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POWERGEN UK PLC
(Formerly PowerGen plc)

CONSOLIDATED ACCOUNTS

for the period ended 3 January 1999

Registered No: 2366970

Directors' Report

The directors present their report and the audited consolidated accounts of PowerGen UK plc for the nine month period ended 3 January 1999.

Following the implementation on 9 December 1998 of a Scheme of Arrangement between the Company and its shareholders the Company changed its name from PowerGen plc to PowerGen UK plc and became a subsidiary of a new holding company known as PowerGen plc (Registered Number: 3586615). From 9 December 1998 onwards, that holding company's shares were traded on the London Stock Exchange.

Prior to 9 December 1998, the quoted company was also known as PowerGen plc (Registered Number: 2366970); that company is now known as PowerGen UK plc, the main operating subsidiary of the Group. Subsequent to the Scheme of Arrangement, the shares of PowerGen UK plc were no longer listed on the London Stock Exchange.

Activities and future prospects

The Group's principal activities are the generation, supply and distribution of electricity and the marketing and trading of electricity and gas.

The position of its UK business was strengthened in 1998 through the acquisition of East Midlands Electricity plc (EME). The Company is well advanced in a programme of integrating the operations of EME into the organisation.

The UK business is complemented by PowerGen International, the Company's international power generation business.

The Company's research and development activities, conducted at its Power Technology Centre, focus on improving the performance of its generation and non-generation assets to give technical advantage in a competitive market place.

Since the period end, the Group has signed an agreement with the LG Group in Korea to acquire a 49.9% interest in the construction of a 528 MW power station in the South of that country.

The Company will seek to continue to build on its presence in a number of markets with a view to moving towards a vertically integrated electricity and gas model where achievable.

Treasury Management

As a major international business the Group can be exposed to movements in market interest rates and foreign currency exchange rates. Details of the Group's activities in this area are given in note 29 to the Financial statements. The Group does not enter into speculative currency and interest rate transactions.

There has been no change since the period end to the major financial risks faced by the Group, or to the Company's approach to the management of these risks. The period end position as described below is representative of the Group's current position in terms of its objectives, policies and strategies.

Capital Resources

It is the Group's policy to manage the maturity profile of major long-term funding transactions to ensure that the Group has a stable long-term funding base at all times. The Group manages its cash requirements through a combination of long-term fixed borrowings, committed bank facilities and short-term funding. Changes in the Group's activities, and in particular the acquisition of EME, have led to a significant increase in the Group's debt position and gearing, and the refinancing of its credit arrangements.

On 26 June 1998 the Group put in place a £2,400 million term loan and revolving credit facility, to satisfy the cash consideration for the acquisition, to refinance some existing debt and to provide working capital for the enlarged group. This facility has three tranches: Tranche A, a £500 million one year revolving credit facility with a term out option for a second year, Tranche B, A £1,000 million five year multi-currency facility; and Tranche C, a £900 million five year amortising facility to finance the acquisition itself and related fees. The Group's previous £800 million syndicated revolving credit facility was cancelled at the same time. As part of the acquisition, PowerGen also took on the pre-existing long-term debt obligations of the EME Group. At the same time, bank facilities in the EME Group totalling £400 million were cancelled, and replaced with a £200 million loan facility from PowerGen UK plc.

To the extent that the interest rates on acquired EME debt were 'out of the money' on acquisition i.e. at higher than prevailing market rates, the debt was fair valued. Therefore the interest to be charged to the profit and loss account on this debt since the acquisition has been reduced to an amount equivalent to an effective rate between 6.1% and 7.1%.

The Group's policy is to target a 50:50 ratio of fixed to floating dent maintained within a band of 66:34 either way. This reduced the Group's exposure to unpredictable movement in interest costs, while maintaining operational flexibility to manage debt. In order to achieve this the Group uses interest rate swaps. At 3 January 1999, the Group had £193 million of interest rate swaps with maturities of up to nine years.

At 3 January 1999, the Group had £93 million (March 1998 £115 million) of cash and short term investments, the majority of which was sterling balances. The Group's policy is to place any surplus funds on short-term deposit with recognised banks in the UK, and invest in investment grade commercial paper. There are strict limits on the maximum investment permitted with any individual bank or institution.

Profit and dividends

The Group's loss before taxation but including exceptional items for the financial period to 3 January 1999 (a nine month period including the acquisition of EME on 27 July 1998) was £245 million (compared with a profit of £210 million for the 12 month reporting period ended 29 March 1998).

The directors are not recommending a final dividend. A second interim dividend of £95 million will be paid, and a first interim dividend of £65 million was paid on 8 December 1998.

Fixed assets

DTZ Debenham Thorpe Ltd, property consultants, updated the valuation of the Group's properties other than those formerly owned by EME and excluding the specialised parts of its power station sites and certain minor properties, on the basis of the properties' open market value within their existing use in the Group`s occupation, as at 3 January 1999. Bruton Knowles, property consultants, prepared a valuation of the non-operational properties held by EME and its wholly-owned subsidiaries as at 31 December 1998. Based on those valuations, the value of current properties held at 3 January 1999 is £125 million, approximately £2 million less than their net book value at the date of these accounts. The directors consider that there has been no significant change in value since the respective dates of the valuations.

The Group`s properties are subject to property clawback arrangements entered into at the time of the first public offers of shares in the generation and Regional Electricity companies which entitle HM Government to a proportion of any gains (above certain thresholds) accruing to the Group on certain property disposals made up to 31 March 2000.

Directors

The following directors served throughout the financial period: Mr Ed Wallis, Mr Colin Short, Mr Nick Baldwin, Sir Frederick Crawford, Mr Peter Hickson, Mr Anthony Habgood, Mr Peter Hickson, Dr David K-P Li, Mr Roberto Quarta and Sir Alan Thomas.

Mr Deryk King resigned as a director on 29 June 1998 and Mr Michael Hoffman died on 17 April 1998.

Mr Colin Short will stand down as a director on 11 May 1999.

Directors' interests in the shares of the Company and the Group

None of the Directors were interested in shares of the Company at the end of the period under report. A statement of their interests in, and options over, the ordinary shares of PowerGen plc, the Company's ultimate holding company, is included in the consolidated financial statements of PowerGen plc for the period ended 3 January 1999.

There were no movements in the interests of the directors in, and options over, the share capital of the ultimate holding company (PowerGen plc) between the date of the capital reorganisation (9 December 1998) and the end of the financial period.

The directors had the following interests in the ordinary shares of the Company, at 9 December 1998, prior to the Scheme of Arrangement:

	Beneficial Holdings in Ordinary Shares		Options over Ordinary Shares			
	29 March 1998	**9 December 1998 (prior to Scheme of Arrangement)**	29 March 1998	Exercised	Granted	**9 December 1998 (prior to Scheme of Arrangement)**
Edmund Wallis	39,241	**40,180**	302,586	(54,000)	50,500	**299,086**
Nick Baldwin	4,235	**4,254**	58,075	-	20,500	**78,575**
Peter Hickson	10,000	**10,000**	112,178	-	30,500	**142,678**
Deryk King	2,461	**	141,575	-	-	**141,575***
Sir Frederick Crawford	7,164	**7,398**	-	-	-	-
Anthony Habgood	3,000	**3,000**	-	-	-	-
Michael Hoffman	3,698	**	-	-	-	-
Dr David Li	nil	**10,000**	-	-	-	-
Roberto Quarta	3,000	**3,000**	-	-	-	-
Colin Short	10,000	**10,000**	-	-	-	-
Sir Alan Thomas	4,984	**4,984**	-	-	-	-

* As at date of ceasing to be a director
** No longer a director at 9 December 1998

No director had any interest (other than as a nominee on behalf of the ultimate holding company) in the shares of any other member of the Group.

Employees

The well-established arrangements for communication with staff and for local and company-wide consultations with employees and their representatives cover a wide range of business and employment-related issues. The integration of East Midlands Electricity into the Group has been a high priority and special arrangements have been made to assist that process.

The Group is committed to achieving an environment in which equal opportunities will thrive. It continues to review, develop and communicate policies and best practices which will ensure that all staff are treated fairly in all aspects of employment.

As part of the PowerGen Group, the Company 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 actively promoted to identify best practices and to provide work experience placements for disabled people. In the event of existing employees becoming disabled, the Company 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.

Contributions for political and charitable purposes

Donations to charitable organisations during the financial year amounted to £241,796.

