,342**	301*	-
International Operations	**543**	830	746
	10,415	7,034	7,876

* US Operations are only included from 11 December 2000.

The salaries and related costs of employees, including directors, were:

			Year ended
	31 December 2001 £m	31 December 2000 £m	2 January 2000 £m
Wages and salaries	**358**	197	224
Social security costs	**27**	17	19
Other pension costs (note 22)	**17**	15	16
	402	229	259
Capitalised in fixed assets	**(25)**	(16)	(24)
Charged in profit and loss account as staff costs	**377**	213	235

4 Employee information, including directors' remuneration (continued)

The total remuneration of Powergen's directors, together with details of the individual remuneration of the highest paid director are as follows:

			Year ended
All directors	**31 December 2001 £'000**	31 December 2000 £'000	2 January 2000 £'000
Aggregate emoluments	**3,502**	12,026*	1,938
Gains made on the exercise of share options	**16**	-	7

* Emoluments in the year ended 31 December 2000 include payments of £9,538,464 to which a Powergen plc director became entitled as a director of LG&E under change of control arrangements in his contract with LG&E, and as a shareholder of LG&E. Details of the shareholdings and share options of the directors including options granted and exercised during the year are set out in the Directors' Report.

Retirement benefits are accruing to four directors under a defined benefit scheme (year ended 31 December 2000 four directors, year ended 2 January 2000 three directors).

			Year ended
Highest paid director	**31 December 2001 £'000**	31 December 2000 £'000	2 January 2000 £'000
Total emoluments, including gains on the exercise of share options and benefits under long-term incentive schemes	**1,418**	10,122*	904
Defined benefit pension scheme:			
– Accrued pension at end of year	**211**	501	312

Notes to the financial statements for the year ended 31 December 2001 (continued)

5 Net interest payable – Group

	Year ended		
	31 December 2001	31 December 2000	2 January 2000
	£m	£m	£m
Investment income	**1**	1	7
Interest receivable from associates and joint ventures	**4**	7	9
Interest receivable and similar income	**19**	35	40
	24	43	56
Interest payable:			
Bank loans and overdrafts	**(105)**	(44)	(55)
Other loans	**(256)**	(146)	(153)
	(361)	(190)	(208)
Net interest payable before unwinding of discount	**(337)**	(147)	(152)
Unwinding of discount in provisions	**(22)**	(4)	(4)
	(359)	(151)	(156)
Exceptional interest costs (note 3)	**-**	(81)	-
	(359)	(232)	(156)

6 Profit on ordinary activities before taxation

	Year ended		
	31 December 2001 £m	31 December 2000 £m	2 January 2000 £m
UK Operations			
Electricity and gas – wholesale and trading	**136**	288	448
Electricity – distribution	**118**	116	154
Electricity and gas – retail	**49**	42	3
Cogeneration	**32**	18	14
Lease and other income and charges	**104**	182	146
	439	646	765
US Operations			
Regulated	**296**	13	-
Non-regulated	**59**	(5)	-
	355	8	-
International Operations	**111**	121	79
Corporate costs	**(19)**	(47)	(53)
	886	728	791
Net interest payable:			
Group	**(359)**	(151)	(156)
Associates and joint ventures	**(63)**	(60)	(55)
Profit before goodwill amortisation and exceptional items	**464**	517	580
Goodwill amortisation	**(151)**	(75)	(68)
Exceptional items (note 3)	**(270)**	26	250
	43	468	762

6 Profit on ordinary activities before taxation (continued)

Operating profit for International Operations for the year ended 31 December 2001 includes £32 million of income from the German, Portuguese and Hungarian assets, which were disposed of during the year.

Goodwill amortisation can be analysed as follows:

	Year ended		
	31 December 2001 £m	31 December 2000 £m	2 January 2000 £m
UK Operations	**68**	68	67
US Operations	**83**	4	-
International Operations	**-**	3	1
	151	75	68

The net assets of the Group are analysed as follows:

	At 31 December 2001 £m	At 31 December 2000 £m
UK Operations	**2,683**	2,886
US Operations	**2,874**	2,799
International Operations	**342**	571
Unallocated net liabilities	**(3,875)**	(4,091)
	2,024	2,165

Powergen has previously announced asset disposals in India that had not completed by 31 December 2001. These disposals include net assets of International Operations of £262 million. See note 33 for details of the transaction related to the Indian assets which completed after 31 December 2001.

Notes to the financial statements
for the year ended 31 December 2001 (continued)

7 Tax on profit on ordinary activities

			Year ended
	31 December 2001 £m	31 December 2000 £m	2 January 2000 £m
United Kingdom corporation tax at 30% (year ended 31 December 2000 30% and year ended 2 January 2000 30.25%):			
Current year	**-**	5	113
Prior year	**(7)**	9	(52)
	(7)	14	61
Overseas taxation	**40**	(5)	-
Deferred (note 24)			
Origination and reversal of timing differences	**(51)**	34	(16)
(Increase)/Decrease in discount	**(8)**	14	(6)
	(26)	57	39
Associates and joint ventures	**8**	7	(13)
Tax (credit)/charge on profit on ordinary activities	**(18)**	64	26

The actual rate of tax reconciles with the applicable United Kingdom corporation tax rate as follows:

			Year ended
	31 December 2001 %	31 December 2000 %	2 January 2000 %
United Kingdom corporation tax rate	**30**	30	30
Accelerated capital allowances	**2**	14	11
Other timing differences	**(3)**	(15)	(6)
Plant divestment	**(7)**	(9)	(6)
Prior year items	**(2)**	2	(9)
Net effect of different rates of tax in overseas businesses	**(11)**	(4)	-
Other	**(1)**	(4)	(3)
Effective tax rate on profit before exceptional items, FRS19 and goodwill amortisation	**8**	14	17
Effect of FRS19 (excluding exceptional items)	**4**	7	-
Exceptional items	**(54)**	(7)	(14)
Effective tax rate	**(42)**	14	3

The tax impact of exceptional items is given in note 3.

Financial Reporting Standard 19 'Deferred tax' was adopted from 1 January 2001. This standard requires full provision to be made for deferred tax assets and liabilities, subject to certain exceptions. Powergen has chosen to discount the full provision required, as permitted by the standard.

Notes to the financial statements
for the year ended 31 December 2001 (continued)

7 Tax on profit on ordinary activities (continued)

Previously, deferred tax was provided for in respect of timing differences only to the extent that it was probable that a liability would crystallise in the foreseeable future. As a result of the adoption of this standard in these accounts, prior year figures have been restated in the profit and loss account, balance sheet and notes to the accounts.

The impact on Powergen's previously reported results and opening net assets is as follows:

	Year ended	
	31 December 2000 £m	2 January 2000 £m
Retained profits as previously reported	193	482
Effect of implementation of FRS 19	(37)	24
Retained profits as restated	**156**	506

	At 31 December 2000 £m	At 2 January 2000 £m	At 3 January 1999 £m
Net assets as previously reported	2,286	1,984	1,345
Effect of implementation of FRS 19	(121)	(84)	(108)
Net assets as restated	**2,165**	1,900	1,237

As a result of this change in accounting policy, retained profits for the year ended 31 December 2001 have been increased by £15 million. The implementation of this change in accounting policy has also affected the charge for deferred tax and goodwill amortisation relating to the acquisition of LG&E (see note 11).

8 Dividends

	Pence per ordinary share					
	Year ended 31 December 2001	Year ended 31 December 2000	Year ended 2 January 2000	**Year ended 31 December 2001 £m**	Year ended 31 December 2000 £m	Year ended 2 January 2000 £m
First interim dividend paid	**9.2p**	10.8p	10.8p	**60**	70	70
Second interim dividend paid	**9.2p**	-	-	**60**	-	-
Second interim dividend proposed	**-**	25.4p	24.0p	**-**	166	156
Third interim dividend paid	**9.2p**	-	-	**60**	-	-
Fourth interim dividend proposed	**9.2p**	-	-	**60**	-	-
	36.8p	36.2p	34.8p	**240**	236	226

9 Profit of the Company

The profit for the financial year of the Company is £296 million (year ended 31 December 2000 £3,015 million, year ended 2 January 2000 £224 million). The Company is not publishing a separate profit and loss account, as permitted by Section 230 of the Companies Act 1985.

10 Earnings per ordinary share

Earnings per ordinary share has been calculated by dividing the profit attributable to shareholders for the financial year of £50 million (year ended 31 December 2000 £392 million, year ended 2 January 2000 £732 million) by 652,790,140 ordinary shares (year ended 31 December 2000 650,976,860 ordinary shares, year ended 2 January 2000 649,552,248 ordinary shares), being the weighted average number of ordinary shares in issue during the year.

Earnings per ordinary share before goodwill amortisation and exceptional items, based on the same numbers of weighted average ordinary shares, is calculated as follows:

			Year ended
	31 December 2001 £m	31 December 2000 £m	2 January 2000 £m
Profit attributable to shareholders	**50**	392	732
Goodwill amortisation	**151**	75	68
Exceptional items (net of tax)	**188**	(69)	(324)
Adjusted earnings	**389**	398	476
Earnings per share (before goodwill amortisation and exceptional items)	**59.6p**	61.1p	73.3p

Adjusted earnings per share has been presented in addition to earnings per share calculated in accordance with Financial Reporting Standard 14 ‘Earnings per Share’ in order that more meaningful comparisons of financial performance can be made.

As a result of the implementation of FRS 19, earnings per share disclosures have been expanded to show the effect of the adoption of that accounting standard on earnings per share before exceptional items and goodwill amortisation.

10 Earnings per ordinary share (continued)

The increase in the deferred tax charge on pre-exceptional profits amounted to £21 million for the year ended 31 December 2001, £36 million for the year ended 31 December 2000 and £1 million for the year ended 2 January 2000.

Diluted earnings per share is calculated as follows. The proceeds of the assumed exercise of dilutive Executive and ShareSave options is calculated as if the shares had been issued at fair value. The difference between the number of shares issued and the number of shares that would have been issued at fair value is treated as an issue of ordinary shares for no consideration. The number of shares used in the calculation of diluted earnings per share is shown on page 112.

11 Revision to provisional fair values

LG&E Energy

On 11 December 2000, the Group acquired the whole of the issued share capital of LG&E Energy Corp., a vertically integrated electricity and gas utility based in Louisville, Kentucky in the United States. The consideration payable totalled £2,258 million, comprising £2,229 million in cash for shares together with capitalised acquisition costs of £29 million.

The fair value of assets acquired, as previously stated in the accounts for the year ended 31 December 2000, was £760 million, leading to goodwill arising of £1,498 million. Due to the proximity of the acquisition of LG&E to the year end, the fair value of the assets and liabilities established for the purposes of the 31 December 2000 accounts was provisional. During the year ended 31 December 2001, these fair values have been finalised, as permitted by FRS 7. The final fair value of identifiable assets acquired is £621 million, leading to goodwill arising of £1,637 million.

Other acquisitions

The calculation of fair values of net assets and the goodwill arising on the acquisitions of Gujarat Powergen Energy Corporation, Corby Power Limited and TeleCentric Solutions Limited, was also provisional in the accounts for the year ended 31 December 2000. These amounts have been finalised in the year ended 31 December 2001, as permitted by FRS 7, although revisions to the original values were only necessary in respect of Corby Power Limited.

11 Revision to provisional fair values (continued)

Details of the adjustments to the provisional fair values are set out as follows:

	Provisional fair values as previously stated £m	Prior year adjustment for FRS 19 [1] £m	Provisional fair values as restated £m	Revisions to provisional fair values [2] £m	Final fair value to the Powergen Group £m
Net assets acquired: LG&E Energy Corp.					
Tangible fixed assets	2,912	-	2,912	(144)	2,768
Investments	180	-	180	6	186
Stocks	154	-	154	-	154
Taxation payable and deferred taxation	(83)	(60)	(143)	22	(121)
Other working capital	(85)	-	(85)	(32)	(117)
Net short-term borrowings	(851)	-	(851)	(7)	(858)
Long-term borrowings	(814)	-	(814)	-	(814)
Provisions	(484)	-	(484)	75	(409)
Minority interest	(169)	-	(169)	1	(168)
	760	(60)	700	(79)	621
Net assets acquired:					
Gujarat Powergen Energy Corporation	40	-	40	-	40
Corby Power Limited	50	-	50	(23)[3]	27
Telecentric Solutions Limited	1	-	1	-	1
Goodwill	1,485	60	1,545	102	1,647
Consideration, including costs of acquisition	2,336	-	2,336	-	2,336

(1) The provisional fair values attributed to the net assets of LG&E have been restated for the impact of the implementation of the Group's new accounting policy for deferred tax, in accordance with FRS 19 (see note 7).

(2) Conforming policy in accounting for decommissioning, revaluation of non-utility fixed assets, adjustments to reflect the fair value of healthcare liabilities and associated deferred taxation effects of the revisions to fair values.

(3) Revision to estimates of contract assets and liabilities.

