POWERGEN UK PLC

GROUP REPORT AND ACCOUNTS

for the year ended 31 December 2000

Registered No: 2366970

The directors present their report and the audited accounts of Powergen UK plc for the year ended 31 December 2000.

Principal activities, review of business and future developments

The Group's principal activities are electricity production and distribution and energy trading and retailing. The UK Group's business is 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

Its UK strategy is to sustain and develop asset businesses, build competitive trading and retail businesses, and to export its competencies to support Powergen Uk's activities outside the UK. Both the level of business and financial position of the Group at 31 December 2000 were satisfactory and the Directors believe the present levels of activity in the UK will be sustained in the current year.

The UK business is complemented by Powergen International, the Company's international power generation business. During the year, Powergen announced the disposal of selected assets within the International business. This has resulted in the review of the carrying value of certain overseas investments (see note 3).

The Company's technical development activities, carried out at its Power Technology Centre, are focused on supporting the Company's main business objectives, providing innovative services and products, and developing profitable new income streams.

Results and dividends

The consolidated retained profit for the financial year to 31 December 2000 was £191 million (compared with a profit of £484 million for the year ended 2 January 2000).

The directors are not recommending payment of a final dividend (year ending 2 January 2000 £nil). During the year, interim dividends of £240 million were paid (year ending 2 January 2000 £227 million).

Property

The 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 expired on 31 March 2000.

Directors

The following directors served during the financial year: Mr E A Wallis, Mr N P Baldwin, Sir Frederick Crawford, Mr A J Habgood*, Mr P C F Hickson, Dr D K-P Li, Mr R Quarta, Mr P Myners and Mr Sydney Gillibrand.

(* Resigned 31 January 2001)

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

None of the Directors had any interest in the shares of the Company during the year. 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 year ended 31 December 2000.

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.

Treasury management

Group framework

Powergen UK plc and its subsidiaries form part of the Powergen Group, and operate within the context of Group determined treasury policies, which are described below.

As the Powergen Group has developed, treasury management has become more complex and diversified, highlighting the importance of effective treasury management. 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 Powergen Group. In addition, there is an operational treasury team in the UK that services the treasury requirements of the UK business. Powergen's treasury activities are carried out in accordance with Powergen Group 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 Powergen Group complies with all its banking and other financial covenants, and also any regulatory constraints that apply to the financing of its 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 Powergen 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.

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

There has been no change since the year end to the major financial risks faced by the Powergen group, or to its approach to the management of these risks. The year end position as described above is representative of the Powergen Group's current position in terms of its objectives, policies and strategies, which continue to evolve as the Powergen Group's business develops.

Foreign exchange risk management

Powergen has Board approved policies dealing with transaction exposures (typically trading cashflows 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 cashflows, and will also hedge more uncertain cashflows if this is appropriate, using flexible financial instruments that do not commit the Powergen 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.

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

Interest rate risk management

Powergen has a significant portfolio of debt, and is exposed to movements in interest rates. Powergen manages these interest rate movements primarily through the use of a combination 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 for the UK portfolio.

Group funding

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

The Powergen 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. Approach to treasury risk management and funding issues

The section below describes the specific risk management and funding issues faced by Powergen UK plc and its subsidiaries (Powergen UK Group).

Funding

At 31 December 2000, the Powergen UK Group had total borrowings of £2,542 million (2 January 2000 £2,670 million) including £1,833 million of long-term loans and £709 million of short-term loans and overdrafts.

The bank term loans referred to above contain financial covenants. In addition, the bank loans and bonds contain other conditions with which Powergen plc must comply. There are also constraints and financial covenants imposed by various regulatory authorities. None of these covenants or conditions is considered onerous, and treasury monitoring processes are in place, as described above.

As part of a refinancing strategy designed to reduce the overall cost of debt, the Powergen UK Group has securitised its retail trade debtors through a £300 million programme. Details of this programme are set out in note 17 to these accounts

At 31 December 2000 the Powergen UK Group had £510 million of cash and short-term investments (2 January 2000 £646 million). Powergen plc's policy is to place any surplus funds on short-term deposit with approved banks and financial institutions. £442 million of this amount represented Sterling deposits. Strict limits governing the maximum exposure to these banks and financial institutions are applied. The majority of this cash was invested with AAA rated money funds.