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 relevant terms in the contracts; and

c) pay in accordance with its contractual and other legal obligations.

For all other cases, the Company, in line with the policy and practice of the PowerGen Group, supports the Better Payments Practice Code and has in place well developed arrangements with a view to ensuring that this is observed.

The average number of days taken to pay the Group`s trade suppliers calculated in accordance with the requirements of the Companies Act is 26 days.

Overseas subsidiaries are encouraged to adopt equivalent arrangements by applying local best practices.

Close company status

The Company is not a close company within the meaning of the Income and Corporation Taxes Act 1988.

Authority to purchase own shares

General authority was given on 13 July 1998 for the purchase by the Company of up to 10% of the Company`s existing issued share capital. This authority was still valid at the end of the period ended 3 January 1999, being due to expire at the end of the 1999 Annual General Meeting. The directors intended that this power would be exercised only under certain circumstances and it is not proposed that the authority be renewed at the forthcoming Annual General Meeting.

Auditors

Our auditors, Coopers & Lybrand, merged with Price Waterhouse on 1 July 1998, following which Coopers & Lybrand resigned and the directors appointed the new firm, PricewaterhouseCoopers, as auditors. A resolution to reappoint PricewaterhouseCoopers as auditors to the Company, and to authorise the directors to fix their remuneration will be proposed at the forthcoming Annual General Meeting.

Directors' responsibilities

Company law requires the directors to prepare accounts for each financial period which give a true and fair view of the state of affairs of the Company and of the Group and of the profit or loss of the Group for that period.

In preparing the accounts, the directors confirm that they have:

- selected suitable accounting policies and applied them consistently;
- made judgements and estimates that are reasonable and prudent;
- followed applicable accounting standards; and
- prepared the accounts on a going concern basis

The directors are responsible for ensuring that proper accounting records are kept which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the accounts comply with the Companies Act 1985. They are responsible for safeguarding the assets of the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Year 2000 and the Euro

The Year 200 issue concerns computer problems associated with the Year 2000 date change and the need to ensure that the Group is not adversely affected by the use of dates beyond 31 December 1999.

Programmes concerned with the Year 2000 issue were initiated by PowerGen and by EME in, respectively, July 1996 and January 1997. Following the acquisition of EME and the integration of the businesses, the programmes are now managed through a single project structure spread across the whole Group. Progress with the programmes is regularly reviewed at Board level. The programmes were developed from Impact Assessment Reports on individual business units and cover three main areas identified as being critical: business systems, process control and issues relating to the energy supply/demand chain as a whole (including key suppliers and customers). PowerGen is working closely with other electricity supply and gas industry parties including the Regulators, the y2k Utilities Group and the National Infrastructure Forum.

The total cost of the project is expected to be £62.4 million, of which £19.8 million has been spent in the nine month period under report. This figure includes external expenditure and internal consultancy costs but does not include internal labour used in managing and addressing the issue.

The Group made appropriate preparations in advance of the introduction of the common European currency, recognising the potential impact on commercial arrangements and financial systems. The position is being monitored as it develops.

By order of the Board

D J Jackson
Company Secretary
25 March 1999

Report of the Auditors

to the members of PowerGen UK plc

We have audited the financial statements on pages 8 to 45, which have been prepared under the historical cost convention and the accounting policies set out on pages 10 to 14.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the financial statements, as described on page 6. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the Company and the Group's affairs at 3 January 1999 and of the results for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers.

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
London
25 March 1999

PowerGen UK plc
Consolidated Profit and Loss Account
for the financial period ended 3 January 1999

	Note	Nine months ended 3 January 1999 Before exceptional items £m	Exceptional items (note 3) £m	Total £m	Year ended 29 March 1998 (restated, see note 4) Before exceptional items £m	Exceptional items (note 3) £m	Total £m
Turnover		2,489	-	2,489	3,122	-	3,122
Group's share of associates' turnover		(145)	-	(145)	(190)	-	(190)
Group turnover	1	2,344	-	2,344	2,932	-	2,932
– continuing activities		1,821	-	1,821	2,932	-	2,932
– acquisitions		523	-	523	-	-	-
Operating costs	2,3	(2,062)	(535)	(2,597)	(2,471)	(369)	(2,840)
Other operating income	2	100	-	100	128	-	128
Group operating profit	2	382	(535)	(153)	589	(369)	220
– continuing activities		323	(535)	(212)	589	(369)	220
– acquisitions		59	-	59	-	-	-
Group's share of associates' operating profit		44	-	44	45	-	45
Disposal of investments	3	-	(2)	(2)	-	-	-
Net interest payable							
– Group	7	(104)	-	(104)	(15)	-	(15)
– associates		(30)	-	(30)	(40)	-	(40)
Profit/(Loss) on ordinary activities before taxation	8	292	(537)	(245)	579	(369)	210
Tax on profit on ordinary activities	9	(69)	158	89	(142)	9	(133)
Windfall tax	10	-	-	-	-	(202)	(202)
Profit/(Loss) on ordinary activities after taxation		223	(379)	(156)	437	(562)	(125)
Minority interest		-	-	-	-	-	-
Profit/(Loss) attributable to shareholders		223	(379)	(156)	437	(562)	(125)
Dividends	11			(160)			(189)
Retained Loss for the period				(316)			(314)

Statement of Total Recognised Gains and Losses
for the financial period ended 3 January 1999

	Nine months ended 3 January 1999 £m	Year ended 29 March 1998 (restated) £m
Loss attributable to shareholders	(156)	(125)
Currency translation differences on foreign currency net investments	(28)	(79)
Total recognised losses for the period	(184)	(204)
Prior year adjustment	96	
Total recognised losses since last annual report	(88)	

The notes on pages 15 to 45 form part of these financial statements

PowerGen UK plc
Balance Sheet
as at 3 January 1999

		The Group		The Company	
	Note	3 January 1999 £m	29 March 1998 (restated) £m	3 January 1999 £m	29 March 1998 (restated) £m
Fixed assets					
Goodwill	13	**1,301**	-	-	-
Tangible assets	14	**3,024**	2,135	**1,631**	1,700
Investments	15	**612**	541	**1,513**	1,300
		4,937	2,676	**3,144**	3,000
Current assets					
Stocks	16	**173**	178	**162**	175
Debtors: amounts falling due after more than one year	17	**30**	7	-	7
Debtors: amounts falling due within one year	18	**730**	508	**705**	497
Short term deposits		**93**	115	**85**	110
		1,026	808	**952**	789
Creditors: amounts falling due within one year					
Loans and overdrafts	19	**(88)**	(10)	**(38)**	(26)
Trade and other creditors	20	**(1,680)**	(978)	**(1,148)**	(839)
Net current liabilities		**(742)**	(180)	**(234)**	(76)
Total assets less current liabilities		**4,195**	2,496	**2,910**	2,924
Creditors: amounts falling due after more than one year					
Long term loans	21	**(2,413)**	(586)	**(500)**	(500)
Other creditors	22	**(73)**	(74)	**(956)**	(769)
Provisions for liabilities and charges	24	**(322)**	(178)	**(102)**	(115)
Deferred tax	25	**(45)**	(2)	**(45)**	(2)
Net assets		**1,342**	1,656	**1,307**	1,538
Capital and reserves					
Called-up share capital	26	**325**	322	**325**	322
Share premium account	27	**97**	70	**97**	70
Capital reserve	27	**474**	474	**474**	474
Capital redemption reserve	27	**85**	85	**85**	85
Profit and loss account	27	**361**	705	**326**	587
Equity shareholders' funds		**1,342**	1,656	**1,307**	1,538

Approved by the Board on 25 March 1999

P C F Hickson

The notes on pages 15 to 45 form part of these financial statements

PowerGen UK plc

Principal Accounting Policies

Nature of operations

The Group's principal business is the generation, distribution and sale of electricity and gas in England and Wales. The Group is also developing a portfolio of energy related businesses both in the United Kingdom and internationally.

Basis of preparation of accounts

The financial statements are prepared under the historical cost convention and in accordance with applicable UK accounting standards. There is no difference between the profit on ordinary activities before taxation and the retained profit for the period 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 (the Transfer Scheme) are based on their historical cost to the Central Electricity Generating Board (CEGB).