Notes to the financial statements for the year ended 31 December 2001 (continued)

12 Goodwill

The Group	£m
Cost	
At 31 December 2000	2,846
Prior year adjustment for FRS 19 (note 11)	60
At 31 December 2000 as restated	2,906
Foreign exchange movements	36
Revision to provisional fair values (note 11)	79
Disposal	(16)
At 31 December 2001	**3,005**
Amortisation	
At 31 December 2000	219
Foreign exchange movements	(2)
Charge for the year	149
Disposal	(2)
At 31 December 2001	**364**
Net book value at 31 December 2001	**2,641**
Net book value at 31 December 2000	2,687

13 Tangible fixed assets

The Group	Generating assets £m	Distribution and transmission networks £m	Other operating and short-term assets £m	Total £m
Cost				
At 31 December 2000	6,084	3,327	1,072	10,483
Revisions to provisional fair values (note 11)	(48)	-	(33)	(81)
Foreign exchange movements	69	46	12	127
Additions	282	158	118	558
Transfers	(6)	16	(10)	-
Disposals	(436)	(32)	(55)	(523)
At 31 December 2001	**5,945**	**3,515**	**1,104**	**10,564**
Depreciation				
At 31 December 2000	2,878	1,250	391	4,519
Revisions to provisional fair values (note 11)	66	-	(3)	63
Foreign exchange movements	23	18	2	43
Charge for the year	178	89	59	326
Transfers	3	-	(3)	-
Disposals	(130)	(22)	(13)	(165)
Exceptional write downs	53	-	100	153
At 31 December 2001	**3,071**	**1,335**	**533**	**4,939**
Net book value at 31 December 2001	**2,874**	**2,180**	**571**	**5,625**
Net book value at 31 December 2000	3,206	2,077	681	5,964

13 Tangible fixed assets (continued)

Group assets include freehold land and buildings with a net book value of £368 million (31 December 2000 £402 million) and assets in the course of construction at a cost of £430 million (31 December 2000 £539 million). Group assets also include assets held for use under operating leases with a cost of £132 million and accumulated depreciation of £132 million at both 31 December 2001 and 31 December 2000.

No interest was capitalised during the year (year ended 31 December 2000 £7 million, year ended 2 January 2000 £4 million). In the year ended 31 December 2000 this interest was capitalised at a rate of 8.6% (year ended 2 January 2000 7.6%). Accumulated interest capitalised, gross of tax relief, included in the total cost for the Group amounts to £61 million (31 December 2000 £72 million, 2 January 2000 £65 million).

Assets held under finance leases are included in assets in the course of construction at a cost of £65 million (31 December 2000 £80 million).

14 Fixed asset investments

The Group	Net assets		Loans			
Net assets excluding goodwill	Joint ventures £m	Associates £m	Joint ventures £m	Associates £m	Other investments £m	Total £m
At 31 December 2000	109	366	32	20	80	607
Revision to provisional fair values (see note 11)	(10)	(7)	-	-	-	(17)
Additions	-	1	2	37	36	76
Disposals	(26)	(173)	(7)	(41)	(30)	(277)
Retained profits	7	(7)	-	-	-	-
Foreign exchange movements	1	2	-	(1)	(3)	(1)
At 31 December 2001	**81**	**182**	**27**	**15**	**83**	**388**
Goodwill						
At 31 December 2000	(7)	-				(7)
Revision to provisional fair values (see note 11)	23	-				23
Amortisation	(2)	-				(2)
At 31 December 2001	**14**	**-**				**14**
At 31 December 2001 – Net assets and goodwill	**95**	**182**	**27**	**15**	**83**	**402**
At 31 December 2000 – Net assets and goodwill	102	366	32	20	80	600

14 Fixed asset investments (continued)

Additions to associated undertakings and joint ventures represent equity investments in, and loans to, associates and joint ventures respectively.

Other investments include investments listed on a recognised stock exchange of £52 million (year ended 31 December 2000 £69 million) set aside by subsidiary companies for certain medium and long-term insurance liabilities. At 31 December 2001, the market value of these investments was £nil million in excess of cost (31 December 2000 £3 million).

The Company

The cost of investment in the Company balance sheet at 31 December 2001 and 31 December 2000 of £3,100 million represents the 100 per cent ownership of Powergen Group Holdings Limited.

Interests in Group subsidiary undertakings

Details of the Group's principal investments in subsidiary undertakings at 31 December 2001 are set out below. Principal subsidiaries are those which in the opinion of the directors significantly affect the amount of profit and assets and liabilities shown in the Group accounts. The directors consider that those companies not listed are not significant in relation to Powergen as a whole.

Notes to the financial statements for the year ended 31 December 2001 (continued)

14 Fixed asset investments (continued)

	Proportion of nominal value of issued equity shares held by the Group or the Company %	Country of incorporation or registration	Principal business activities
Powergen Group Holdings Limited*	100	England and Wales	Holding company for UK based activities
Powergen US Holdings Limited *	100	England and Wales	Holding and financing company for US based activities
Powergen UK plc +	100	England and Wales	Generation and sale of electricity
LG&E Energy Corp. (LG&E) +	100	United States	Holding company for US based activities
Louisville Gas and Electric Company (LGEC) +	100	United States	Generation and distribution of electricity and supply of electricity and gas
Kentucky Utilities Company (KU) +	100	United States	Generation, distribution and supply of electricity
LG&E Capital Corp. +	100	United States	Holding company for US based non-utility activities
LG&E Energy Marketing Inc +	100	United States	Manages energy marketing contracts
Distribuidora de Gas Del Centro +	45.9	Argentina	Sale and distribution of gas
Western Kentucky Energy Corp. +	100	United States	Leases from, operation and maintenance of coal-fired generation assets
EME Distribution (formerly Powergen Energy plc) +	100	England and Wales	Distribution of electricity
Powergen International Limited +	100	England and Wales	Holding company for international activities
Ergon Insurance Limited +	100	Isle of Man	Captive insurance company
Powergen CHP Limited +	100	England and Wales	Sale of energy services involving the construction of combined heat and power (CHP) plant
Powergen Cogeneration Limited +	100	England and Wales	Sale of energy services involving the construction of combined heat and power (CHP) plant
Powergen Retail Limited (formerly Powergen Retail Gas Limited) +	100	England and Wales	Supply of electricity and supply, trading and shipping of gas in the UK
Powergen Gas Limited +	100	England and Wales	Transportation and marketing of gas in the UK
Gujarat Powergen Energy Corporation Limited (GPEC) +	88	India	Generation and sale of electricity

* direct interest + indirect interest

14 Fixed asset investments (continued)

All the above subsidiaries have a December year end apart from GPEC, which, for commercial reasons, has an accounting reference date of 31 March.

Associated undertakings and joint ventures

Details of the Group's principal investments in associated undertakings and joint ventures are as follows:

	Accounting reference date	Country of incorporation or registration	Shares held	Percentage of capital held directly by the Group
PT Jawa Power	31 December	Indonesia	Indonesian rupees ordinary shares	35%
Distribuidora de Gas Cuyana	30 November	Argentina	Argentinean peso ordinary shares	14.4%
Gas Natural BAN SA	30 September	Argentina	Argentinean peso ordinary shares	19.6%
Corby Power Limited *	30 September	England and Wales	Ordinary Shares	50%
Cottam Development Centre Limited *	31 December	England and Wales	Ordinary shares	50%
TeleCentric Solutions Limited *	31 December	England and Wales	Ordinary shares	50%

* treated as joint ventures in the Group's accounts

The principal activities of these associated undertakings and joint ventures are:

PT Jawa Power	-	Generation and sale of electricity from coal-fired power station
Distribuidora de Gas Cuyana	-	Sale and distribution of gas
Gas Natural BAN SA	-	Sale and distribution of gas
Corby Power Limited	-	Generation and sale of electricity from gas-fired power station
Cottam Development Centre Limited	-	Construction and operation of gas-fired power station plant and operation of a generator turbine testing facility
TeleCentric Solutions Limited	-	Retail of telecommunications services and development of multi-utility billing system

14 Fixed asset investments (continued)

Group share of aggregate associates' and joint ventures' balance sheets and results

	At 31 December 2001		At 31 December 2000	
	Joint ventures £m	**Associates £m**	Joint ventures £m	Associates £m
Share of assets:				
Share of fixed assets	**290**	**546**	316	1,601
Share of current assets	**91**	**81**	127	176
	381	**627**	443	1,777
Share of liabilities:				
Amounts falling due within one year	**(36)**	**(52)**	(46)	(143)
Amounts falling due after more than one year	**(250)**	**(393)**	(295)	(1,268)
	(286)	**(445)**	(341)	(1,411)
Share of net assets	**95**	**182**	102	366
Turnover	**548**	**136**	49	245
Operating profit	**60**	**41**	10	63

15 Stocks

	The Group	
	At 31 December 2001 £m	At 31 December 2000 £m
Fuel stocks	**172**	129
Stores	**101**	129
	273	258

16 Debtors: amounts falling due after more than one year

	The Group	
	At 31 December 2001 £m	At 31 December 2000 £m
Other debtors	**118**	125

Other debtors include £5 million in respect of pensions (31 December 2000 £4 million) and £46 million (31 December 2000 £51 million) in respect of income under operating leases.

17 Debtors: amounts falling due within one year

	The Group	
	At 31 December 2001 £m	At 31 December 2000 £m
Trade debtors	**803**	838
Less: securitisation	**(227)**	(152)
Net trade debtors	**576**	686
Other debtors	**128**	178
Prepayments and accrued income	**90**	45
	794	909

Other debtors include £38 million (31 December 2000 £31 million) in respect of income under operating leases.

The Company has no debtors apart from £144 million (31 December 2000 £181 million) of inter-group balances due from subsidiaries.

In the UK business, Powergen renewed a revolving-period £300 million securitisation programme on 3 December 2001. This programme sells all of Powergen's rights, title and interest in certain billed and unbilled trade debtors (for electricity, gas and telephony retail customers) to Kittyhawk Funding Corporation, a trust established for the purpose of purchasing trade debtors including those from Powergen. The trust issues commercial paper to investors and loans the proceeds to Powergen. Interest is charged on the amounts borrowed under the securitisation programme at a margin above LIBOR, and is payable monthly. Powergen is not obliged to support any loss suffered by the trust or the related investors as a result of the securitisation programme, and does not intend to do so. The trust has no right to seek recourse against any other assets, apart from the identified billed and unbilled trade debtors. Powergen has an option, but no obligation, to repurchase defaulted debt from the trust for a nominal sum.

At 31 December 2001, amounts advanced by the trust to the Group totalled £300 million, of which £166 million was loaned against billed and unbilled trade debtor balances (31 December 2000 £152 million). Powergen retains the responsibility for servicing these trade debtors. The remaining £134 million (31 December 2000 £148 million) advanced by the trust against future trade debtor balances is included in bank loans and overdrafts within creditors due within one year (note 18).

Notes to the financial statements
for the year ended 31 December 2001 (continued)

17 Debtors: amounts falling due within one year (continued)

On 6 February 2001, LGEC and KU each sold trade debtors to two wholly-owned subsidiaries, LG&E Receivables LLC ('LGE-R') and KU Receivables LLC ('KU-R'), respectively. Simultaneously, LGE-R and KU-R entered into two separate three-year accounts receivables securitization facilities with two financial institutions and their affiliates whereby LGE-R and KU-R can sell, on a revolving basis, an undivided interest in certain of their receivables and receive up to $75 million and $50 million, respectively, from an unrelated third party purchaser at a cost of funds linked to commercial paper rates plus a charge for administrative and credit support services. Furthermore, LGEC and KU retain the servicing rights of the sold receivables through two separate servicing agreements between the third party purchaser and each utility. Under these agreements, LG&E and KU receive a fee for servicing the sold receivables on behalf of the third party purchaser. At 31 December 2001, LG&E's total outstanding balance was £61 million.

18 Loans and overdrafts

	Weighted average interest rate			**The Group**
	Year ended 31 December 2001 %	Year ended 31 December 2000 %	**At 31 December 2001 £m**	At 31 December 2000 £m
Bank overdrafts	**-**	-	**17**	3
Other short-term bank loans	**6.0**	8.0	**686**	2,267
Commercial paper	**4.6**	6.6	**838**	33
	5.5	7.9	**1,541**	2,303

The Group has four commercial paper programmes, as follows:

	LGEC programme	LG&E Capital Corp. programme	Powergen UK plc programme	Powergen US Funding LLC programme
Maximum amount permitted	US $200 million	US $300 million	US $500 million	US $3,000 million
Repayment periods	1 – 270 days	1 – 270 days	7 – 364 days	1 – 270 days
Amount outstanding:				
31 December 2001	£21m	-	£284m	£533m
31 December 2000	-	-	-	£33m
Basis of interest rate	US LIBOR	US LIBOR	Currency of Issue LIBOR	US LIBOR

Notes to the financial statements for the year ended 31 December 2001 (continued)

19 Trade and other creditors falling due within one year

	The Group	
	At 31 December 2001 £m	At 31 December 2000 £m
Trade creditors	**641**	705
Corporation tax	**136**	144
Other taxation and social security	**17**	70
Accruals and other creditors	**469**	389
Deferred income	**100**	100
Proposed dividend	**60**	166
	1,423	1,574

Accruals and other creditors include accruals for rationalisation and restructuring costs of the Group. The Company has no trade and other creditors apart from the proposed dividend of £60 million (31 December 2000 £166 million).

20 Long-term loans

	The Group	
	At 31 December 2001 £m	At 31 December 2000 £m
7.1% US Dollar Yankee Bond 2002	**-**	252
8.875% Sterling Bond 2003	**250**	250
4.5% Global US Dollar bond 2004	**820**	-
6.205% Medium term US Dollar notes 2004	**99**	96
US Dollar term facility expiring 2005	**-**	1,004
US Dollar term facility expiring 2006	**412**	-
8.5% Sterling Bond 2006	**250**	250
7.45% US Dollar Yankee Bond 2007	**281**	260
Loan notes 2007	**3**	4
6.46% Medium term US Dollar notes 2008	**96**	91
5% Euro Eurobond 2009	**326**	326
7.471% Medium term US Dollar notes 2011	**102**	-
6.25% Sterling Eurobond 2024	**245**	244
First mortgage bonds 2003 – 2027 (secured)	**190**	184
Pollution control bonds 2010 – 2027 (secured)	**361**	340
Finance lease obligations	**177**	80
Bank loans in other overseas subsidiaries	**125**	247
	3,737	3,628

20 Long-term loans (continued)

On 3 December 2001, a new £1,000 million and US Dollar 1,700 million term and revolving credit facility was signed which expires on 3 December 2006. The credit facility is multi-currency and bears interest at variable rates, fixed in advance for periods up to 6 months by reference to the relevant LIBOR rate. This facility replaces the previous Sterling term facility expiring in 2003 and the US Dollar term facility expiring in 2005, which were both cancelled on the same date.