On the 9 December 1998 under the Scheme of Arrangement between PowerGen and its shareholders under section 425 of the 1985 Companies Act sanctioned by the High Court of Justice (the Court) on 7 December 1998 all issued shares in the former PowerGen plc (now renamed PowerGen UK plc) were cancelled. Following the cancellation, the share capital of PowerGen UK plc was restored to its former nominal amount and the credit arising as a result of the cancellation was applied in paying up in full new PowerGen UK plc shares equal in nominal value to the shares cancelled. The new PowerGen UK plc shares were issued to PowerGen 1998 PLC (now renamed PowerGen plc) which as a result became the new holding company for the PowerGen Group. PowerGen UK plc is therefore a wholly owned subsidiary of the new PowerGen plc.

Simultaneously, PowerGen UK plc has reorganised its capital by effecting a bonus issue to PowerGen plc of new PowerGen shares (paid up out of the capital reserve). Such bonus shares were subsequently cancelled. This capital reorganisation created a new special capital reserve which will become distributable in the future once the creditors which existed at 9 December 1998 have been discharged (or have given their consent) or a bank guarantee (in terms approved by the Court) in respect of PowerGen's liabilities as at 9 December and still outstanding, is put in place.

PowerGen UK plc

Principal Accounting Policies (continued)

Basis of consolidation

The consolidated accounts include the financial statements of the Company and its subsidiary undertakings. 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. 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 net assets acquired. Goodwill arising on the acquisition of subsidiaries and associates prior to the adoption of Financial Reporting Standard 10 "Goodwill and Intangible Assets" (FRS 10) on 30 March 1998 was written off to reserves. Since that date, purchased goodwill has been capitalised in the balance sheet. Goodwill is amortised on a straight line basis over its estimated useful life of twenty years. Prior year figures have not been restated for FRS 10.

Associated undertakings

The Group's share of profits less losses of associated undertakings is included in the consolidated profit and loss account. These amounts are taken from the latest audited financial statements of the 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 are set out in note 15. Where the accounting policies of associated undertakings do not conform to those of the Group, adjustments are made on consolidation where the amounts involved are material to the Group.

Turnover

Turnover comprises sales of electricity, including fees under contracts for differences stated net of difference payments, and revenue from direct sales contracts, together with sales of electricity and steam under combined heat and power schemes, income from oil and gas fields and sales of gas.

Restructuring costs

Amounts are set aside for the Group's restructuring programme which 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.

Principal Accounting Policies (continued)

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, including those held under finance leases. Assets are depreciated over their estimated useful lives or, in the case of leased assets, over the lease term if shorter. No depreciation is provided on freehold land. The estimated useful lives for the other principal categories of fixed assets are:

Asset	*Life in years*
Generating assets	25-40
Distribution network	40
Other buildings	40
Other operating and short term assets	3-15

Overhaul of generation plant

Prior to the adoption of Financial Reporting Standard 12 "Provisions, Contingent Liabilities and Contingent Assets" on 30 March 1998, charges were made annually against profits to provide for the accrued proportion of the estimated costs of the cyclical programme for the major overhaul and maintenance of generation plant. Since that date overhaul costs have been 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 six years. As a result of this change in accounting policy, prior year figures have been restated.

Foreign exchange

Assets and liabilities expressed in foreign currencies, including those of subsidiary and associated undertakings, are translated to sterling at rates of exchange ruling at the end of the financial year. The results of foreign subsidiary and associated undertakings 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 retranslation of the opening net investment in subsidiary and associated undertakings are taken to reserves and, where the net investments are hedged, are matched with differences arising on the translation of related foreign currency borrowings. 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 period in which they arise.

PowerGen UK plc

Principal Accounting Policies (continued)

Financial instruments

The Company uses a range of derivative instruments, including interest rate swaps, energy based futures contracts and foreign exchange contracts and swaps. Derivative instruments are used for hedging purposes, apart from energy based futures contracts, which are used for trading purposes. 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 futures trading contracts are reflected in the profit and loss account in the period in which the change occurs. The Group has adopted Financial Reporting Standard 13 "Derivative and other financial instruments: Disclosures" for the period ended 3 January 1999. This has resulted in certain additional disclosures included in note 21 and 29 to the accounts. The Group has not included short-term debtors and creditors in these disclosures.

Tangible fixed assets

Tangible fixed assets, including plant spares, are stated at original cost less accumulated depreciation and provisions for impairment and permanent diminution in value. In the case of assets constructed by the Company and its subsidiaries, related works, administrative 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 assets in the course of construction involve material accelerated payments or 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 as part of the total cost over the operational life of the asset.

Leases

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 is included in the consolidated balance sheet. Other investments are stated at cost. Provision is made for any permanent diminution in the value of investments.

PowerGen UK plc

Principal Accounting Policies (continued)

The Group has adopted Financial Reporting Standard 9 "Associates, joint ventures and other joint arrangements' (FRS9) for the period ended 3 January 1999 and this has led to certain changes in presentation. Under FRS 9, the Group's share of the associates' turnover is included in the profit and loss account in memorandum form. The Group's share of their operating results is shown separately in the profit and loss account and the Group's share of their interest payable and receivable is included with the respective group figures; formerly these amounts were presented as one net figure. Prior year figures have been restated. Note 15 contains information analysing the associates' balance sheets in aggregate.

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.

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. Provision for deferred taxation, using the liability method, is made to the extent that it is probable that a liability or asset will crystallise in the foreseeable future.

Pensions

Pension 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 is attributed to individual years using the projected unit credit method. Variations in pension costs, which are identified as a result of actuarial valuations, are amortised over the average expected remaining 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.

Cashflow Statement

The Company is a wholly owned subsidiary of PowerGen plc. The cashflows of the Company are included in the consolidated cashflow statement of PowerGen plc. Consequently, the Company is exempt from publishing a cashflow statement under the terms of Financial Reporting Standard 1 (revised).

1 Turnover

Turnover, which arises mainly in the UK is analysed as follows:

	Nine months ended 3 January 1999 £m	Year ended 29 March 1998 £m
Sales through the Pool	1,132	1,897
Electricity sales to customers	886	622
Gas trading and retail	193	257
Other energy and hydrocarbon sales	133	156
	2,344	2,932

Wholesale electricity trades in England and Wales are conducted according to a multilateral agreement between the electricity generators and the wholesale electricity purchasers. This multilateral agreement specifies the charges on each purchaser and the payments to each generator and ensures that the total charges equal the total payments. All such payments and charges are settled through a daily clearing account (the Pool) without passing through the ownership of a third party. Therefore although the customers of a specific generator are identified collectively as the purchasers who have signed the multilateral agreement, it is not possible to quantify the actual sales from one specific generator to one specific purchaser.

2 Operating profit

Operating costs were as follows:

	Nine months ended 3 January 1999			Year ended 29 March 1998 (restated)
	Total £m	Continuing activities £m	Acquisitions £m	£m
Fuel costs	567	567	-	888
Pool purchases and other costs of sales	940	609	331	965
Staff costs (note 4)	139	99	40	128
Depreciation	157	131	26	214
Goodwill amortisation	28	-	28	-
Other operating charges - before exceptional items	231	192	39	276
Exceptional operating charges (note 3)	535	535	-	369
	2,597	2,133	464	2,840

The directors believe that the nature of the Group's business is such that the analysis of operating costs required by the Companies Act 1985 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 activity.

In the year ended 29 March 1998, as detailed in note 3, exceptional operating charges included a writedown of fixed assets of £339 million.

Operating costs include:	Nine months ended 3 January 1999 £m	Year ended 29 March 1998 £m
Repairs and maintenance costs	**72**	79
Research and development costs	**5**	6
Operating leases	**17**	8
Profit on disposal of fixed assets	**(33)**	(22)
Auditors' remuneration for audit (Company - period ended 3 January 1999 £0.3m, year ended 29 March 1998 £0.3m)	**0.4**	0.3
Auditors' remuneration for non-audit services (of which £0.8 million paid to Coopers & Lybrand, 1998 £0.8 million)	**4.9**	0.8

Other operating income includes £68 million (year ended 29 March 1998 £99 million) of income from operating leases.

Fees for non-audit services comprise due diligence, Stock Exchange transaction support and accounting advisory services, tax advisory services and other general consultancy, including £3.3 million during the period ended 3 January 1999 for consultancy support on 1998 systems implementation by East Midlands Electricity.

3 Exceptional items

Exceptional items comprise:

	Nine months ended 3 January 1999 £m	Year ended 29 March 1998 £m
Renegotiation of gas contract portfolio	**(535)**	-
Plant portfolio rationalisation and restructuring	**-**	(369)
Provisions for gas take or pay contracts	**-**	-
Charged against operating profit	**(535)**	(369)
Disposal of investments	**(2)**	-
	(537)	(369)

During the nine months ended 3 January 1999, the Company agreed to pay £535 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. The new arrangements are effective from 1 October 1998. The amount is included in other creditors at 3 January 1999.

On 26 November 1998, PowerGen North Sea Limited (PGNS) was sold to Centrica plc for consideration of £248 million in cash on a debt-free basis. Excluding inter-company debt, the net assets of PGNS on disposal were £252 million. On 31 December 1998, the Company sold a fifty per cent share in PowerGen Renewables Limited (PGR) to Abbott plc for consideration of £5m. The net assets of PGR disposed of totalled £3 million. The disposal of these two investments gave rise to the net £2 million loss shown above.

Following a review of the Company's UK plant portfolio in the light of increased competition and market changes, the value of the Company's coal and oil-fired plant was reduced by £339m in the year ended 29 March 1998. A further review as at 3 January 1999 has confirmed that this reduction in value of the portfolio remains appropriate. £30m of associated business restructuring costs were charged against profits in the year ended 29 March 1998, of which £13m was included in provisions for liabilities and charges (note 24) and £17m in other creditors (note 20).

4 Prior year adjustment

Financial Reporting Standard 12 "Provisions, Contingent Liabilities and Contingent Assets " (FRS 12) was adopted from 30 March 1998. This has resulted in a release of certain provisions made in prior periods, principally relating to major overhaul and decommissioning of generation plant.

Prior to the adoption of FRS 12 charges were made annually against profits to provide for the accrued proportion of the estimated costs of the cyclical programme for the major overhaul and maintenance of generation plant. Since that date overhaul costs have been capitalised as part of generating assets and depreciated on a straight-line basis over the period until the next major overhaul. That period is usually between four and six years. As a result of this change in accounting policy, prior year figures have been restated.

In addition, a fixed asset has been recognised in respect of the estimated total discounted cost of decommissioning which is being depreciated over the remaining useful economic life of the associated power stations. The provision for decommissioning has also been increased to reflect the estimated total discounted cost. Prior year figures have been restated.

The impact of the adoption of FRS 12 on retained profits and opening net assets is as follows:

			The Group	The Company
	Nine months ended 3 January 1999	Year ended 29 March 1998	Balance sheet at 29 March 1998	Balance sheet at 29 March 1998
	£m	£m	£m	£m
Overhaul	**1**	(1)	139	136
Decommissioning and severance	**10**	-	-	-
Taxation	**(3)**	-	(43)	(42)
	8	(1)	96	94

5 Employee information

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

	Nine months ended 3 January 1999	Year ended 29 March 1998
United Kingdom business	**5,560**	2,865
International business	**656**	591
	6,216	3,456

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

	Nine months ended 3 January 1999	Year ended 29 March 1998
	£m	£m
Wages and salaries	**131**	110
Social security costs	**10**	8
Other pension costs (note 23)	**11**	10
	152	128

During the period ended 3 January 1999, £13 million of employee costs were capitalised within fixed assets (year ended 29 March 1998 £nil).

6 Summary of directors' emoluments

	Nine months ended 3 January 1999 £	Year ended 29 March 1998 £
Total emoluments		
As Directors	**113,486**	153,552
For management services:		
– Salaries	**869,166**	1,010,932
– Performance related bonuses	**274,008**	241,832
Compensation for loss of office	**913,224**	444,918
Gain on the exercise of share options	**348,300**	460,867
	2,518,184	2,312,101

The highest paid director received emoluments (excluding pension contributions) of £329,788 and performance related bonuses of £159,113, and made a gain on the exercise of share options of £348,300. The amount of the accrued pension of the highest paid director was £272,300 (29 March 1998 £240,200).

The number of directors who were members of a defined benefit pension scheme was 3 (29 March 1998: 4). Full details of the remuneration, pension arrangements and share options of the directors are set out in the Report on Directors' Remuneration and Related Matters in the Annual Report of the parent company, PowerGen plc.

7 Net interest payable - Group

	Nine months ended 3 January 1999 £m	Year ended 29 March 1998 (restated) £m
Investment income of subsidiary undertakings	**8**	30
Interest receivable from associated undertakings	**6**	8
Interest receivable and similar income	**9**	7
	23	45
Interest payable on loans		
Bank loans and overdrafts	**(48)**	(12)
Other loans		
Acquired with subsidiary	**(28)**	-
Other	**(47)**	(44)
	(100)	(11)
Unwinding of FRS 12 discount	**(4)**	(4)
	(104)	(15)

8 Profit on ordinary activities before taxation

In the opinion of the Directors, the Group has only one class of business.

		Nine months ended 3 January 1999 £m	Year ended 29 March 1998 (restated) £m
UK	- electricity and gas, including interest in associates, before contribution from East Midlands Electricity	**340**	607
	- East Midlands Electricity	**87**	-
International	- operations, including interest in associates	**42**	49
	- development costs	**(15)**	(22)
		454	634
Net interest payable	- group	**(104)**	(15)
	- associates	**(30)**	(40)
Goodwill amortisation		**(28)**	-
Exceptional items (note 3)		**(537)**	(369)
		(245)	210

Loss on ordinary activities before taxation shown above includes £9 million profit in respect of upstream oil and gas activities (PowerGen North Sea Limited), which were disposed of during the period, see note 3 (year ended 29 March 1998 £22 million profit).

Net assets of £1,342 million (year ended 29 March 1998 £1,656 million) include £288 million (year ended 29 March 1998 £260 million) relating to assets employed in the International business.

9 Tax on profit on ordinary activities

	Nine months ended 3 January 1999 £m	Year ended 29 March 1998 £m
United Kingdom corporation tax at 31%		
Current	**(97)**	137
Prior year	**(12)**	(3)
Deferred (note 25)		
Other timing differences	**14**	(9)
	(95)	125
Associated undertakings	**6**	8
	(89)	133

10 Windfall tax

	Nine months ended 3 January 1999 £m	Year ended 29 March 1998 £m
Windfall tax	-	202

11 Dividends

	Nine months ended 3 January 1999 £m	Year ended 29 March 1998 £m
Net dividend per ordinary share		
Interim paid	**65**	59
Interim declared	**95**	-
Final proposed	**-**	130
	160	189

All of the dividends except the interim declared dividend for the nine months ended 3 January were paid to the external shareholders of the Company. The interim declared dividend for the nine months ended 3 January is payable to PowerGen plc, the new immediate and ultimate holding company of PowerGen UK plc.

12 Profit of the Company

The loss for the financial period of the Group includes £90 million loss attributable to the Company. The Company is not publishing a separate profit and loss account as permitted by Section 230 of the Companies Act 1985.

13 Acquisitions

On 27 July 1998, the Group acquired the whole of the issued share capital of PowerGen (East Midlands) Investments (PEMI), formerly DR Investments, for £851 million cash incurring acquisition costs of £15 million. PEMI owns, through a subsidiary, 100% of the issued share capital of East Midlands Electricity plc.

On 31 December 1998, the Group acquired the whole of the issued share capital of PowerGen Cogeneration Limited (formerly Yorkshire CoGen Limited) for £95 million cash. This consideration was paid after the year end.

The provisional calculation of goodwill arising on these acquisitions are shown below. Further adjustments may arise.

Fair Value Table

	Book value	Accounting policy adjustments	Revaluation of property	Other fair value adjustments	Fair value to the PowerGen Group
	£m	£m	£m	£m	£m
Net assets acquired : PEMI					
Fixed assets					
Tangible	1,151	(56)[1]	(10)	(3)	1,082
Investments	24				24
Stocks	9				9
Taxation payable	(55)			9	(46)
Other working capital	(96)			(3)	(99)
Long-term borrowings	(1,094)			(76)[2]	(1,170)
Provisions	(282)			19[3]	(263)
	(343)	(56)	(10)	(54)	(463)
Net assets acquired :					
PowerGen Cogeneration Limited	69			26	95
Goodwill					1,329
Cash consideration including costs of acquisition [4]					961

[1] Alignment of accounting policies for computer software and capitalisation of internal costs
[2] Adjustment of long-term borrowings to market value at date of acquisition
[3] Reassessment of provisions, principally contract provisions
[4] Included in other creditors of the Group is £95 million in respect of the acquisition of PowerGen Cogeneration Limited. No goodwill arose in respect of the acquisition of PowerGen Cogeneration Limited.