On 11 October 2001, the Group issued a US Dollar 1,200 million 4.5% fixed rate bond. The net proceeds from this issue were used to partly refinance the previous US Dollar term facility expiring in 2005, referred to above.

On 1 November 2001, a third party exercised its remarketing option on the US Dollar 150 million 5.75% Medium term notes due 1 November 2011 (previously shown within loans and overdrafts). The remarketing option was sold by the Group as part of the original note issuance. The exercise of the remarketing option resulted in a repricing of the note at a new rate of 7.471% (shown within long-term loans).

Of the total finance lease obligations of £177 million at 31 December 2001, £112 million was in respect of generation plant in Monroe, Georgia, US, which falls due in 2004. This plant was sold on 15 February 2002 (see note 33). The remaining obligation of £65 million falls due in 2006. The obligation of £177 million above includes £7 million of interest. The obligations in respect of generation plant in Monroe were settled on 15 February 2002 as part of the sale to Progress Ventures Inc. (see note 33 'Post balance sheet events').

None of the bonds outstanding at 31 December 2001 has any financial covenants except for dividend restrictions on the first mortgage and pollution control bonds. Substantially all of LGEC's and KU's utility plants are pledged as security for its first mortgage bonds.

The maturity profile of the Group's financial liabilities, including overdrafts and long-term loans, is as follows:

	At 31 December 2001 £m	At 31 December 2000 £m
In one year or less, or on demand	1,541	2,303
In more than one year but not more than two years	341	277
In more than two years but not more than five years	1,835	1,573
In more than five years	1,561	1,778
	5,278	5,931

Notes to the financial statements for the year ended 31 December 2001 (continued)

20 Long-term loans (continued)

The undrawn committed borrowing facilities available to the Group are as follows:

	At 31 December 2001 £m
Expiring in one year or less	1,204
Expiring in more than two years but not more than five years	738
	1,942

These facilities comprise:

Facility	Total Facility £m	Amount undrawn at 31 December 2001 £m	Expiry date	Fees	Covenants
2006 term and revolving credit facility					Powergen UK plc
US Dollar 1,700 million:					consolidated sub-group:
- 364 day extendable loan	618	618	2 December 2002	16.3 bps	Minimum UK GAAP EBITDA
- 5 year revolving credit facility	550	138	3 December 2006	23.6 bps	to interest ratio of 2.0 times
Sterling 1,000 million:					Consolidated Group:
- 364 day extendable loan	400	400	2 December 2002	13.8 bps	Minimum UK GAAP EBITDA
- 5 year revolving credit facility	600	600	3 December 2006	21.4 bps	to interest ratio of 2.25 times. Adjusted US GAAP capitalisation ratio not to exceed 70%
LG&E Capital Corp. lines of credit	186	186	5 September 2002	10.0 bps	LG&E consolidated sub-group: Adjusted US GAAP capitalisation ratio not to exceed 65%
	2,354	1,942			

21 Other creditors falling due after more than one year

	The Group	
	At 31 December 2001 £m	At 31 December 2000 £m
Accruals and other creditors	**283**	237
Deferred income	**140**	240
	423	477

Accruals and other creditors shown above include £155 million in respect of pensions (31 December 2000 £106 million).

22 Pension scheme arrangements and other post-retirement benefits

Pension scheme arrangements

At 31 December 2001, Powergen had both statutorily approved defined benefit pension schemes and several smaller statutorily approved defined contribution plans.

Powergen participates in the UK industry-wide scheme, the Electricity Supply Pension Scheme (ESPS), for the majority of its UK based employees. This is a funded scheme of the defined benefit type, with assets invested in separate trustee administered funds. The Group has two separate funds with the ESPS, the Powergen UK fund and the East Midlands Electricity fund. An actuarial valuation of the ESPS is normally carried out every three years by the Scheme's independent, professionally qualified, actuary, who recommends the rates of contribution payable by each group participating in the scheme. In intervening years the actuary reviews the continuing appropriateness of the rates.

The latest published actuarial valuation of the ESPS now available is as at 31 March 2001. Particulars of this actuarial valuation are shown below. The details of the actuarial valuation at 31 March 1998 are also shown because this was the latest available valuation at 31 December 2001, and formed the basis for the determination of the pension costs included in these accounts. The 1998 valuation revealed a surplus of £89 million in respect of the Powergen fund and £32 million in respect of the East Midlands Electricity fund. The 2001 valuation revealed a surplus of £237 million in respect of the Powergen fund and £116 million in respect of the East Midlands Electricity fund. The 1998 actuarial valuations used the discounted cashflow approach, whereas the 2001 actuarial valuations used the market value approach, in determining both the assets and the liabilities. Details of the market value of assets implicit in these valuations, and the major assumptions used in the preparation of these actuarial valuations were:

Notes to the financial statements
for the year ended 31 December 2001 (continued)

22 Pension scheme arrangements and other post-retirement benefits (continued)

	At 31 March 2001		At 31 March 1998	
	Powergen UK fund	East Midlands Electricity fund	Powergen UK fund	East Midlands Electricity fund
Market value of assets	£1,604m	£954m	£1,631m	£881m
Funding level	117%	114%	108%	105%
– average nominal rate of return on investments	6.3%	6.3%	8.5%	8.5%
– average nominal rate of annual increase in salaries	3.8%	3.8%	6%	6%
– average nominal rate of annual increase in pensions	2.5%	2.5%	4.5%	4.5%
– average nominal rate of equity dividend growth	N/A	N/A	4.75%	4.75%
Inflation rate	2.3%	2.3%	4.5%	4.5%
Method of valuation used	Projected unit	Projected unit	Projected unit	Attained age

For Powergen's US based employees, LG&E sponsors a number of qualified and non-qualified pension plans, the majority of which are funded schemes of the defined benefit type. An actuarial valuation of the plans is carried out annually by an independent, professionally qualified, actuary. The pension cost for the year ended 31 December 2001 has been obtained by updating the valuation at 31 December 2000. The update was performed by an independent, professionally qualified actuary. The actuarial valuations used the market value approach in determining both the assets and the liabilities. There are no plan assets in the non-qualified plans. The assumptions used and results of the valuations are set out below:

	LG&E funds	
	At 31 December 2001	At 31 December 2000
Market value of assets	**£336m**	£395m
Funding level	**71%**	101%
- average nominal rate of return on investments	**9.5%**	9.5%
- average nominal rate of annual increase in salaries	**4.25%**	4.00%
- average nominal rate of annual increase in pensions	**0%**	0%
- discount rate (used only for US GAAP pension costs)	**7.25%**	7.5%
- inflation rate	**2.75%**	2.75%
Method of valuation used	**Projected unit**	Projected unit

22 Pension scheme arrangements and other post-retirement benefits (continued)

Pension costs for the Group

In the financial year ended 31 December 2001, the pension cost for the Group amounted to £17 million (year ended 31 December 2000 £15 million, year ended 2 January 2000 £16 million). Surpluses and deficits are spread as a fixed percentage of total pensionable salaries over the average remaining service lives of members.

Other post-retirement benefits

LG&E provides healthcare and other benefits through various plans for eligible retirees on a basis substantially similar to those who are active employees. The cost of post-retirement benefits is accrued over the active service lives of employees. These figures are measured under the provisions of Statement of the United States Financial Accounting Standards Board (SFAS) 106 'Employers' Accounting for Post-retirement Benefits Other Than Pensions'. UK Generally Accepted Accounting Principles allow the use of SFAS 106 to measure the costs of post-retirement benefits other than pensions.

In the financial year ended 31 December 2001, the cost in respect of post-retirement healthcare amounted to £5 million (year ended 31 December 2000 £1 million). This amount was only in respect of the LG&E group. There was a creditor of £97 million in respect of post-retirement healthcare arrangements (31 December 2000 £41 million).

The net periodic post-retirement benefit cost and significant assumptions were as follows:

	LG&E funds	
	Year ended 31 December 2001	Year ended 31 December 2000
Discount rate	**7.25%**	8.0%
Rate of future salary increases	**4.25%**	4.0%
Rate of expected return on plan assets	**9.5%**	9.5%
Initial healthcare cost trend	**7.0%**	8.0%
Ultimate healthcare cost trend rate	**5.0%**	5.0%

22 Pension scheme arrangements and other post-retirement benefits (continued)

The change in the accumulated post-retirement benefit obligation, change in plan assets and funded status are as follows:

Change in accumulated post-retirement benefit obligation

	LG&E funds	
	Year ended 31 December 2001 £m	21 days ended 31 December 2000 £m
Accumulated post-retirement benefit obligation at start of year or on acquisition	**83**	85
Service cost	**1**	-
Interest cost	**8**	-
Plan amendments	**1**	-
Curtailment loss	**10**	-
Special termination benefits	**16**	-
Benefits paid	**(7)**	-
Actuarial gain	**13**	-
Foreign exchange	**3**	(2)
Accumulated post-retirement benefit obligation at end of year	**128**	83

Change in plan assets

	LG&E funds	
	Year ended 31 December 2001 £m	21 days ended 31 December 2000 £m
Market value of plan assets at start of year or on acquisition	**21**	21
Actual return on plan assets	**(4)**	-
Employer contributions	**2**	-
Total payments	**(7)**	-
Market value of plan assets at end of year	**12**	21

22 Pension scheme arrangements and other post-retirement benefits (continued)

Reconciliation of accrued post-retirement benefit cost and total amount recognised

	LG&E funds	
	Year ended 31 December 2001 £m	21 days ended 31 December 2000 £m
Funded status of plan	**(116)**	(62)
Unrecognised transition obligation	**-**	(13)
Unrecognised net actuarial gain	**18**	24
Unrecognised prior service cost	**1**	10
Accrued post-retirement benefit cost	**(97)**	(41)

Post-retirement benefit plans in the US are not typically funded.

Components of net periodic pension cost

	LG&E funds	
	Year ended 31 December 2001 £m	21 days ended 31 December 2000 £m
Service cost	**6**	1
Interest cost on projected benefit obligation	**34**	-
Expected return on assets	**(35)**	-
Net post-retirement benefit cost for the period	**5**	1

Impact of FRS17

SSAP 24 disclosure and measurement principles have been applied in accounting for pensions and post-retirement benefits in these accounts. However, FRS17 ‘Retirement benefits’ introduces new disclosure requirements for the first time in these accounts.

The aim of FRS 17 is to move to a market-based approach in valuing the assets and liabilities arising from an employer’s retirement benefit obligations and any associated funding. The changes in accounting required to move from a SSAP 24 basis to a market value basis are substantial, and consequently FRS 17 allows a phased implementation of these changes over a three year period. The disclosures required in this first transitional year, which are designed to illustrate the pension assets and liabilities that would have been booked if the measurement principles of FRS 17 had been applied, are set out below.

Notes to the financial statements
for the year ended 31 December 2001 (continued)

22 Pension scheme arrangements and other post-retirement benefits (continued)

In calculating these disclosures, the figures shown for liabilities have been measured by updating valuations which were performed at 31 March 1998 and various dates between 31 March and 31 December 2001. The update was performed by an independent, professionally qualified actuary.

The major assumptions used in these calculations of liabilities were:

	Powergen UK fund	East Midlands Electricity fund	LG&E funds
Average nominal rate of annual increase in salaries	4.00%	4.00%	4.25%
Average nominal rate of annual increase in pensions	2.50%	2.50%	0%
Discount rate	5.50%	5.50%	7.25%
Inflation rate	2.50%	2.50%	2.75%

The market value of the assets of the main defined benefit schemes at 31 December 2001 were:

	Powergen UK fund	East Midlands Electricity fund	LG&E funds
	£m	£m	£m
Bonds and gilts	217	207	96
Equities	1,230	601	236
Other	32	126	4
Total market value of assets	1,479	934	336
Present value of scheme liabilities	(1,409)	(876)	(481)
Surplus/(deficit) in the scheme	70	58	(145)
Related deferred tax (liability)/asset	(21)	(17)	58
Net pension asset/(liability)	49	41	(87)

The long-term rate of return assumed on these assets was as follows:

	Powergen UK fund	East Midlands Electricity fund	LG&E funds
	%	%	%
Bonds and gilts	5.00	5.00	6.95
Equities	7.00	7.00	10.65
Other	4.00	4.00	4.00

Powergen also operates certain post retirement healthcare benefit arrangements in its US Operations. The disclosures required by the transitional arrangements of FRS 17 are as follows:

22 Pension scheme arrangements and other post-retirement benefits (continued)

The major assumptions used by the actuary were:

		LG&E Funds
		%
Long-term healthcare cost:	- initial healthcare cost trend	10.00
	- ultimate healthcare cost trend	5.00
Discount rate		7.25
Expected rate of return on assets		7.00

The net liabilities of the post-retirement healthcare scheme at 31 December 2001 comprised the following assets and actuarial liabilities:

	£m
Total market value of assets - equities	12
Present value of scheme liabilities	(128)
Deficit	(116)
Related deferred tax asset	46
Net post-retirement liability	(70)

If FRS 17 had been adopted in the financial statements, the Group's net assets and profit and loss reserve at 31 December 2001 would have been as follows:

	31 December 2001
	£m
Net assets excluding SSAP 24 pension and FAS 106 other post-retirement benefit liability	2,177
Pension and other post-retirement benefit liability under FRS 17	(67)*
Net assets including pension and other post-retirement benefit liability under FRS 17	2,110

Profit and loss reserve excluding SSAP 24 pension and FAS 106 other post-retirement benefit liability	953
Pension and other post-retirement benefit liability under FRS 17	(67)*
Profit and loss reserve including pension and other post-retirement benefit liability under FRS 17	886

*This consists of £90 million in respect of schemes in surplus and £157 million in respect of schemes in deficit. At 31 December 2001, LG&E had a deficit position of £261 million net of a deferred tax asset of £104 million, in their pension and other post-retirement benefit plans. The company continues to monitor the performance and balances in the plans and will take the necessary steps to ensure that it remains within the appropriate guidelines imposed by the 'Pension Benefit Guaranty Corporation'.