Amortisation of goodwill for the five months to 3 January 1999 in respect of PEMI totalled £28 million. Therefore, of the £1,329 million of goodwill arising on the acquisition of PEMI, £1,301 million remained in the balance sheet at 3 January 1999.

The results of the PEMI group prior to acquisition, prepared on the basis of its pre-acquisition accounting policies are summarised below:

Pre-acquisition Results - PEMI

	Unaudited seven months to 26 July 1998 £m	Audited nine months to 28 December 1997 £m
Turnover	683	848
Profit on ordinary activities before interest and taxation	68	94
Net interest payable	(49)	(60)
Profit on ordinary activities before taxation	19	34
Tax on profit on ordinary activities	(4)	(14)
Windfall tax	-	(96)
Profit/(Loss) for the period	15	(76)

There were no recognised gains and losses other than the profit/(loss) for the period.

The turnover and operating profit relating to PEMI (after goodwill amortisation) for the five months to 3 January 1999 amounted to £523 million and £59 million respectively.

PowerGen UK plc
Notes to the Accounts
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14 Tangible fixed assets

The Group	Generating assets £m	Distribution network £m	Less: Customers' contributions £m	Oil and gas assets £m	Assets in course of construction £m	Other assets £m	Total £m
Cost							
At 29 March 1998	3,528	-	-	354	60	258	4,200
Prior year adjustment (note 4)	236	-	-	-	-	2	238
At 29 March 1998 (restated)	3,764	-	-	354	60	260	4,438
Acquired during the period	-	1,743	(339)	-	-	282	1,686
Additions	30	48	(14)	8	77	26	175
Transfers	2	-	-	-	(2)	-	-
Disposals of subsidiaries	-	-	-	(362)	-	(25)	(387)
Disposals	(91)	(1)	-	-	(8)	(11)	(111)
At 3 January 1999	3,705	1,790	(353)	-	127	532	5,801
Depreciation							
At 29 March 1998	2,003	-	-	80	-	119	2,202
Prior year adjustment (note 4)	101	-	-	-	-	-	101
At 29 March 1998 (restated)	2,104	-	-	80	-	119	2,303
Acquired during the period	-	497	(78)	-	-	88	507
Charge for period	101	20	(4)	14	-	26	157
Disposals of subsidiaries	-	-	-	(94)	-	(7)	(101)
Disposals	(81)	(1)	-	-	-	(7)	(89)
At 3 January 1999	2,124	516	(82)	-	-	219	2,777
Net book value at 3 January 1999	1,581	1,274	(271)	-	127	313	3,024
Net book value at 29 March 1998 (restated)	1,660	-	-	274	60	141	2,135

The Company	Generating assets £m	Assets in course of construction £m	Other assets £m	Total £m
Cost				
At 29 March 1998	3,499	45	115	3,659
Prior year adjustment (note 4)	236	-	-	236
At 29 March 1998 (restated)	3,735	45	115	3,895
Additions	38	9	4	51
Transfers	2	(2)	-	-
Disposals	(89)	(8)	(4)	(101)
At 3 January 1999	**3,686**	**44**	**115**	**3,845**
Depreciation				
At 29 March 1998	2,000	-	95	2,095
Prior year adjustment (note 4)	100	-	-	100
At 29 March 1998 (restated)	2,100	-	95	2,195
Charge for period	99	-	5	104
Disposals	(81)	-	(4)	(85)
At 3 January 1999	**2,118**	-	**96**	**2,214**
Net book value at 3 January 1999	**1,568**	**44**	**19**	**1,631**
Net book value at 29 March 1998 (restated)	1,635	45	20	1,700

Group assets include freehold land and buildings with a net book value of £221 million (at 29 March 1998 £152 million). Group and Company assets also include assets held for use under operating leases with a cost of £132 million and accumulated depreciation of £132 million at the end of both periods.

Additions for the Group include £nil in the nine months to 3 January 1999 and the year to 29 March 1998 in respect of interest capitalised gross of related tax relief. Accumulated interest capitalised gross of tax relief, included in the total cost for the Group, amounts to £61 million at the end of both periods.

Company assets include freehold land and buildings with a net book value of £181 million (year ended 29 March £152 million).

15 Investments

The Group	Associated undertakings: Share of net assets £m	Associated undertakings: Loans £m	Other investments £m	Total £m
At 29 March 1998	261	45	235	541
Acquired during the period	3	-	21	24
Additions	33	4	11	48
Disposals	(1)	-	(15)	(16)
Transfers	4	11	-	15
Share of retained profits	8	-	-	8
Currency translation differences	(12)	4	-	(8)
At 3 January 1999	**296**	**64**	**252**	**612**

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

Other investments include investments listed on a recognised stock exchange of £234 million (year ended 29 March 1998 £235 million) set aside by subsidiary companies for certain medium and long term insurance liabilities. At 3 January 1999, the market value of these investments was £9 million in excess of cost (29 March 1998 £1 million).

The Company	Group undertakings £m	Associated undertakings £m	Total £m
At 29 March 1998	1,255	45	1,300
Additions	492	6	498
Disposals	(287)	-	(287)
Transfers	-	11	11
Provisions	(13)	-	(13)
Currency translation differences	-	4	4
At 3 January 1999	**1,447**	**66**	**1,513**

The Company holds 49,998 fully paid up £1 redeemable preference shares in the new immediate and ultimate holding company, PowerGen plc. The preference shares 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 Company's investments of £1,513 million (29 March 1998 £1,300 million) include loans to group undertakings of £184 million (29 March 1998 £222 million) and loans to associated undertakings of £65 million (29 March 1998 £44 million).

Interests in Group undertakings

Details of the Group's principal investments in subsidiary undertakings 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 these accounts. The directors consider that those companies not listed are not significant in relation to PowerGen as a whole.

	Proportion of nominal value of issued shares held by the Group and the Company %	Country of incorporation or registration	Principal business activities
East Midlands Electricity plc +	100	England and Wales	Distribution and supply of electricity
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 CHP plant
PowerGen Gas Limited (formerly Kinetica Limited) *	100	England and Wales	Transportation and marketing of natural gas in the UK
Csepel Power Company +	100	Hungary	Generation and sale of electricity
Wavedriver Limited *	100	England and Wales	Development of electric vehicle related technology

* direct interest
\+ indirect interest

Associated undertakings

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

	Accounting reference date	Country of incorporation or registration	Shares held	Percentage of capital held directly or indirectly by the Company
Yallourn Energy Pty Limited	30 June	Australia	Australian Dollar Ordinary Shares	49.95%
Saale Energie GmbH	31 December	Germany	DM Ordinary Capital	50%
MIBRAG BV	31 December	Holland	Dutch Guilders Ordinary Capital	33.33%
MIBRAG GmbH	31 December	Germany	DM Ordinary Capital	33.33%
Turbogas Produtora Energetica SA	31 December	Portugal	Escudos Ordinary Shares	49.99%
PT Jawa Power	31 December	Indonesia	Indonesian Rupees Ordinary Shares	35%
Gujarat Torrent Energy Corporation Limited	31 March	India	Indian Rupees Ordinary Shares	27.8%
Cottam Development Centre Limited	31 December	England and Wales	Ordinary Shares	50%

The principal activities of these associated undertakings are:

Yallourn Energy Limited	-	Mining of brown coal and production and sale of electricity from coal fired power station
Saale Energie GmbH	-	Holding and management company for the Group's interest in Schkopau power station
MIBRAG BV	-	Holding company for the Group's interest in MIBRAG GmbH
MIBRAG GmbH	-	Mining, refinement and sale of brown coal and generation and sale of electricity
Turbogas Produtora Energetica SA	-	Construction of gas fired power station plant
PT Jawa Power	-	Construction of coal fired power station plant
Gujarat Torrent Energy Corporation Limited	-	Construction of gas fired power station plant
Cottam Development Centre Limited	-	Construction and operation of gas fired power station plant and operation of a generator turbine testing facility

Group share of aggregate associates' balance sheet

	At 3 January 1999 £m	At 29 March 1998 £m
Share of assets		
Share of fixed assets	**1,441**	1,293
Share of current assets	**160**	165
	1,601	1,458
Share of liabilities		
Amounts falling due within one year	**(152)**	(145)
Amounts falling due after more than one year	**(1,153)**	(1,052)
	(1,305)	(1,197)
Share of net assets	**296**	261

16 Stocks

	The Group		The Company	
	At 3 January 1999 £m	At 29 March 1998 £m	At 3 January 1999 £m	At 29 March 1998 £m
Fuel stocks	**112**	124	**111**	124
Stores	**61**	54	**51**	51
	173	178	**162**	175

17 Debtors: amounts falling due after more than one year

	The Group		The Company	
	At 3 January 1999 £m	At 29 March 1998 £m	At 3 January 1999 £m	At 29 March 1998 £m
Advance corporation tax	-	29	-	29
Less : amount set off against deferred tax provision (note 25)	-	(29)	-	(29)
	-	-	-	-
Other debtors	**30**	7	-	7
	30	7	-	7

Other debtors include £24 million in respect of pensions (29 March 1998 £nil).