23 Provisions for liabilities and charges

Movements on provisions comprise:

	31 December 2000 £m	Charged to profit and loss account £m	Amortisation of discount £m	Provisions utilised £m	Provisions released or disposed £m	Revision to fair values £m	Exchange movements £m	**31 December 2001 £m**
US contract provisions	388	-	18	(89)	-	-	14	**331**
UK contract provisions	137	-	-	(15)	-	-	-	**122**
Liability and damage claims	60	5	-	(4)	-	-	-	**61**
Decommissioning	146	-	4	-	(27)	(75)	6	**54**
	731	5	22	(108)	(27)	(75)	20	**568**

US contract provisions relate to out of money fixed price energy marketing contracts entered into in 1996 and 1997 by LG&E and take account of costs (including purchased power costs) to meet these contractual commitments. These contracts were acquired by Powergen on the purchase of LG&E. The provisions will be utilised over the period to 2008. UK contract provisions, which relate to out of money electricity purchase contracts, were acquired on the purchase of East Midlands Electricity and will be utilised over the period to 2008, when the contracts terminate. The liability and damage claims provision includes reserves in respect of future claims for industrial related diseases and gradual pollution. Given the inherent uncertainty surrounding the timing of any potential claims, it is not possible to estimate when these amounts will crystallise. Decommissioning provisions comprise amounts set aside for the estimated costs of terminating power station grid connections, decommissioning power stations and subsequent site restoration costs at UK power stations which will be utilised as each power station closes.

24 Deferred tax

An analysis of the full provision and discounted provision for deferred tax recognised at 31 December 2001 is as follows:

	31 December 2001 £m	31 December 2000 £m
Accelerated capital allowances	**840**	847
Other timing differences	**(306)**	(301)
Undiscounted full provision for deferred tax	**534**	546
Discount	**(280)**	(272)
Discounted full provision for deferred tax	**254**	274
Provision at start of year	**274**	
Deferred tax credit for year (note 7)	**(59)**	
Revision to provisional fair values	**35**	
Foreign exchange movements	**4**	
Provision at end of year	**254**	

24 Deferred tax (continued)

The undiscounted liability in respect of accelerated capital allowances and other timing differences is calculated at 30% in respect of the UK business and at 40% in respect of the US business, in both periods.

25 Share capital

The share capital of the Company comprises:

Authorised	**31 December 2001 £m**	31 December 2000 £m
1,050,000,000 ordinary shares of 50p each	**525**	525
49,998 redeemable preference shares of £1	**-**	-
	525	525
Allotted, called-up and fully paid		
654,362,630 (31 December 2000 651,494,671) ordinary shares of 50p each	**327**	326
49,998 redeemable preference shares of £1	**-**	-
	327	326

On 1 July 2002, the entire ordinary share capital of Powergen plc including share options was acquired by E.ON UK plc, a wholly owned subsidiary of E.ON AG. The acquisition was effected by way of a Scheme of Arrangement between E.ON UK plc, and Powergen plc and its shareholders under Section 425 of the UK Companies Act 1985 sanctioned by the High Court of Justice on 28 June 2002. Shareholders could opt for a loan note alternative (issued by E.ON UK plc) to a cash payment for their shares.

All ordinary shares in Powergen plc, apart from those converted to loan notes, were cancelled. The credit arising as a result of the cancellation was applied in paying up new Powergen plc shares equal in nominal value to the shares cancelled and consequently the share capital of Powergen plc was restored to its former nominal amount. The new Powergen plc shares were issued to E.ON UK plc which as a result became the immediate parent undertaking for the Group.

During the year 1,914,795 ordinary shares of 50p each were issued under the Powergen ShareSave Scheme realising £7,078,358. An amount of £6,120,961 has been credited to share premium account.

During the year 549,400 ordinary shares of 50p each were issued under the Powergen Executive Share Option Scheme realising £2,794,022. An amount of £2,519,322 has been credited to share premium account.

25 Share capital (continued)

During the year 403,764 ordinary shares of 50p each were issued under the Powergen Profit Sharing Share Scheme realising £2,818,273 An amount of £2,616,391 has been credited to share premium account.

The redeemable preference shares are held by Powergen UK plc and are redeemable at par at the option of Powergen plc. The holders of the limited-voting redeemable preference shares are not entitled to receive or participate in any of the profits of the Company available for distribution by way of dividend or otherwise.

The number of shares held by the Qualifying Employee Share Trust at 31 December 2001 and 31 December 2000 was 258, on which dividends had been waived.

Share option schemes

As described above, on 1 July 2002 the entire ordinary share capital of Powergen plc including share options was acquired by E.ON UK plc, a wholly owned subsidiary of E.ON AG. Details of the schemes described below reflect the position at 31 December 2001. The terms of the acquisition include provisions for settling obligations under the schemes.

The Company has two share option schemes under which options to acquire shares have been granted to employees; the Powergen ShareSave Scheme, which is available to all eligible Group employees, and the Powergen Executive Share Option Scheme, which is available to executive directors and other senior executives and managers selected by the Remuneration Committee.

The Powergen ShareSave Scheme is savings related and the share options are normally exercisable on completion of a three or five year Save-As-You-Earn (SAYE) contract. The exercise price of options granted may be at a discount of no more than 20% of the market price at the date of the grant.

Under the Powergen Executive Share Option Scheme, which the Company regards as an important incentive in attracting and retaining key employees, the share options are generally exercisable between the third and tenth anniversaries of the date of grant. Options are granted at the market price of the Company's shares at the time of the grant or higher where options have previously been exercised at a higher rate. Options granted after 1994 are subject to specific performance criteria having been met at the time of exercise, as established by the Remuneration Committee. For this purpose the performance of the Company is assessed in terms of Total Shareholder Return as compared against other companies which constitute the FTSE 100 at the date of each grant.

Notes to the financial statements for the year ended 31 December 2001 (continued)

25 Share capital (continued)

The number of ordinary shares issued or issuable pursuant to options granted under the ShareSave Scheme and the Executive Share Option Scheme shall not exceed 117,188,722 (representing 15% of the issued ordinary share capital of the Company immediately following the date on which the Company's shares were first admitted to the Official List of The Stock Exchange) for either scheme.

Options granted, exercised and lapsed under these share option schemes during the three financial periods ended 31 December 2001 were as follows:

	Powergen ShareSave Scheme		Powergen Executive Share Option Scheme	
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
Outstanding at 3 January 1999	5,223,253	£4.38	2,260,500	£6.15
Granted	3,162,793	£6.02	471,500	£7.10
Exercised	(778,072)	£3.84	(52,600)	£4.69
Lapsed	(470,937)	£5.25	(16,500)	£7.35
Outstanding at 2 January 2000	7,137,037	£5.11	2,662,900	£6.34
Acquisition	-	-	4,915,060	£5.67
Granted	7,007,440	£2.95	2,901,000	£4.00
Exercised	(487,838)	£3.92	(212,250)	£4.62
Lapsed	(5,007,230)	£5.37	(500)	£3.87
Outstanding at 31 December 2000	8,649,409	£3.28	10,266,210	£5.39
Granted	1,215,313	£5.74	1,386,284	£6.97
Exercised	(1,914,795)	£3.70	(1,551,720)	£5.58
Lapsed	(1,028,763)	£3.65	(1,802,720)	£5.52
Outstanding at 31 December 2001	**6,921,164**	**£3.54**	**8,298,054**	**£5.59**

Notes to the financial statements for the year ended 31 December 2001 (continued)

25 Share capital (continued)

Options outstanding at 31 December 2001, together with their exercise prices and dates of exercise, are as follows:

Date of grant	Price per share £	Normal dates of exercise	Number of ordinary shares **31 December 2001**	31 December 2000
Powergen ShareSave Scheme:				
24 July 1996	3.77	2001	**18,940**	1,556,907
25 July 1997	5.81	2000 & 2002	**78,040**	165,979
1 June 1999	6.02	2002	**163,277**	345,772
1 June 2000	2.95	2003	**5,473,999**	6,580,751
10 July 2001	5.74	2004	**1,186,908**	-
Powergen Executive Share Option Scheme:				
6 December 1991	2.21	1994-2001	**-**	16,500
1 December 1992	2.78	1995-2002	**29,000**	92,000
1 July 1993	3.87	1996-2003	**56,000**	59,500
22 November 1994	5.57	1997-2004	**151,950**	223,450
5 July 1995	4.86	1998-2005	**14,400**	23,800
5 July and 29 November 1995	5.32	1998-2005	**135,500**	244,600
29 November 1995	5.59	1998-2005	**15,500**	15,500
26 June 1996	4.705	1999-2006	**58,500**	90,300
26 June 1996	5.32	1999-2006	**136,000**	246,500
26 June 1996	5.34	1999-2006	**-**	11,000
26 June 1996	5.59	1999-2006	**16,500**	16,500
11 December 1996	5.72	2001-2006	**78,500**	78,500
2 July 1997	7.35	2000-2007	**222,500**	457,500
25 September 1998	8.88	2001-2008	**388,500**	403,000
12 March 1999	7.13	2002-2009	**403,500**	471,500
10 April 2000	3.995	2003-2010	**2,688,500**	2,901,000
11 December 2000	5.821	2000-2010	**2,523,656**	4,915,060
2 March 2001	6.752	2002-2011	**1,055,548**	-
13 June 2001	7.175	2004-2011	**324,000**	-

The Company had options exercisable totalling 1,321,790, 1,101,478, and 1,261,656 and shares available for the grant of options totalling 219,158,226, 215,461,825, and 224,577,507 at 31 December 2001, 31 December 2000 and 2 January 2000 respectively.

Notes to the financial statements
for the year ended 31 December 2001 (continued)

26 Reserves

The Group	Share premium account £m	Other reserves £m	Revaluation reserve £m	Profit and loss account £m
At 31 December 2000	9	656	23	1,072
Prior year adjustment (see note 7)	-	-	-	(121)
At 31 December 2000 (as restated)	9	656	23	951
Premium on shares issued	12	-	-	-
Currency translation differences on foreign currency net investments	-	-	-	23
Transfers	-	-	(1)	1
Goodwill transferred to the profit and loss account related to disposals of fixed assets and investments	-	-	-	15
Retained loss for the year	-	-	-	(190)
At 31 December 2001	**21**	**656**	**22**	**800**

The element of 'other reserves' relating to the previous capital reserve of £474 million is not available for distribution as long as any liabilities of Powergen as at 9 December 1998 remain undischarged, unless the persons to whom such liabilities are owed shall otherwise agree, or an appropriate bank guarantee of such liabilities is put in place.

Aggregate goodwill written off directly to the Group profit and loss reserve totals £nil (31 December 2000 £15 million).

The Company	Profit and loss account £m
At 31 December 2000	2,780
Profit attributable to shareholders	296
Dividends	(240)
At 31 December 2001	**2,836**

Of the £2,836 million profit and loss reserve at 31 December 2001, £2,775 million is not distributable.

27 Minority interests

	31 December 2001			31 December 2000		
	Equity £m	**Non-equity £m**	**Total £m**	Equity £m	Non-equity £m	Total £m
Opening minority interests	**110**	**90**	**200**	65	-	65
Acquisitions	**-**	**-**	**-**	76	93	169
Revision to provisional fair values	**(1)**	**-**	**(1)**	-	-	-
Increased stake in subsidiaries	**-**	**-**	**-**	(40)	-	(40)
Exchange movements	**2**	**3**	**5**	(3)	(3)	(6)
Dividends paid to minorities	**(12)**	**(5)**	**(17)**	-	-	-
Profit and loss account – pre-exceptional	**12**	**5**	**17**	12	-	12
Profit and loss account – exceptional	**(6)**	**-**	**(6)**	-	-	-
Closing minority interests	**105**	**93**	**198**	110	90	200

Non-equity minority interests include 100% of the cumulative preferred stock of LGEC and 100% of the cumulative preferred stock of KU, the regulated utility subsidiaries of LG&E. The majority of these preference shares are redeemable at 30 days' notice by each regulated utility subsidiary. Preference shareholders have first preference in the event of a liquidation of each utility subsidiary and first rights to dividends. The holders of these shares only have rights against the US utility subsidiaries.

The exceptional movement in minority interest relates to the write-down of Gujarat Powergen Energy Corporation (GPEC), see note 3 (Profits less losses on disposal of businesses (including provisions) – International Operations).

Notes to the financial statements
for the year ended 31 December 2001 (continued)

28 Reconciliation of movements in shareholders' funds

	31 December 2001 £m	31 December 2000 £m	2 January 2000 £m
Profit attributable to shareholders	**50**	392	732
Shares issued	**13**	6	4
Dividends	**(240)**	(236)	(226)
Currency translation differences on foreign currency net investments	**23**	(32)	63
Goodwill transferred to the profit and loss account related to disposals of fixed assets and investments	**15**	-	-
Revaluation reserve arising on acquisition	**-**	-	25
Net (decrease)/increase in shareholders' funds for the period	**(139)**	130	598
Opening shareholders' funds as previously stated	**-**	1,919	1,345
Prior year adjustments (see note 7)	**-**	(84)	(108)
Opening shareholders' funds as restated for prior year adjustment	**1,965**	1,835	1,237
Closing shareholders' funds	**1,826**	1,965	1,835

Closing shareholders' funds include 49,998 limited-voting redeemable preference shares of £1 fully paid up.

Of the £23 million currency translation gains on foreign currency net investments shown above £5 million is attributable to associates and joint ventures (31 December 2000 £14 million loss, 2 January 2000 £11 million gain).

29 Cash flow

a) Reconciliation of operating results to cash flow from operating activities:

	Year ended 31 December 2001 £m	Year ended 31 December 2000 £m	Year ended 2 January 2000 £m
Operating profit	**319**	483	347
Depreciation (including exceptional items)	**426**	292	263
Loss/(Profit) on sale of tangible fixed assets	**14**	(21)	1
(Profit)/Loss on sale of investments	**-**	(2)	4
Goodwill amortisation	**151**	75	68
(Increase)/Decrease in stocks	**(24)**	5	(6)
Decrease /(Increase) in debtors	**133**	(3)	34
(Decrease)/Increase in creditors	**(146)**	62	(725)
Decrease in provisions	**(127)**	(44)	(13)
	746	847	(27)

29 Cash flow (continued)

The movement in creditors and provisions for the year ended 31 December 2001 includes cash outflows of £102 million (31 December 2000 £246 million, 2 January 2000 £553 million) relating to exceptional operating charges arising in previous years.

b) Analysis of changes in net debt in the year:

	31 December 2001	Non-cash changes	Cash flow change	Disposals (excluding cash and overdrafts)	Exchange adjustments	31 December 2000
	£m	£m	£m	£m	£m	£m
Cash at bank and in hand	**103**	**-**	(37)	-	3	137
Overdrafts	**(17)**	**-**	(14)	-	-	(3)
	86	**-**	(51)	-	3	134
Debt due after one year	**(3,737)**	196	(379)	119	(45)	(3,628)
Debt due within one year:						
Short-term loans	**(1,524)**	(197)	1,009	-	(36)	(2,300)
Short-term deposits	**14**	-	(461)	-	3	472
	(5,161)	(1)	118	119	(75)	(5,322)

30 Financial instruments

Financial instruments and risk management

As part of the financing of its normal operating activities, the Group uses a variety of financial instruments. These may be assets, liabilities or related commitments, depending on requirements. These instruments are denominated in Sterling or foreign currencies and have various maturities and interest rates. The Group is exposed to movements in market interest rates and foreign currency exchange rates. Active steps are taken to manage these risks, both by management of the portfolio of financial instruments themselves, and by the use of derivative financial instruments, which are primarily used where there is an underlying exposure.

The objectives, policies and strategies connected with the use of financial instruments are discussed in the ‘Treasury management’ section of the Financial Review.

The Group may be exposed to credit related loss in the event of non-performance by counter parties under these instruments. However, the Group does not anticipate any non-performance given the high credit rating of the established banks and financial institutions that form these counter parties. The Group controls this credit risk through credit approvals, strict exposure limits, monitoring procedures and specific controls depending on the size of individual transactions.

Notes to the financial statements
for the year ended 31 December 2001 (continued)

30 Financial instruments (continued)

There are no significant concentrations of credit risk. The Group does not usually require collateral or other security to support financial instruments with credit risks.

Foreign exchange contracts and options

Powergen enters into foreign exchange contracts and options in accordance with its hedging policies. These policies are discussed under 'Foreign exchange risk management' in the Financial Review. The net Sterling amounts of each foreign currency Powergen has contracted to purchase (or sell), and has options to sell are as follows:

	Foreign exchange contracts		Foreign exchange options	
	31 December 2001 Notional amount £m	31 December 2000 Notional amount £m	**31 December 2001 Notional amount £m**	31 December 2000 Notional amount £m
US Dollars	**(198)**	119	**-**	-
Euros	**1**	(139)	**-**	-
Australian dollars	**(17)**	(52)	**-**	(11)
	(214)	(72)	**-**	(11)

Some contracts involve purchases or sales of US Dollars against other, non-Sterling currencies.

The Sterling equivalent amounts are as follows:

	31 December 2001 Notional amount £m	31 December 2000 Notional amount £m
Korean won	**-**	(1)
Euros	**1**	(84)
Indian rupees	**(34)**	(35)
	(33)	(120)

The weighted average time to maturity of foreign exchange contracts is three months (year ended 31 December 2000, two months).

The notional amounts of foreign currency swaps are as follows:

	31 December 2001 Notional amount £m	31 December 2000 Notional amount £m
Foreign currency swaps into Sterling	**326**	826
Foreign currency swaps into US Dollars	**165**	-

30 Financial instruments (continued)

There are no material monetary assets or liabilities of the Group that are not denominated in the functional currency of the entity concerned, other than certain non-Sterling borrowings treated as hedges of net investments in overseas operations.

Interest rate risk management

Powergen has a portfolio of fixed and floating interest rate debt and, in order to mitigate interest rate risk, arranges interest rate hedges to achieve a desired mix of fixed and floating interest rates, with a range of different maturities, as described in the Financial Review. The instruments used can be summarised as follows:

	31 December 2001 Notional amount £m	31 December 2000 Notional amount £m
Interest rate swap contracts	**2,577**	1,023

The weighted average time to maturity of interest rate swap contracts is 4.1 years (year ended 31 December 2000, 6.6 years).

In addition, at 31 December 2000 there were interest rate swaptions with a notional principal amount £1,674 million and a fair value of £nil. These swaptions capped the interest payable on part of the US Dollar term facility (see note 3), and expired in February 2001.

Interest rate risk profile of financial assets and liabilities

At 31 December 2001	**Total**	Floating rate financial liabilities	Fixed rate financial liabilities		
				Weighted average interest rate	Weighted average period for which rate is fixed
	£m	£m	£m	%	Years
Sterling	**1,523**	1,216	307	9.1	8.3
US Dollar	**3,612**	1,705	1,907	6.1	4.3
Deutschmark	**118**	118	-	-	-
Indian rupee	**25**	4	21	20.0	5.6
	5,278	3,043	2,235	6.6	4.9

The figures in the above table are stated after taking account of relevant interest rate swap contracts.

The floating rate financial liabilities bear interest at variable rates, in some cases fixed in advance for periods up to one year. The floating rates are determined with reference to the following rates:

30 Financial instruments (continued)

Currency	*Rate*
Sterling	LIBOR
US Dollar	LIBOR, Bond Market Association Index
Deutschmark	LIBOR, FIBOR
Indian rupee	Banks' Prime Lending Rates

In addition to the above, the Group's provisions include £453 million (31 December 2000 £525 million) for contract provisions (see note 23) which meet the definition of financial liabilities. These financial liabilities are considered to be floating rate liabilities as, in establishing the provisions, the cash flows have been discounted. The discount rate is re-appraised at each reporting date to ensure that it reflects current market assessments of the time value of money and the risks specific to the liability.

At 31 December 2001, the Group held £40 million of financial assets in the form of Sterling bank deposits (31 December 2000 £442 million), £10 million in the form of US Dollar deposits (31 December 2000 £128 million), and £67 million in other currencies (31 December 2000 £39 million). These deposits earn interest at floating rates, fixed in advance for periods up to three months, by reference to Sterling LIBID and short-term US Treasuries, for the Sterling and US Dollar deposits respectively.

Fair value

The fair value of all these financial instruments, which reflects the estimated amounts Powergen would receive or pay to terminate the contracts at the year end based on market values, is shown below. The fair values therefore reflect current unrealised gains/(losses) on all open contracts.

	31 December 2001 Fair value £m	31 December 2000 Fair value £m
Foreign currency contracts	**(2)**	(12)
Foreign currency swaps	**(25)**	13
Interest rate swaps	**(32)**	3

Notes to the financial statements
for the year ended 31 December 2001 (continued)

30 Financial instruments (continued)

The estimated fair values of the Group's financial assets and liabilities are as follows:

		31 December 2001		31 December 2000	
	Note	Carrying amount £m	Fair value £m	Carrying amount £m	Fair value £m
Assets:					
Cash and short-term deposits	1	117	117	609	609
Investments	2	83	83	80	83
Liabilities:					
Short-term debt	3, 5	(1,541)	(1,541)	(2,303)	(2,303)
Long-term debt	4, 5	(3,737)	(3,775)	(3,628)	(3,580)

1. The fair value of short-term deposits approximates to carrying value due to the short maturity of instruments held.
2. The fair value of investments listed on a recognised stock exchange is estimated at quoted market price. Others are valued at cost.
3. The fair value of short-term debt approximates to the carrying value as the balance represents short-term loans and bank overdrafts.
4. The fair value of the long-term debt at the reporting date has been estimated at quoted market rates.
5. The fair values shown for short and long-term debt do not take account of the fair values of the cross currency swaps shown above.

Short-term debtors and creditors are not included in these disclosures.

30 Financial instruments (continued)

The movement in unrecognised gains and losses on instruments used for hedging is as follows:

	Gains £m	Losses £m	**Total net (losses)/gains £m**
Unrecognised gains/(losses) on hedges at 31 December 2000	54	(50)	4
(Gains)/Losses on hedges arising in previous periods that were recognised during the year	(6)	18	12
Gains/(Losses) on hedges arising before 31 December 2000 that were not recognised during the year	48	(32)	16
Losses on hedges arising during 2001 that were not recognised during the year	(25)	(50)	(75)
Unrecognised gains/(losses) on hedges at 31 December 2001	**23**	**(82)**	**(59)**
Of which:			
Gains/(Losses) expected to be recognised in 2002	4	(3)	1
Gains/(Losses) expected to be recognised in 2003 or later	19	(79)	(60)

The hedging of translation exposures associated with foreign currency net investments is however recognised in the balance sheet.

Contracts for differences

Prior to the introduction of NETA, Powergen used contracts for differences (‘Cfds’) to minimise exposure to Pool price. These Cfds were considered to be derivative instruments, which related directly to the underlying purchase and sale of electricity to and from the Pool. With the introduction of NETA on 27 March 2001, these contracts were re-negotiated into bilateral contracts for the physical delivery or receipt of energy, and as such these contracts are not classified as financial instruments under FRS 13. At 31 December 2000, the fair value of Cfds outstanding was estimated as £22 million favourable.

31 Commitments and contingent liabilities

a) At 31 December 2001, the Group had commitments of £129 million (31 December 2000 £108 million) for capital expenditure, of which £nil million (31 December 2000 £5 million) related to expenditure to be incurred after one year.

b) The Group is aware of claims in respect of current and former employees, including former employees of the Central Electricity Generating Board, and contractors in respect of industrial illness and injury and other potential claims which involve or may involve legal proceedings against the Group.

The directors are of the opinion, having regard to legal advice received, the Group's insurance arrangements and provisions held, that it is unlikely that the matters referred to above will, in aggregate, have a material effect on the Group's financial position, results of operations or liquidity.

c) The Group has in place a portfolio of fuel contracts of varying volume, duration and price, reflecting market conditions at the time of commitment. These contracts are with UK, US and other international suppliers of coal and are backed by transport contracts for rail, road, canal and sea movements. At 31 December 2001 the Group's future commitments for the supply of coal under all its contractual arrangements totalled £990 million (31 December 2000 £798 million).

The Group is also committed to purchase gas under various long-term gas supply contracts including the supply of gas to the Group's UK CCGT power stations. At 31 December 2001 the estimated minimum commitment for the supply of gas under all these contracts totalled £2,906 million (31 December 2000 £2,660 million).

d) In the normal course of business the Group gives certain other indemnities and guarantees which are not considered to be material in the context of these financial statements and on which no losses are anticipated to arise.

31 Commitments and contingent liabilities (continued)

e) The Group has operating lease commitments for generating and other assets. The future minimum annual lease payments under these agreements are analysed as follows:

	At 31 December 2001 £m
2002	25
2003	25
2004	25
2005	23
2006	22
In more than five years	363
	483

32 Related party transactions

Related party transactions initiated by the Group's associated undertakings and joint ventures with other Group companies are set out as follows:

Name of related party	Sales to /(purchases from) other Group companies during the year ended			Net amounts arising from sales and purchases due from/(to) other Group companies	
Trading transactions	**31 December 2001 £m**	31 December 2000 £m	2 January 2000 £m	**At 31 December 2001 £m**	At 31 December 2000 £m
Sales by related parties					
Corby Power Limited	**78**	13	-	**12**	5
Cottam Development Centre Limited	**33**	89	19	**-**	-
Powergen Renewables Holdings Limited	**1**	1	1	**-**	-
PT Powergen Jawa Timur	**-**	-	-	**(1)**	-
Telecentric Solutions Limited	**25**	2	-	**2**	1
Various associates and joint ventures of LG&E Capital Corp.	**-**	1	-	**(1)**	(2)
Purchases by related parties					
Cottam Development Centre Limited	**(12)**	(69)	(11)		
PT Powergen Jawa Timur	**(9)**	(12)	(13)		
Various associates and joint ventures of LG&E Capital Corp.	**(13)**	(1)	-		

Name of related party	Interest payable to other Group companies during the year ended			Net amounts due to other Group companies	
Funding transactions	**31 December 2001 £m**	31 December 2000 £m	2 January 2000 £m	**At 31 December 2001 £m**	At 31 December 2000 £m
Cottam Development Centre Limited	**(3)**	(3)	(3)	**(30)**	(33)
Powergen Renewables Holdings Limited	**-**	-	-	**(4)**	(1)
Telecentric Solutions Limited	**-**	-	-	**(3)**	(1)
Turbogas Produtora Energetica SA	**(1)**	(4)	(6)	**-**	(29)

Transactions are under normal commercial terms. The most significant transactions shown above reflect purchases of power by Powergen under "arm's length" toll processing agreements with two UK joint ventures, Cottam Development Centre Limited and Corby Power Limited. All funding loans attract a market rate of interest.

33 Post balance sheet events

On 15 February 2002, Powergen completed the sale of its Monroe and Tiger Creek facilities in Georgia, USA to Progress Ventures Inc. for a total cash consideration of US $345 million. Separately, LG&E has agreed to purchase power from Progress to service obligations under its out of money fixed price energy marketing contracts. The provision for US contract liabilities established at 31 December 2001 (see note 23) took account of the impact of this power purchase arrangement on contractual liabilities.

On 20 February 2002, Powergen completed the sale of its 88 per cent holding in Gujarat Powergen Energy Corporation (GPEC) to a joint venture company that is 80 per cent owned by CLP Power International and 20 per cent owned by Powergen. At 31 December 2001, the value of Powergen's investment in GPEC was written down to an amount consistent with the value implicit in the sale agreements. A loss of £7 million, recorded in the first quarter of 2002, arose on completion due to deal costs. No tax credit was recorded in the first quarter of 2002 on this transaction.