18 Debtors: amounts falling due within one year

	The Group		The Company	
	At 3 January 1999 £m	At 29 March 1998 £m	**At 3 January 1999 £m**	At 29 March 1998 £m
Trade debtors	**442**	322	**288**	258
Other debtors	**255**	172	**235**	171
Prepayments and accrued income	**33**	14	**24**	19
Advance corporation tax	**-**	-	**-**	-
Amounts due from subsidiary undertakings	**-**	-	**158**	49
	730	508	**705**	497

Other debtors include £73 million (29 March 1998 £92 million) in respect of income under operating leases.

19 Loans and overdrafts

	The Group		The Company	
	At 3 January 1999 £m	At 29 March 1998 £m	**At 3 January 1999 £m**	At 29 March 1998 £m
Bank overdrafts	**12**	10	**38**	26
Other short-term loans	**76**	-	**-**	-
	88	10	**38**	26

The Group has a Euro Commercial Paper programme which allows it to issue paper for maturities of seven to 364 days up to a maximum of US $500 million or equivalent at LIBOR rates. The weighted average interest rate on short term borrowings during the period was 7.6% (year ended 29 March 1998 7.0%).

There was no commercial paper outstanding at 3 January 1999 and 29 March 1998. At 29 March 1998 and 3 January 1999 no portion of bank overdrafts, which primarily comprise unpresented payments, was interest bearing.

20 Trade and other creditors falling due within one year

	The Group		The Company	
	At 3 January 1999	At 29 March 1998 (restated)	**At 3 January 1999**	At 29 March 1998 (restated)
	£m	£m	**£m**	£m
Trade creditors	**395**	235	**251**	224
Payments on account	**48**	8	**2**	6
Corporation tax	**39**	207	**41**	202
Windfall tax	**-**	101	**-**	101
Other taxation and social security	**24**	91	**21**	88
Accruals and other creditors	**1,079**	206	**738**	88
Proposed dividend	**95**	130	**95**	130
	1,680	978	**1,148**	839

Accruals and other creditors include gas contract payments (see note 3), the payments for the acquisition of Yorkshire CoGen Limited (see note 13) accruals for capital work performed but not yet paid for, and rationalisation and restructuring costs of the Group.

The Group is not committed to significant payments under operating or finance leases during the next financial year.

21 Long term loans

	The Group		The Company	
	At 3 January 1999	At 29 March 1998	**At 3 January 1999**	At 29 March 1998
	£m	£m	**£m**	£m
Foreign Currency loans 2000[1]	**31**	86	**-**	-
7.1% US Dollar Yankee Bond 2002	**254**	-	**-**	-
Sterling term facility expiring 2003[2]	**895**	-	**-**	-
8.875% Sterling Bonds 2003	**250**	250	**250**	250
8.5% Sterling Bonds 2006	**250**	250	**250**	250
8.375% Eurobond 2006	**107**	-	**-**	-
8.125% Eurobond 2007	**106**	-	**-**	-
7.45% US Dollar Yankee Bond 2007	**263**	-	**-**	-
Loan notes 2007	**6**	-	**-**	-
12% Eurobond 2016	**229**	-	**-**	-
Other	**22**	-	**-**	-
	2,413	586	**500**	500

(1) The foreign currency loans (including £51 million in short-term loans per note 19) bear interest at a weighted average Sterling equivalent of 7.7% (year ended 29 March 1998 8.4%), payable semi-annually in arrears.

(2) The Sterling term facility bears interest at variable rates, fixed in advance for periods up to six months, by reference to Sterling LIBOR.

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

	At 3 January 1999
	£m
In one year or less, or on demand	88
In more than one year but not more than two years	31
In more than two years but not more than five years	1,399
In more than five years	983
	2,501

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

	At 3 January 1999 £m
Expiring in one year or less	500
Expiring in more than two years but not more than five years	975
	1,475

These facilities comprise a syndicated loan facility of three tranches; a five year term loan, a 364-day extendible loan and a five year revolving credit facility. The annual commitment fee for the 364-day extendable loan is 12.5 basis points. The annual commitment for the five year term loan, and the five year revolving credit facility was 25 basis points at 3 January 1999, and reduced to 20 basis points in March 1999. The facility carries financial covenants which vary over time. The covenants in relation to this syndicated loan facility, at 3 January 1999, comprise a cap on total borrowings of £4 billion, a maximum net debt to earnings before interest, tax, depreciation and amortisation ratio of 4, and a minimum interest to earnings before interest, tax and amortisation ratio of 2.75. None of the bonds described above have any financial covenants apart from the 12% 2016 Eurobond, which has interest cover and dividend payment restrictions.

22 Other creditors falling due after more than one year

	The Group		**The Company**	
	At 3 January 1999 £m	At 29 March 1998 (restated) £m	**At 3 January 1999 £m**	At 29 March 1998 (restated) £m
Accruals and other creditors	**73**	66	**50**	66
Amounts due to subsidiary undertakings	**-**	8	**906**	703
	73	74	**956**	769

Accruals and other creditors shown above include £48 million in respect of pensions (29 March 1998 £51 million).

23 Pension scheme arrangements

The PowerGen Group participates in the industry wide scheme, the Electricity Supply Pension Scheme (ESPS), for the majority of its 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 plc fund and since the acquisition of East Midlands Electricity during the period, the East Midlands Electricity plc fund.

An actuarial valuation of the ESPS is normally carried out every three years by the Scheme's 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 was at 31 March 1995. An actuarial valuation as at 31 March 1998 is currently being finalised.

Particulars of these actuarial valuations are contained in the consolidated accounts of PowerGen plc.

In the financial period ended 3 January 1999, the normal pension cost for the Group amounted to £13 million (year ended 29 March 1998 £12 million) and was determined in accordance with the advice of an independent, professionally qualified actuary. A net credit of £2 million is required to the pension charge in the accounts in respect of the experience surplus which is being recognised over 13 years, the average remaining service lives of members (year ended 29 March 1998 net credit of £2 million). The accounts include a prepayment of £13 million (29 March 1998 £11 million) representing the excess of the amounts funded over the pension cost for the period.

Amounts set aside in other creditors for the Company's rationalisation and restructuring programme include costs associated with the early retirement of employees. An element of these costs is likely to be payable to the ESPS to meet early retirement costs.

24 Provisions for liabilities and charges

Movements on provisions comprise:

The Group	29 March 1998	Prior year adjustment (note 4)	29 March 1998 (restated)	Acquired/ (disposed) during the period	Charged to profit and loss account	Amortisation of discount	Provisions utilised	**3 January 1999**
	£m	£m	£m	£m	£m	£m	£m	**£m**
Rationalisation and restructuring	13	-	13	-	-	-	(10)	**3**
Liability and damage claims	59	-	59	12	7	-	(3)	**75**
Contract provisions	-	-	-	163	-	-	(13)	**150**
Pensions	3	-	3	-	(3)	-	-	**-**
Decommissioning	45	52	97	-	-	4	(7)	**94**
Abandonment of oil and gas fields	6	-	6	(7)	1	-	-	**-**
	126	52	178	168	5	4	(33)	**322**

At 3 January 1999, the provisions in the Company's accounts were as follows:

The Company	29 March 1998 £m	Prior year adjustment (note 4) £m	29 March 1998 (restated) £m	Charged to profit and loss account £m	Amortisation of discount £m	Provisions utilised £m	3 January 1999 £m
Rationalisation and restructuring	13	-	13	-	-	(10)	**3**
Liability and damage claims	2	-	2	3	-	-	**5**
Pensions	3	-	3	(3)	-	-	**-**
Decommissioning	45	52	97	-	4	(7)	**94**
	63	52	115	-	4	(17)	**102**

Rationalisation and restructuring provisions will be spent within the next two years. Contract provisions unwind over the next ten years, and decommissioning provisions over the remaining lives of the Group's power stations portfolio. Liability and damage claims include the Group's captive insurance reserves.