In January and February 2002, the Argentinean government repealed the 1991 convertibility law that established a fixed exchange rate of one US Dollar to one Argentinean Peso. The government also altered tariffs and public contracts applicable to gas distribution companies, among others, and imposed foreign exchange controls. These actions converted all Dollar-denominated utility tariffs and energy contract obligations into Pesos, removed indexation provisions and caused a change of the functional currency from the US Dollar to the Argentinean Peso. As a result of the change in the functional currency, the rise of the Peso-to-Dollar exchange rate and related events in Argentina, Powergen will record the appropriate accounting impacts on its Argentinean investments in 2002, in accordance with Statement of Standard Accounting Practice 20 'Foreign Currency Translation'. The estimated total exceptional charge to the profit and loss account in 2002 net of taxation and minority interests is £31 million, and the total impact on the balance sheet (through the profit and loss reserve) will be £75 million.

On 1 July 2002, the entire ordinary share capital of Powergen plc including share options was acquired by E.ON UK plc, a wholly owned subsidiary of E.ON AG. The acquisition was effected by way of a Scheme of Arrangement between E.ON UK plc, and Powergen plc and its shareholders under Section 425 of the UK Companies Act 1985 sanctioned by the High Court of Justice on 28 June 2002.

34 Ultimate parent undertaking and controlling party

With effect from 1 July 2002, the immediate parent undertaking is E.ON UK plc. The ultimate parent undertaking and controlling party is E.ON AG, which is the parent company of the largest and smallest group to consolidate these financial statements, again, with effect from 1 July 2002. E.ON AG is incorporated in Germany. Copies of E.ON AG's Annual Report are available from the offices of E.ON AG at the following address:

E.ON AG
E.ON-Platz 1
D-40479
Düsseldorf
Germany

35 Condensed consolidating financial information in respect of Powergen US Funding LLC, Powergen US Holdings Limited and Powergen plc

Powergen US Funding LLC had registered debt securities with the Securities and Exchange Commission in the US on a Form F-3 ('the Registration Statement') which are guaranteed as to payment of principal, premium (if any) and interest by Powergen plc and Powergen US Holdings Limited. Powergen US Funding LLC and Powergen US Holdings Limited are wholly owned subsidiaries of Powergen plc. Pursuant to a guarantee and indenture, Powergen plc, Powergen US Funding LLC and Powergen US Holdings Limited jointly and severally, fully and unconditionally guarantee each of the debt securities offered pursuant to the Registration statement.

Powergen is required to present certain condensed consolidating financial information in respect of Powergen US Funding LLC, Powergen US Holdings Limited and Powergen plc in accordance with Rule 3-10 of Regulation S-X under the US Securities Act of 1933. Presented below, in accordance with these requirements are the condensed consolidating balance sheets as of 31 December 2001 and 31 December 2000, and the condensed consolidating profit and loss statements and cash flows for the years ended 31 December 2001, 31 December 2000 and 2 January 2000 for Powergen US Funding LLC, the issuer of the debt securities pursuant to the Registration Statement, Powergen US Holdings Limited and Powergen plc. Powergen US Funding LLC was incorporated on 31 October 2000 and accordingly does not have financial information for any period prior to that date.

Powergen plc, Powergen US Funding LLC and Powergen US Holdings Limited have equity accounted for their investments in subsidiaries in the condensed consolidating balance sheets below in accordance with Rule 3-10 of Regulation S-X. The financial information in respect of non-subsidiary guarantors represents an aggregation of the consolidated financial statements of Powergen's non-guarantor subsidiaries. Adjustments necessary to consolidate rather than equity account for the parent guarantor, Powergen plc, and all of its subsidiaries are reflected in the consolidation adjustments column. The underlying financial information has been prepared on the basis of UK GAAP, except as explained above in relation to the equity method of accounting for investments in subsidiaries and the aggregation of the consolidated financial statements of Powergen's non-guarantor subsidiaries. The following balance sheets, profit and loss accounts and cash flow statements have been presented in a summarised format derived from Powergen's UK Annual Report presentation.

Notes to the financial statements
for the year ended 31 December 2001 (continued)

35 Condensed consolidating financial information in respect of Powergen US Funding LLC, Powergen US Holdings Limited and Powergen plc (continued)

Group Balance Sheet
As at 31 December 2001

	Powergen US Funding LLC *Issuer of notes* £m	Powergen US Holdings Limited *Subsidiary guarantor* £m	Powergen plc *Parent guarantor* £m	Other Companies *Subsidiary non-guarantors* £m	Consolidation Adjustments £m	Powergen plc Group £m
Fixed Assets						
Goodwill	-	-	-	2,641	-	2,641
Tangible fixed assets	-	-	-	5,625	-	5,625
Investments	820	-	-	402	(820)	402
Net assets of subsidiaries (equity accounted)	-	2,921	1,940	-	(4,861)	-
	820	2,921	1,940	8,668	(5,681)	8,668
Current Assets						
Stocks	-	-	-	273	-	273
Debtors: amounts falling due after more than one year	-	-	-	118	-	118
Debtors: amounts falling due within one year	541	3,031	144	4,920	(7,842)	794
Cash and short term deposits	-	-	-	117	-	117
	541	3,031	144	5,428	(7,842)	1,302
Creditors: amounts falling due within one year						
Loans and overdrafts	(534)	4	-	(1,011)	-	(1,541)
Trade and other creditors	(7)	(4,681)	(60)	(4,525)	7,850	(1,423)
Net current (liabilities)/assets	-	(1,646)	84	(108)	8	(1,662)
Total assets less current liabilities	820	1,275	2,024	8,560	(5,673)	7,006
Creditors: amounts falling due after more than one year						
Long-term loans	(820)	(412)	-	(2,514)	9	(3,737)
Other creditors	-	(820)	-	(423)	820	(423)
Provisions for liabilities and charges	-	-	-	(568)	-	(568)
Deferred tax	-	-	-	(254)	-	(254)
Net assets/(liabilities)	-	43	2,024	4,801	(4,844)	2,024
Capital and reserves						
Called-up share capital	-	-	327	1,140	(1,140)	327
Share premium account	-	-	21	4,700	(4,700)	21
Other reserves	-	-	656	(2,119)	2,119	656
Revaluation reserve	-	-	22	22	(22)	22
Profit and loss account	-	(122)	800	860	(738)	800
Shareholders' funds	-	(122)	1,826	4,603	(4,481)	1,826
Equity minority interests	-	165	198	198	(363)	198
	-	43	2,024	4,801	(4,844)	2,024

Notes to the financial statements
for the year ended 31 December 2001 (continued)

35 Condensed consolidating financial information in respect of Powergen US Funding LLC, Powergen US Holdings Limited and Powergen plc (continued)

Group Profit and Loss Account

Year ended 31 December 2001

	Powergen US Funding LLC *Issuer of notes* £m	Powergen US Holdings Limited *Subsidiary guarantor* £m	Powergen plc *Parent guarantor* £m	Other Companies *Subsidiary non-guarantors* £m	Consolidation Adjustments £m	Powergen plc Group £m
Group turnover (excluding associates)	-	-	-	5,659	-	5,659
Operating costs	-	(17)	(1)	(5,145)	-	(5,163)
Exceptional operating costs	-	-	-	(315)	-	(315)
Other operating income	-	-	-	138	-	138
Group operating (loss)/ profit	-	(17)	(1)	337	-	319
Group's share of associates operating profit	-	-	-	101	-	101
Group's share of subsidiaries' operating profit	-	86	421	-	(507)	-
Group's share of subsidiaries' non-operating exceptionals:						
Profits less losses on disposal of fixed assets (including provisions)	-	-	79	79	(79)	79
Profits less losses on disposal of businesses	-	-	(34)	(34)	34	(34)
Net interest payable:						
Group	-	(143)	-	(233)	17	(359)
Associates	-	-	-	(63)	-	(63)
Group's share of subsidiaries' interest	-	(103)	(422)	-	525	-
(Loss)/Profit on ordinary activities before taxation	-	(177)	43	187	(10)	43
Taxation on ordinary activities	-	83	18	(30)	(53)	18
(Loss)/Profit on ordinary activities after taxation	-	(94)	61	157	(63)	61
Minority interest	-	(14)	(11)	(11)	25	(11)
(Loss)/Profit attributable to shareholders	-	(108)	50	146	(38)	50
Dividends	-	-	(240)	(384)	384	(240)
Retained (loss)/profit for the year	-	(108)	(190)	(238)	346	(190)

35 Condensed consolidating financial information in respect of Powergen US Funding LLC, Powergen US Holdings Limited and Powergen plc (continued)

Cashflow

Year ended 31 December 2001

	Powergen US Funding LLC *Issuer of notes* £m	Powergen US Holdings Limited *Subsidiary guarantor* £m	Powergen plc *Parent guarantor* £m	Other Companies *Subsidiary non-guarantors* £m	Consolidation Adjustments £m	Powergen plc Group £m
Cashflow from operating activities	-	11	(130)	865	-	746
Dividends from subsidiary and associated undertakings	-	-	463	30	(463)	30
Returns on investments and servicing of finance	-	(125)	-	(232)	-	(357)
Taxation	-	-	-	5	-	5
Capital expenditure and financial investment:						
Net receipts from disposal of power stations	-	-	-	252	-	252
Other	-	-	-	(1,065)	524	(541)
Acquisitions and disposals	-	-	-	316	-	316
Equity dividend paid	-	-	(346)	(463)	463	(346)
Net cash (outflow)/inflow before use of liquid resource	-	(114)	(13)	(292)	524	105
Management of liquid resources	-	-	-	461	-	461
Financing	-	118	13	(224)	(524)	(617)
Increase/(decrease) in cash in the year	-	4	-	(55)	-	(51)

Notes to the financial statements
for the year ended 31 December 2001 (continued)

35 Condensed consolidating financial information in respect of Powergen US Funding LLC, Powergen US Holdings Limited and Powergen plc (continued)

Group Balance Sheet
As at 31 December 2000

	Powergen US Funding LLC *Issuer of notes* £m	Powergen US Holdings Limited *Subsidiary guarantor* £m	Powergen plc *Parent guarantor* £m	Other Companies *Subsidiary non-guarantors* £m	Consolidation Adjustments £m	Powergen plc Group £m
Fixed Assets						
Goodwill	-	-	-	2,627	-	2,627
Tangible fixed assets	-	-	-	5,964	-	5,964
Investments	-	-	-	600	-	600
Net assets of subsidiaries (equity accounted)	-	2,916	2,271	-	(5,187)	-
	-	2,916	2,271	9,191	(5,187)	9,191
Current Assets						
Stocks	-	-	-	258	-	258
Debtors: amounts falling due after more than one year	-	-	-	125	-	125
Debtors: amounts falling due within one year	33	2,706	181	4,234	(6,245)	909
Cash and short term deposits	-	-	-	609	-	609
	33	2,706	181	5,226	(6,245)	1,901
Creditors: amounts falling due within one year						
Loans and overdrafts	(33)	(1,131)	-	(1,139)	-	(2,303)
Trade and other creditors	-	(3,364)	(166)	(4,289)	6,245	(1,574)
Net current (liabilities)/assets	-	(1,789)	15	(202)	-	(1,976)
Total assets less current liabilities	-	1,127	2,286	8,989	(5,187)	7,215
Creditors: amounts falling due after more than one year						
Long-term loans	-	(1,004)	-	(2,624)	-	(3,628)
Other creditors	-	-	-	(477)	-	(477)
Provisions for liabilities and charges	-	-	-	(731)	-	(731)
Deferred tax	-	-	-	(93)	-	(93)
Net assets/(liabilities)	-	123	2,286	5,064	(5,187)	2,286
Capital and reserves						
Called-up share capital	-	-	326	1,140	(1,140)	326
Share premium account	-	-	9	4,700	(4,700)	9
Other reserves	-	-	656	(2,119)	2,119	656
Revaluation reserve	-	-	23	23	(23)	23
Profit and loss account	-	(41)	1,072	1,120	(1,079)	1,072
Shareholders' funds	-	(41)	2,086	4,864	(4,823)	2,086
Equity minority interests	-	164	200	200	(364)	200
	-	123	2,286	5,064	(5,187)	2,286

Notes to the financial statements
for the year ended 31 December 2001 (continued)

35 Condensed consolidating financial information in respect of Powergen US Funding LLC, Powergen US Holdings Limited and Powergen plc (continued)

Group Profit and Loss Account

Year ended 31 December 2000

	Powergen US Funding LLC *Issuer of notes* £m	Powergen US Holdings Limited *Subsidiary guarantor* £m	Powergen plc *Parent guarantor* £m	Other Companies *Subsidiary non-guarantors* £m	Consolidation Adjustments £m	Powergen plc Group £m
Group turnover (excluding associates)	-	-	-	4,191	-	4,191
Operating costs	-	(27)	(1)	(3,765)	-	(3,793)
Exceptional operating costs	-	-	-	(97)	-	(97)
Other operating income	-	-	-	182	-	182
Group operating (loss)/profit	-	(27)	(1)	511	-	483
Group's share of associates' operating profit	-	-	-	73	-	73
Groups share of subsidiaries' operating profit (equity accounted)	-	21	557	-	(578)	-
Group's share of subsidiaries' non-operating exceptionals:						
Profits less losses on disposal of fixed assets (including provisions)	-	-	(133)	(133)	133	(133)
Profits less losses on disposal of businesses	-	-	3,112	337	(3,112)	337
Net interest payable:						
Group	-	(101)	-	(131)	-	(232)
Associates	-	-	-	(60)	-	(60)
Subsidiaries	-	84	(292)	-	208	-
(Loss)/Profit on ordinary activities before taxation	-	(23)	3,243	597	(3,349)	468
Taxation on ordinary activities	-	22	(27)	(39)	17	(27)
(Loss)/Profit on ordinary activities after taxation	-	(1)	3,216	558	(3,332)	441
Minority interest	-	(1)	(12)	(12)	13	(12)
(Loss)/Profit attributable to shareholders	-	(2)	3,204	546	(3,319)	429
Dividends	-	-	(236)	(463)	463	(236)
Retained (loss)/profit for the year	-	(2)	2,968	83	(2,856)	193

Notes to the financial statements
for the year ended 31 December 2001 (continued)

35 Condensed consolidating financial information in respect of Powergen US Funding LLC, Powergen US Holdings Limited and Powergen plc (continued)

Cashflow

Year ended 31 December 2000

	Powergen US Funding LLC *Issuer of notes* £m	Powergen US Holdings Limited *Subsidiary guarantor* £m	Powergen plc *Parent guarantor* £m	Other Companies *Subsidiary non-guarantors* £m	Consolidation Adjustments £m	Powergen plc Group £m
Cashflow from operating activities	-	-	(66)	913	-	847
Dividends from subsidiary and associated undertakings	-	-	287	2	(287)	2
Returns on investments and servicing of finance	-	(2)	-	(234)	-	(236)
Taxation	-	-	-	10	-	10
Capital expenditure and financial investment:						
Net receipts from disposal of power stations	-	-	-	398	-	398
Other	(33)	-	-	(722)	543	(212)
Acquisitions and disposals						
Acquisition of LG&E Energy Corp	-	(2,240)	-	-	-	(2,240)
Other	-	(527)	-	(73)	527	(73)
Equity dividends paid	-	-	(227)	(287)	287	(227)
Net cash (outflow)/inflow before use of liquid resource	(33)	(2,769)	(6)	7	1,070	(1,731)
Management of liquid resources	-	-	-	146	-	146
Financing						
Redemption of bonds	-	-	-	(427)	-	(427)
Other	33	2,769	6	417	(1,070)	2,155
Increase in cash in the year	-	-	-	143	-	143

35 Condensed consolidating financial information in respect of Powergen US Funding LLC, Powergen US Holdings Limited and Powergen plc (continued)

Group Profit and Loss Account

Year ended 2 January 2000

	Powergen US Funding LLC *Issuer of notes* £m	Powergen US Holdings Limited *Subsidiary guarantor* £m	Powergen plc *Parent guarantor* £m	Other Companies *Subsidiary non-guarantors* £m	Consolidation Adjustments £m	Powergen plc Group £m
Group turnover (excluding associates)	-	-	-	3,746	-	3,746
Operating costs	-	-	(4)	(3,293)	-	(3,297)
Exceptional operating costs	-	-	-	(293)	-	(293)
Other operating income	-	-	-	191	-	191
Group operating (loss)/profit	-	-	(4)	351	-	347
Group's share of associates' operating profit	-	-	-	83	-	83
Group's share of subsidiaries' operating profit (equity accounted)	-	-	434	-	(434)	-
Group's share of subsidiaries' non-operating exceptionals:						
Disposal of fixed assets and investments	-	-	543	543	(543)	543
Net interest payable:						
Group	-	-	-	(156)	-	(156)
Associates	-	-	-	(55)	-	(55)
Subsidiaries	-	-	(211)	-	211	-
Profit/(Loss) on ordinary activities before taxation	-	-	762	766	(766)	762
Taxation on ordinary activities	-	-	(50)	(51)	51	(50)
Profit/(Loss) on ordinary activities after taxation	-	-	712	715	(715)	712
Minority interest	-	-	(4)	(4)	4	(4)
Profit/(Loss) attributable to shareholders	-	-	708	711	(711)	708
Dividends	-	-	(226)	(227)	227	(226)
Retained profit/(loss) for the year	-	-	482	484	(484)	482

35 Condensed consolidating financial information in respect of Powergen US Funding LLC, Powergen US Holdings Limited and Powergen plc (continued)

Cashflow

Year ended 2 January 2000

	Powergen US Funding LLC *Issuer of notes* £m	Powergen US Holdings Limited *Subsidiary guarantor* £m	Powergen plc *Parent guarantor* £m	Other Companies *Subsidiary non-guarantors* £m	Consolidation Adjustments £m	Powergen plc Group £m
Cashflow from operating activities	-	-	(7)	(20)	-	(27)
Dividends from subsidiary and associated undertakings	-	-	165	1	(165)	1
Returns on investments and servicing of finance	-	-	-	(154)	-	(154)
Taxation	-	-	-	26	-	26
Capital expenditure and financial investment:						
Net receipts from disposal of power stations	-	-	-	1,282	-	1,282
Other	-	-	-	(166)	-	(166)
Acquisitions and disposals (purchase of additional stake in Gujarat Powergen Energy Corporation)	-	-	-	(256)	-	(256)
Equity dividend paid	-	-	(162)	(165)	165	(162)
Net cash (outflow)/inflow before use of liquid resource	-	-	(4)	548	-	544
Management of liquid resources	-	-	-	(493)	-	(493)
Financing	-	-	4	(65)	-	(61)
Decrease in cash in the period	-	-	-	(10)	-	(10)

POWERGEN PLC

Summary of differences between UK and US Generally Accepted Accounting Principles

Powergen's consolidated financial statements have been prepared in accordance with UK GAAP which differs in certain significant respects from US GAAP. Excluding presentational differences, these differences relate principally to the following items, and the effect of the adjustments to net income and equity shareholders' funds which would be required under US GAAP are set out in the tables below.

a) **Pension costs** Under UK GAAP, pension costs represent the expected cost of providing pension benefits to be charged to the profit and loss account so as to spread the cost over the expected average remaining service lives of employees. Under US GAAP, the annual pension cost comprises the estimated cost of benefits accruing in the period adjusted for any deficit or surplus arising at the time Statement of the United States Financial Accounting Standards Board (SFAS) 87 'Employers' Accounting for Pensions' was adopted. The charge is further adjusted to reflect the cost of benefit improvements and any surpluses/deficits which emerge as a result of the actuarial assumptions made not being borne out in practice. For US purposes, only those surpluses/deficits falling outside a 10% fluctuation 'corridor' are being recognised.

b) **Severance costs** Under UK GAAP, voluntary severance costs for employees leaving as part of Powergen's on-going restructuring programme are accrued and recognised in the consolidated profit and loss account once the Group is demonstrably committed to such a programme and implementation has commenced. Voluntary severance costs include severance payments, payments in lieu of notice and the costs of providing incremental pension benefits in respect of staff reductions. Under US GAAP, voluntary termination benefits are generally charged in the year in which the employees accept the terms under which they will leave Powergen's employment. In addition, where the number of employees leaving results in a significant reduction in the accrual of pension benefits for employees' future service (a 'curtailment' under SFAS 88), the effects are reflected as part of the cost of such termination benefits. Curtailment costs are included under pension costs above.

c) **Capitalisation of interest** Under UK GAAP, Powergen capitalises interest payable where borrowings are specifically financing the construction of a major capital project with a long period of development. US GAAP requires that finance costs, which could theoretically have been avoided during construction of major capital projects, be included in tangible fixed assets and depreciated over the lives of the related assets. The amount of interest capitalised is determined by reference to average interest rates on outstanding long-term borrowings.

d) **Software costs** Under UK GAAP, capitalisation of the costs associated with internally developed software is not allowed. In addition, Powergen expenses external software costs under UK GAAP. SOP 98-1 'Accounting for the Costs of Computer Software Developed or Obtained for Internal Use' requires capitalisation of the costs of internally developed software.

These capitalised development costs are then depreciated over the useful life of the software, together with appropriate external software costs.

e) **US regulatory assets and liabilities** Under US GAAP, SFAS 71 'Accounting for the Effects of Certain Types of Regulation' sets out the appropriate accounting treatment for US utilities whose regulators have the power to approve or regulate charges to customers. As long as through the regulatory process, the utility is substantially assured of recovering its allowable costs from, or is obligated to refund amounts to, customers, any costs/revenues not yet recovered, or refunded, may be deferred as regulatory assets/liabilities. Due to the different regulatory environment, no equivalent policy applies in the UK.

Under UK GAAP, Powergen's policy is to recognise regulatory assets/liabilities established in accordance with SFAS 71 only where they comprise rights or other access to future economic benefits which have arisen as a result of past transactions or events which have created an obligation to transfer economic benefits to a third party. Measurement of the past transaction or event and therefore the amount of the regulatory asset/liability, is determined in accordance with UK GAAP.

f) **Overhaul costs** Under UK GAAP, the costs associated with a major overhaul are capitalised as part of tangible fixed assets and amortised over the period to the next overhaul. Under US GAAP, the costs associated with major overhauls are generally recognised as these costs are incurred.

g) **US related costs** The GAAP difference for US related costs reflects the variation in timing of recognition of agreed payments made to senior executives as part of the acquisition of LG&E.

h) **Goodwill** Under UK GAAP and US GAAP, goodwill is held as an intangible asset in the balance sheet and amortised over its useful life. Under UK GAAP, prior to the adoption of Financial Reporting Standard (FRS) 10 'Goodwill and Intangible Assets' from 30 March 1998, goodwill arising was written off on acquisition against reserves. With effect from I January 2002, on the adoption of SFAS 142 'Goodwill and Other Intangible Assets', goodwill will no longer be systematically amortised under US GAAP. It will instead be subject to regular impairment reviews.

i) **Dividends** Under UK GAAP, ordinary dividends are provided for in the financial year in respect of which they are recommended by the Board of Directors for approval by shareholders. Under US GAAP, such dividends and tax are not provided for until the dividends are formally declared by the Board of Directors.

Summary of differences between UK and US Generally Accepted Accounting Principles (continued)

j) **Fixed asset impairment** Under UK GAAP, where an impairment loss has been recognised, the loss is reversed if the recoverable amount of the asset increases. US GAAP does not allow the reinstatement of previous fixed asset impairments.

k) **Deferred income** As described in note 3 to the financial statements, on 19 July 1999 Powergen completed the sale of Fiddler's Ferry and Ferrybridge C power stations to Edison Mission. As part of this transaction, Powergen is providing services under a major parts warranty in respect of each station, whereby, Powergen will have to pay certain amounts during each of the five years following the sale should the plant be unavailable during specified periods.

Under UK GAAP, amounts received in advance in respect of the provision of services under warranty arrangements are taken to deferred income and recognised in operating income over the period to which the warranty cover relates. Costs associated with the provision of services under warranty arrangements are included within operating costs when incurred. Under US GAAP, the Group is required to reserve for a reasonable estimate of the anticipated warranty expense. Direct costs incurred by the Group under the warranty arrangements will be used to reduce the reserve. The reserve will be examined and adjusted each year with movements being reflected in the Group's profit and loss account.

l) **Decommissioning costs** Under UK GAAP, a fixed asset and related provision is recognised in respect of the estimated total discounted cost of decommissioning generating assets. The resulting fixed asset is depreciated on a straight-line basis, and the discount on the provision is amortised over the useful life of the associated power stations. US GAAP requires that a charge is made annually against profits to accrue for the estimated cost of decommissioning major power plant.

m) **Derivative instruments and hedging activities** Under US GAAP, SFAS 133 and SFAS 138 'Accounting for Derivative Instruments and Hedging Activities' were effective from 1 January, 2001. Those statements establish accounting and reporting standards that require every derivative instrument to be recorded on the balance sheet measured at fair value. Changes in the value of those derivatives are recognised in the profit and loss account unless specific hedge accounting criteria are met. Certain derivative instruments qualify for hedge accounting under UK GAAP but do not necessarily qualify for hedge accounting under US GAAP.

Summary of differences between UK and US Generally Accepted Accounting Principles (continued)

n) **Start-up costs** Under UK GAAP, start-up costs are expensed to the profit and loss account. Under US GAAP, prior to the effective date of US Statement of Position (SOP) 98-5 'Reporting on the Costs of Start-Up Activities', it was acceptable to capitalise certain start-up costs on power station and similar energy projects. SOP 98-5 is effective for financial years commencing on or after 1 January 1999.

o) **Employee share option schemes** Under US GAAP, a compensation cost is recognised for the amount by which the quoted market value of the share at the date of grant exceeds the option price for compensatory plans as defined in APB 25. The cost is accrued over the approximate periods in which employees provide service to Powergen in consideration of the grant of options. Under UK GAAP, SAYE employee share option schemes are specifically exempt from the requirement to recognise any such compensation cost. There is no compensation cost associated with other employee share option schemes.

p) **Investments** Under UK GAAP, investments in securities are accounted for at purchase cost with provision made for any impairment in value. Under US GAAP, SFAS 115 'Accounting for Certain Investments in Debt and Equity Securities' requires that certain investments in debt securities and equity securities are accounted for at fair value.

q) **Deferred taxation** UK GAAP requires provision for deferred taxation in respect of items as specified by Financial Reporting Standard 19 (FRS 19) where there is a timing difference between their treatment for accounting purposes and their treatment for taxation purposes. Full provision is made on a discounted basis and based on tax rates that have been enacted or substantially enacted as at the balance sheet date. FRS 19 was adopted with effect from 1 January 2001 and prior year figures have been restated. US GAAP requires full provision for deferred taxes to be made using enacted future tax rates.

r) **Extraordinary items** Under UK GAAP, income and expenses from non-recurring but significant transactions arising other than in the course of the Group's ordinary activities are recorded as exceptional items. Items classified as exceptional for purposes of UK GAAP generally do not meet the definition of 'extraordinary' under US GAAP and would be classified as operating expenses under US GAAP. However, prior to the expected adoption of SFAS 145 'Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections' on 1 January 2003, costs and expenses resulting from debt extinguishments and exchanges of debt instruments with substantially different terms are classified as extraordinary under US GAAP.