25 Deferred tax

An analysis of the full potential liability and the net deferred tax liability recognised at 3 January 1999 is as follows:

The Group	3 January 1999			29 March 1998		
	Full potential liability £m	**Amounts unprovided £m**	**Liability/ (Asset) recognised £m**	Full potential liability £m	Amounts unprovided £m	Liability/ (Asset) recognised £m
Accelerated capital allowances	**565**	**(535)**	**30**	321	(291)	30
Other timing differences	**(105)**	**120**	**15**	(25)	26	1
	460	**(415)**	**45**	(296)	(265)	31
ACT recoverable offset against deferred tax provision (see note 17)			**-**			(29)
			45			2

The Company

Accelerated capital allowances	295	(265)	30	282	(252)	30
Other timing differences	(10)	25	15	(23)	24	1
	285	(240)	45	259	(228)	31
ACT recoverable offset against deferred tax provision (see note 17)			-			(29)
			45			2

Where there is an intention that profits retained by overseas subsidiaries will be remitted, provision is made for taxation liabilities which would arise on the distribution. No provision is made where there is no intention that such profits will be remitted in the foreseeable future. Assets and liabilities have been recognised for those timing differences which are expected to crystallise in the foreseeable future. The liability in respect of accelerated capital allowances is calculated at 30% in both periods. The liability in respect of other timing differences is calculated at 30% (year ended 29 March 1998 31%).

26 Share capital

The share capital of the Company comprises:

Authorised	**3 January 1999 £m**	29 March 1998 £m
1,050,000,002 ordinary shares of 50p each	**525**	525
Special rights redeemable preference share of £1	**-**	-
	525	525

Allotted, called up and fully paid	**3 January 1999 £m**	29 March 1998 £m
649,123,527 (At 29 March 1998 644,526,232) ordinary shares of 50p each	**325**	322
Special rights redeemable preference share of £1	**-**	-
	325	322

At 3 January 1999, there was no special rights redeemable preference share in both the authorised or the allotted, called up and fully paid share capital of the company (29 March 1998 £1).

On the 9 December 1998 under the Scheme of Arrangement between PowerGen and its shareholders under section 425 of the 1985 Companies Act sanctioned by the High Court of Justice (the Court) on 7 December 1998 all issued shares in the former PowerGen plc (now renamed PowerGen UK plc) were cancelled. Following the cancellation, the share capital of PowerGen UK plc was restored to its former nominal amount and the credit arising as a result of the cancellation was applied in paying up in full new PowerGen UK plc shares equal in nominal value to the shares cancelled. The new PowerGen UK plc shares were issued to PowerGen 1998 PLC (now renamed PowerGen plc) which as a result became the new holding company for the PowerGen Group. PowerGen UK plc is therefore a wholly owned subsidiary of the new PowerGen plc.

Simultaneously, PowerGen UK plc has reorganised its capital by effecting a bonus issue to PowerGen plc of new PowerGen shares (paid up out of the capital reserve). Such bonus shares were subsequently cancelled. This capital reorganisation created a new special capital reserve which will become distributable in the future once the creditors which existed at 9 December 1998 have been discharged (or have given their consent) or a bank guarantee (in terms approved by the Court) in respect of PowerGen's liabilities as at 9 December and still outstanding, is put in place.

As part of the Scheme of Arrangement to introduce a new holding company for the PowerGen Group referred to above, holders of options under the PowerGen Share Option Schemes and PowerGen ShareSave Schemes were permitted to exchange their options over existing PowerGen shares for options on equivalent terms and of equal value over shares in the new holding company.

Options granted, exercised and lapsed under these share option schemes during the financial period ended 3 January 1999 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 29 March 1998	6,672,149	£4.14	2,201,000	£5.46
Granted	-	-	403,000	£8.88
Exercised	(1,291,323)	£3.11	(343,500)	£4.93
Lapsed	(157,573)	£4.66	-	-
Outstanding at 9 December 1998 (prior to Scheme of Arrangement)	**5,223,253**	**£4.38**	**2,260,500**	**£6.15**

27 Reserves

The Group	Share premium account	Capital reserve	Special capital reserve	Capital redemption reserve	Profit and loss account (restated)
	£m	£m	£m	£m	£m
At 29 March 1998	70	474	-	85	609
Prior year adjustment (see note 4)	-	-	-	-	96
Premium on shares issued	27	-	-	-	-
Currency translation differences on foreign currency net investments	-	-	-	-	(28)
Arising on scheme of arrangement and capital reorganisation	-	(474)	474	-	-
Retained loss for period	-	-	-	-	(316)
At 3 January 1999	97	-	474	85	361

Aggregate goodwill written off to the Group profit and loss reserve totals £16 million (29 March 1998 £16 million).

The Group's share of post acquisition reserves of associated undertakings included above:

	Profit and loss account £m
At 29 March 1998	(47)
Retained profit for period	8
Currency translation differences	17
At 3 January 1999	**(22)**

The Company	Share premium account £m	Capital reserve £m	Special capital reserve £m	Capital redemption reserve £m	Profit and loss account (restated) £m
At 29 March 1998	70	474	-	85	493
Prior year adjustment (see note 4)	-	-	-	-	94
Premium on shares issued	27	-	-	-	-
Currency translation differences on foreign currency net investments	-	-	-	-	(11)
Arising on scheme of arrangement and capital reorganisation	-	(474)	474	-	-
Retained loss for period	-	-	-	-	(250)
At 3 January 1999	97	-	474	85	326

The share premium account, capital reserve and capital redemption reserve are not available for distribution. The Capital reserve was determined in accordance with the Transfer Scheme made pursuant to the Electricity Act 1989, under which the CEGB's net assets were vested in its successor companies.

28 Reconciliation of movements in shareholders' funds

	3 January 1999 £m	29 March 1998 (restated) £m
Loss for the financial period	**(156)**	(125)
Shares issued	**30**	27
Dividends	**(160)**	(189)
Currency translation differences on foreign currency net investments	**(28)**	(79)
Net decrease in shareholders' funds for the period	**(314)**	(366)
Opening shareholders' funds as previously stated	-	1,925
Prior year adjustment	-	97
Opening shareholders' funds as restated for prior year adjustment	**1,656**	2,022
Closing shareholders' funds	**1,342**	1,656

29 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 which may be assets or liabilities, 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.

In addition to the exposures arising in the normal course of its operations, the Group is building a portfolio of overseas investments, which have introduced additional potential foreign currency and interest rate exposures.

The Group may be exposed to credit related loss in the event of non-performance by counter-parties under the instruments. However, the Group does not anticipate any non-performance given the high credit rating of the established banks and financial institutions which 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. 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.

The risks arising from operating exposures and overseas investments are managed centrally by Group Treasury. A Group wide cash forecasting and exposure reporting structure exists for current and future positions, both short and medium term, to allow this management process. The operations of Group Treasury are governed by Board approved policies and delegated authorities supplemented by procedures and bank mandates. The activities of Group Treasury are subject to regular review by senior management and close scrutiny by PowerGen's internal audit department.

Foreign exchange contracts and options

The Group enters into foreign exchange contracts, and takes out options, as a hedge against commitments, principally for fuel purchases denominated in foreign currencies. The majority of the Group's income and expenditure is settled in pounds sterling. In order to mitigate foreign exchange risk, the Group arranges its funding and investments to hedge translation exposures arising from movements in the sterling value of foreign investments wherever possible. The Group's policy is, where practicable, to hedge the translation exposure to protect the sterling net asset value. This hedging is effected through local currency borrowings, or forward contracts or swaps, as appropriate. Long-term economic exposures, for example from dividend income streams denominated in currencies other than sterling are not hedged by the Group. The Group hedges all contractually committed transaction exposures, as soon as the commitment arises, and also covers a proportion of regular business cashflows, and more uncertain cash flows if market conditions are favourable.

All currency hedging is strictly controlled and regularly monitored. The net sterling amounts of each foreign currency the Group has contracted to purchase (or sell), and has options to purchase are as follows:

	Foreign exchange contracts		Foreign exchange options	
	3 January 1999 Notional amount £m	29 March 1998 Notional amount £m	**3 January 1999 Notional amount £m**	29 March 1998 Notional amount £m
US dollars	**117**	267	-	-
Portuguese escudos	**(46)**	(34)	-	-
Deutschmarks	**10**	68	-	2
French francs	**3**	4	-	-
Danish krone	**2**	-	-	-
	86	305	-	2

The purpose of these contracts is to protect the Group from the risk that the eventual sterling cash payments for these purchases from foreign suppliers will be adversely affected by changes in exchange rates. Foreign currency amounts are translated to sterling at the exchange rates specified in the contracts.

Foreign currency swaps are entered into with the objective of stabilising the exchange rates and effective Sterling interest rates applicable to debt. The notional amounts swapped to Sterling are as follows:

	3 January 1999 Notional Amount £m	29 March 1998 Notional Amount £m
Foreign currency swaps	**582**	102

There are no material monetary assets and 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

The Group 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. The instruments used can be summarised as follows:

	3 January 1999 Notional amount £m	29 March 1998 Notional amount £m
Interest rate swap contracts	**193**	363

Where these amounts represent a hedge, any differential to be paid or received is accrued as interest rates change, and charged to the profit and loss account within interest expense in the period to which it relates.

Where these amounts do not represent hedges, the instruments are marked to market with any adjustments being charged or credited to the profit and loss account.

Interest rate risk profile of financial assets and liabilities

		Floating rate	Fixed rate financial liabilities		
	Total £m	financial liabilities £m	£m	Weighted average interest rate %	Weighted average period for which rate is fixed Years
Currency					
Sterling	**2,479**	1,113	1,366	8.3	7.7
US dollar	**10**	2	8	5.1	1.8
Deutschmarks	**12**	2	10	3.6	1.8
	2,501	1,117	1,384	8.2	7.7

The floating rate financial liabilities bear interest at variable rates, in some cases fixed in advance for periods up to one year, by reference to Sterling LIBOR.

At 3 January 1999 the Group held £93 million of financial assets in the form of bank deposits. These deposits earn interest at floating rates, in some cases fixed in advance for periods up to three months, by reference to Sterling LIBID.

Fair Value

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

	3 January 1999 Fair Value £m	29 March 1998 Fair Value £m
Foreign currency contracts	**(9)**	(20)
Foreign currency swaps	**(45)**	(14)
Interest rate swaps	**10**	6

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

		3 January 1999		29 March 1998	
		Carrying amount £m	**Fair Value £m**	Carrying amount £m	Fair Value £m
Assets	Note				
Short term deposits	(a)	93	93	115	115
Investments	(b)	252	261	235	236
Liabilities					
Short term debt	(c)	(88)	(88)	(10)	(10)
Long term debt	(d)	(2,413)	(2,527)	(586)	(630)

(a) The fair value of short term deposits approximates to carrying value due to the short maturity of instruments held.

(b) The fair value of investments listed on a recognised stock exchange is estimated at quoted market price. The remainder are valued at cost.

(c) The fair value of short term debt approximates to the carrying value as the balance represents short term loans and bank overdrafts.

(d) The fair value of the long term debt at the reporting date has been estimated at quoted market rates.

Hedging policy

As explained in the Operating and Financial Review of the Annual Review of PowerGen plc, the Group's policy is to hedge the following exposures:

- interest rate risk - using interest rate swaps, currency swaps and forward foreign currency contracts.
- Translational and transactional currency exposures, and currency exposures on future expected commitments using forward foreign currency contracts.

Gains and losses on instruments used for hedging are not recognised until the exposure that is being hedged is itself recognised. The hedging of translation exposures associated with foreign currency net investments is however recognised in the balance sheet. Unrecognised gains and losses on instruments used for hedging are as follows:

	Gains £m	Losses £m	Total net losses £m
Unrecognised gains and losses on hedges at 3 January 1999	13	(56)	**(43)**
Of which:			
Gains and losses expected to be recognised in 1999	3	(20)	**(17)**
Gains and losses expected to be recognised in 2000 or later	10	(36)	**(26)**

Contracts for differences

Given the variability of pool prices, the Group's policy is to enter into CfDs and direct sales contracts, which effectively fix the price of its expected output sold, and in the case of East Midlands Electricity purchases made, through the Pool. PowerGen has historically sought to achieve a broad match between the cover provided by these contracts and its generation output, thereby removing the majority of exposure to movements in pool prices. Similarly, East Midlands has used CfDs to minimise its exposure to fluctuations in the price of electricity purchased through the Pool. PowerGen's direct sales portfolio spans the entire electricity market and includes industrial, commercial and domestic customers.

Approximately half of PowerGen's generation output in the year ended 29 March 1998 was covered by five year CfDs with the RECs, which expired on 31 March 1998. These sales contracts have been replaced with a variety of wholesale contract types of varying lengths (generally of one year duration), with a number of RECs under which PowerGen believes the RECs hedge their purchases from the Pool to meet their customer electricity demand. These CfD sales totalled 27.3TWh for the nine months to 3 January 1999, including sales to East Midlands Electricity.

In addition, East Midlands Electricity had, prior to acquisition by PowerGen, entered into a number of contracts (typically of one or two years duration) with a number of generators (including PowerGen) to hedge their Pool purchases. These CfD purchases totalled 6.4Twh for the post acquisition period to 3 January 1999.

The majority of PowerGen's CfD sales contract cover for any particular year is secured between January and March. The cover in place for CfDs and direct sales contracts, at 3 January 1999, for the twelve months to December 1999, equates to around 67% of the Group's expected electricity output. The gross value of CfD sales cover outstanding as at 3 January 1999 was £661m. PowerGen understands that these contracts enable the RECs effectively to fix the price of purchases through the Pool for supply to their customers at rates set by tariff or contracts.

The Group now serves a large number of domestic customers and industrial and commercial customers in the under 100kW market, acquired through its purchase of East Midlands Electricity during the period. The gross value of CfD purchases cover outstanding at 3 January 1999 was £377m. Regulatory constraints require that the majority of the purchases to back these sales are made through the wholesale market.

Any estimate of the fair value of the CfDs outstanding at the balance sheet date must necessarily be based on assumptions of a number of complex factors, including the level of UK power prices, availability, bidding behaviour of others within the marketplace and the appropriate market discount rates. PowerGen believes that any adjustment to fair-value its total CfD portfolio would not be material to the Group's financial position or results of operations.

These CfDs involve a degree of credit risk, being the risk that the counterparty to the CfD defaults on settlement. The Group controls credit risk arising from holding the CfDs through credit approvals, limits and monitoring procedures.

Energy based futures

On a limited basis, the Company also purchases and sells energy based futures contracts for trading purposes. Changes in the market values of these trading contracts are reflected in income in the period in which the change occurs. The Group's portfolio is strictly monitored and controlled through delegated authorities and procedures, including transaction limits and credit risk management.

30 Commitments and contingent liabilities

a) At 3 January 1999, the Group and Company had commitments of £372 million (29 March 1998 £355 million) for capital expenditure, of which £147 million (29 March 1998 £215 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 CEGB, 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, as appropriate, that it is unlikely that the matters referred to in this sub-paragraph (b) will, in aggregate, have a material effect on the Group's financial position, results of operations or liquidity.

c) Future purchase commitments

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 and international suppliers of coal and are backed by transport contracts for rail, road, canal and sea movements. At 3 January

1999 the Company's future commitments for the supply of coal under all its contractual arrangements totalled approximately £1.1 billion.

The supply of gas to the Group's three CCGT power stations is provided predominantly via long term gas supply contracts expected to expire between 2008 and 2021. At 3 January 1999 the estimated minimum commitment for the supply of gas under these contracts totalled approximately £4.6 billion.

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 Post balance sheet event

The Group has acquired a 49.9% stake in South Korean independent power company, LG Energy Co Limited, for an equity investment of £38 million. The Group will guarantee £91 million of third party debt relating to the project while commercial negotiations are concluded and project finance is agreed.

32 Related party transactions

PowerGen UK plc is a wholly owned subsidiary of PowerGen plc, the consolidated financial statements of which are publicly available. Consequently, the financial statements of PowerGen UK plc do not include disclosure of transactions with companies that are part of the group or investees of the group that qualify as related parties.

33 Ultimate holding company

The Company is a wholly owned subsidiary undertaking of PowerGen plc, a company registered in England and Wales. Copies of the accounts of PowerGen plc are available from the Company Secretary at the following address:

D J Jackson
Company Secretary
PowerGen plc
53 New Broad Street
London
EC2M 1JJ