Summary of differences between UK and US Generally Accepted Accounting Principles (continued)

s) **Earnings per share** Earnings per share computed in accordance with US GAAP has been based upon the following number of shares:

	31 December 2001	31 December 2000	2 January 2000
Weighted average shares in issue for UK and US GAAP basic earnings	**652,790,140**	650,976,860	649,552,248
Share options	**6,234,925**	6,462,017	3,281,183
Weighted average shares in issue for UK and US GAAP diluted earnings	**659,025,065**	657,438,877	652,833,431

t) **Adjusted earnings** As permitted under UK GAAP, earnings/ (loss) per share have been presented both including and excluding the impact of exceptional items and goodwill amortisation to provide an additional measure of underlying performance. In accordance with US GAAP, earnings/(loss) per share have been presented based on US GAAP earnings, without adjustments for the impact of exceptional items and goodwill amortisation. Such additional measures of underlying performance are not permitted under US GAAP.

u) **Comprehensive income** Under US GAAP, SFAS 130 'Reporting Comprehensive Income', requires disclosure of the components and total of comprehensive income for the period in which they are recognised in the financial statements. Comprehensive income is defined as the change in equity (net assets) of a business arising from transactions and other events and circumstances from non-owner sources. It includes all changes in shareholders' equity during the reporting period except those resulting from investments by owners and distributions to owners, including dividends. The disclosures required by SFAS 130 are substantially similar to those presented in the statement of total recognised gains and losses prepared under UK GAAP.

v) **Cash flow statement** Under US GAAP, various items would be reclassified within the consolidated cash flow statement. In particular, interest received, interest paid (net of interest capitalised), interest on finance leases and taxation would form part of net cash flows from operating activities. Dividends paid would be included within net cash flows from financing. Net cash used in investing activities includes interest capitalised. Under US GAAP, all short-term debt (including commercial paper and bank overdrafts) would be included in financing activities.

w) **Future changes in accounting policies under US GAAP** Changes in US accounting standards affect the reconciliation of certain items to US GAAP prepared by Powergen.

In July 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations" and No. 142, "Goodwill and Other Intangible Assets". SFAS 141 supersedes APB opinion No. 16 "Business Combinations" and amends or supersedes a number of related interpretations of APB 16. SFAS 141 eliminates the pooling of interest method of accounting for business combinations, and changes the criteria to recognise intangible assets apart from goodwill. SFAS 141 is required to be adopted for all business combinations initiated after 30 June 2001. Adoption of SFAS 141 is not expected to have a material effect on the reported financial position, results of operations or cash flows of the Powergen Group.

In July 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets". The Statement will be effective from 1 January 2002 and may not be retroactively applied to financial statements of prior periods. SFAS 142 requires that goodwill, including previously existing goodwill, and intangible assets with indefinite useful lives should not be amortised but should be tested for impairment annually. Goodwill and intangible assets with indefinite useful lives will no longer be tested for impairment under Statement of Financial Accounting Standards No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of ("SFAS 121").

As at the date of adoption, Powergen has unamortized goodwill under US GAAP of £2,842 million, which will be subject to the transition provisions of SFAS 142. Amortisation expense related to goodwill under US GAAP was £160 million for the year ended December 31, 2001.

In July 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 143, "Accounting for Obligations Associated with the Retirement of Long-Lived Assets". This standard will be effective for Powergen for the year ending December 31, 2003.

The standard provides the accounting requirements for retirement obligations associated with tangible long-lived assets. The standard requires that the obligation associated with the retirement of the tangible long-lived assets is capitalised into the asset cost at the time of initial recognition. The liability is then discounted to its fair value at the time of recognition using the guidance provided by the standard.

Powergen has not yet quantified the impact that adoption of the statement will have on the Company's results of operations and financial position, however, it is expected that adoption will significantly reduce the GAAP divergence for these liabilities.

Summary of differences between UK and US Generally Accepted Accounting Principles (continued)

In October 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". This standard became effective on January 1, 2002. SFAS 144 supersedes SFAS 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" and the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Results of Operations – Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions".

SFAS 144 applies to all long-lived assets, including discontinued operations. The standard develops one accounting model for long-lived assets that are to be disposed of by sale. SFAS 144 requires that long-lived assets that are to be disposed of by sale be measured at the lower of book value or fair value less cost to sell. There has been no impact in 2002 of the statement on the Company's results of operations and financial position.

In April 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard 145, "Recission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13 and Technical Corrections". SFAS 145 rescinds both SFAS 4 "Reporting Gains and Losses from Extinguishment of Debt" and the amendment to SFAS 4, SFAS 64 "Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements". SFAS 145 will be effective for Powergen for the year ending December 31, 2003, however early adoption is encouraged. Adoption of SFAS 145 is not expected to have a material effect on the reported financial position, results of operations or cash flows of the Powergen Group.

POWERGEN PLC

Summary of differences between UK and US Generally Accepted Accounting Principles (continued)

Effect on net income of differences between UK GAAP and US GAAP:

	31 December 2001 £m	31 December 2000 £m	Year ended 2 January 2000 £m
Net income under UK GAAP	**50**	392	732
US GAAP adjustments:			
Pension costs	**82**	101	48
Severance costs	**17**	(7)	(3)
Capitalised interest, net of related depreciation	**(10)**	11	7
Software costs	**20**	-	-
US regulatory assets and liabilities	**118**	-	-
Overhaul costs	**(2)**	-	-
US related costs	**(4)**	13	-
Goodwill amortisation	**(9)**	(5)	(5)
Fixed asset impairment	**21**	-	30
Deferred income	**(70)**	(70)	308
Decommissioning costs	**8**	(1)	(2)
Derivative instruments and hedging activities	**(35)**	-	-
Other	**-**	(2)	(1)
Taxation effects on the foregoing adjustments	**(28)**	(31)	(36)
Deferred taxation	**(40)**	29	47
Net income under US GAAP after extraordinary items	**118**	430	1,125
Less extraordinary items (net of taxation):			
Repayment of bonds (see note 3)	**-**	32	-
Net income under US GAAP before extraordinary items and before cumulative effect of change in accounting for derivatives and hedging activities	**118**	462	1,125
Cumulative effect of change in accounting for derivatives and hedging activities, net of taxation benefit of £5m	**(17)**		
Net income under US GAAP before extraordinary items and after cumulative change in accounting for derivatives and hedging activities	**101**		

POWERGEN PLC

Summary of differences between UK and US Generally Accepted Accounting Principles (continued)

	pence	pence	pence
Basic earnings per share under US GAAP after extraordinary items and cumulative effect of accounting change	**15.5**	66.1	173.2
Less: extraordinary items	**-**	4.9	-
Basic earnings per share under US GAAP before extraordinary items, but after cumulative effect of accounting change	**15.5**	71.0	173.2
Less: cumulative effect of change in accounting for derivatives and hedging activities	**2.6**	-	-
Basic earnings per share under US GAAP before extraordinary items and cumulative effect of accounting change	**18.1**	71.0	173.2
Diluted earnings per share under US GAAP	**15.3**	65.4	172.3

Effect on equity shareholders' funds of differences between UK GAAP and US GAAP:

	At 31 December 2001 £m	At 31 December 2000 £m
Equity shareholders’ funds under UK GAAP	**1,826**	1,965
US GAAP adjustments:		
Pension costs	**327**	252
Severance costs	**18**	1
Capitalised interest, net of related depreciation	**84**	93
Software costs	**37**	19
US regulatory assets and liabilities	**144**	27
Overhaul costs	**(22)**	(20)
US related costs	**1**	13
Goodwill	**201**	304
Dividends	**60**	166
Fixed asset impairment	**26**	-
Deferred income	**168**	238
Decommissioning costs	**5**	(37)
Derivative instruments and hedging activities	**(58)**	-
Other	**12**	6
Taxation effects on the foregoing adjustments	**(144)**	(83)
Deferred taxation	**(423)**	(436)
Equity shareholders’ funds under US GAAP	**2,262**	2,508

POWERGEN PLC

Summary of differences between UK and US Generally Accepted Accounting Principles (continued)

Consolidated statement of cash flows

The table below summarises the consolidated cash flow statements as if presented in accordance with US GAAP, and includes the adjustment to reconcile cash and cash equivalents under US GAAP to cash under UK GAAP.

			Year ended
	31 December 2001 £m	31 December 2000 £m	2 January 2000 £m
Net cash provided by/(used in) operating activities	**436**	630	(150)
Net cash provided by/(used in) investing activities	**27**	(2,134)	901
Net cash (used in)/provided by financing activities	**(967)**	1,467	(186)
Net (decrease)/increase in cash and cash equivalents	**(504)**	(37)	565
Exchange movement on cash and cash equivalents	**6**	-	-
Cash and cash equivalents under US GAAP at the beginning of the period	**602**	639	74
Cash and cash equivalents under US GAAP at the end of the period	**104**	602	639
Non-cash equivalent components of net debt under UK GAAP at the end of the period	**13**	7	7
Short-term debt at the end of the period	**(1,541)**	(2,303)	(98)
Long-term debt at the end of the period	**(3,737)**	(3,628)	(2,572)
Net debt under UK GAAP at the end of the period	**(5,161)**	(5,322)	(2,024)

There were no significant non-cash investing or financing activities during the year.

Cash and cash equivalents

US GAAP defines cash and cash equivalents as deposits with banks and financial institutions that are unrestricted as to withdrawal or use, and which have original maturities of three months or less.

POWERGEN PLC

Five Year Summary

Summarised Profit and Loss Accounts	Year ended 31 December 2001 £m	Year ended 31 December 2000 £m	Year ended 2 January 2000 £m	Nine months ended 3 January 1999 £m	Year ended 29 March 1998 £m
Group turnover	**5,659**	4,191	3,746	2,344	2,932
Group operating profit before exceptionals	**634**	580	640	382	589
Net income from interests in associated undertakings and joint ventures	**38**	13	28	14	5
Exceptional items	**(270)**	26	250	(537)	(369)
Net interest payable - Group	**(359)**	(151)	(156)	(104)	(15)
Profit/(Loss) before taxation	**43**	468	762	(245)	210
Taxation, including windfall tax	**18**	(64)	(26)	106	(292)
Profit/(Loss) after taxation	**61**	404	736	(139)	(82)
Minority interest	**(11)**	(12)	(4)	-	-
Profit/(Loss) attributable to shareholders	**50**	392	732	(139)	(82)
Dividends	**(240)**	(236)	(226)	(157)	(189)
Retained (loss)/profit for the year (6)	**(190)**	156	506	(296)	(271)
Earnings per ordinary share (pence)(1) (2) (3) (4)(5)(6)	**62.8**	66.7	73.4	38.8	68.1
Dividends per ordinary share (pence)	**36.8**	36.2	34.8	24.1	29.0
Dividend per ADS (£)	**1.47**	1.45	1.39	0.96	1.16
Amounts in accordance with US GAAP:					
Net income/(loss) for the year (7)	**101**	430	1,125	(184)	44
Basic earnings/(loss) per ADS (£) (7)	**0.62**	2.64	6.93	(1.14)	0.27
Diluted earnings/(loss) per ADS(£) (7)	**0.61**	2.62	6.89	(1.14)	0.27

Summarised Consolidated Balance Sheets	31 December 2001 £m	31 December 2000 £m	2 January 2000 £m	3 January 1999 £m	29 March 1998 £m
Fixed assets	**8,668**	9,251	5,011	4,937	2,676
Stocks	**273**	258	127	173	178
Debtors	**912**	1,034	733	760	515
Creditors and provisions	**(2,668)**	(3,056)	(1,947)	(2,225)	(1,237)
	7,185	7,487	3,924	3,645	2,132
Short-term borrowings	**(1,541)**	(2,303)	(98)	(88)	(10)
Long-term loans	**(3,737)**	(3,628)	(2,572)	(2,413)	(586)
Short-term deposits	**117**	609	646	93	115
Net borrowings	**(5,161)**	(5,322)	(2,024)	(2,408)	(481)
Total net assets	**2,024**	2,165	1,900	1,237	1,651
Minority interests	**(198)**	(200)	(65)	-	-
Shareholders' funds (6)	**1,826**	1,965	1,835	1,237	1,651
Share capital and share premium	**348**	335	329	325	392
Shares in issue (millions)	**654.4**	651.5	649.7	649.1	644.5
Amounts in accordance with US GAAP:					
Shareholders' funds	**2,262**	2,508	2,313	1,265	1,632
Total assets	**10,600**	11,583	6,664	6,101	3,493
Total long-term liabilities	**4,922**	5,073	3,577	3,383	1,117

Notes

(1) In the year ended 31 December 2001, earnings per ordinary share is based on profit before goodwill amortisation, FRS19 and exceptional items and after taxation and minority interests for the financial year of £389 million. Including the impact of FRS 19, exceptional items and after goodwill amortisation, earnings per ordinary share was 7.7 pence

(2) In the year ended 31 December 2000, earnings per ordinary share is based on profit before goodwill amortisation, FRS19 and exceptional items and after taxation and minority interests for the financial year of £398 million. Including the impact of FRS 19, exceptional items and after goodwill amortisation, earnings per ordinary share was 60.2 pence.

(3) In the year ended 2 January 2000, earnings per ordinary share is based on profit before goodwill amortisation, FRS19 and exceptional items and after taxation and minority interests for the financial year of £476 million. Including the impact of FRS 19, exceptional items and after goodwill amortisation, earnings per ordinary share was 112.7 pence.

(4) In the nine months ended 3 January 1999, earnings per ordinary share is based on profit before goodwill amortisation, FRS19 and exceptional items and after taxation for the financial period of £256 million. Including the impact of FRS 19, exceptional items and after goodwill amortisation, loss per ordinary share was 21.5 pence.

(5) In the year ended 29 March 1998, earnings per ordinary share is based on profit before exceptional items, FRS19 and after taxation for the financial year of £420 million. Including the impact of FRS 19 and exceptional items, loss per ordinary share was 12.8 pence.

(6) The net income/(loss) under US GAAP is equal to the net income/(loss) from continuing operations in all financial periods.

(7) Prior year figures have been restated for the impact of FRS 19 'Deferred Tax' following its adoption from 1 January 2001.