The Powergen UK Group's net borrowing position at 31 December 2000 therefore was £2,032 million, compared to £2,024 million at 2 January 2000. The overall interest rate for the year, when compared to average net borrowings, was 6.7 per cent compared with 6.9 per cent in the previous year.

Foreign exchange risk management

During 2000, the majority of the Powergen UK Group's income and expenditure was settled in Sterling. There was also some limited exposure to other foreign currencies including US Dollars, Euros and Australian dollars. This exposure is likely to diminish with the disposal of the International business. Details of the Powergen UK Group's foreign exchange contracts, options and swaps are set out in note 28 to the accounts.

Interest rate risk management

The Powergen UK Group's main interest rate exposure is to Sterling, although there is a limited exposure to US Dollar and other interest rates, including Deutschmarks. Details of the Powergen UK Group's interest rate swaps and fixed and floating debt are set out in note 28 to the accounts.

Commodity risk management

As part of its operating activities the Powergen UK Group engages in asset based energy marketing in the 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 portfolio is strictly monitored and controlled through delegated authorities and procedures, including transaction limits and credit risk management, which ensure that changing levels of exposure are appropriately managed. To achieve this portfolio optimisation, the Powergen UK Group uses fixed price bilateral contracts, futures and options contracts traded on commodity exchanges and swaps and options traded in over the counter financial markets.

Details of the Powergen UK Group's approach to contracts for differences (Cfds) and the fair value of these Cfds is set out in note 28 to the accounts.

Employees

The Powergen Group 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, an Employee Opinion Survey being one way in which they are regularly measured.

The Powergen Group is committed to offering equal opportunities to both current and prospective employees. The Powergen Group 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. 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.

The Powergen Group 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, the Powergen Group 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 UK's growth strategy and ensuring that all staff perform at the highest level. During 2000 two major businesses achieved Investors in People accreditation for the first time.

The Powergen Group encourages employee share ownership and operates a number of arrangements to encourage ongoing commitment to Powergen. These include three employee share schemes relating to shares in the Group Holding company 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 the Company and its subsidiaries amounted to £247,523 (year ended 2 January 2000 £205,049).

No political donations were made.

Policy on payment of creditors

Where appropriate in relation to specific contracts, the Powergen UK Group'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.

The Powergen UK Group 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. Overseas, Powergen UK Group companies are encouraged to adopt equivalent arrangements by applying local best practices.

The average number of days taken to pay the Powergen UK Group's trade suppliers calculated in accordance with the requirements of the Companies Act is 28 days (2 January 2000 32 days).

Close company status

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

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.

Euro

The Powergen Group recognises the wide implications of the Euro for businesses, including impacts on commercial arrangements and financial systems. Appropriate preparation is being made in those of its entities resident in Euro-land countries, based on the EU timetable for transition towards the introduction of hard currency in January 2002. Within the UK, the Powergen UK Group's preparations recognise the uncertain position regarding possible UK entry to the single currency, as well as the needs of customers and suppliers. Continuing developments, including the possibility of a referendum on entry, are monitored closely.

Directors' responsibilities

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and of the Powergen UK Group and of the profit or loss of the Powergen UK Group for that period. The accounts have been prepared on a going concern basis.

In preparing the financial statements, 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.

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 the Powergen UK Group 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.

Post balance sheet events

On 21 February 2001, Powergen completed the sale of its East Midlands Electricity Metering business to Siemens Metering Limited. At 31 December 2000, the approximate net asset value of the business being sold was £25 million.

On 27 February 2001, Powergen completed the sale of its Australian assets to companies which will be managed and 80 per cent owned by CLP Power International, a subsidiary of CLP Holdings Limited. Powergen will take a 20 per cent equity stake in these companies.

By order of the Board

D J Jackson
53 New Broad Street
London
EC2M 1SL
2 March 2001

Report of the Auditors
to the members of Powergen UK plc

We have audited the financial statements on pages 10 to 45.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report. As described on page 7, this includes the responsibility for preparing the financial statements, in accordance with applicable United Kingdom accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom 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 United Kingdom 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.

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

Basis of audit opinion

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

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

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 2000 and of the profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers.

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
London
2 March 2001

Powergen UK plc
Consolidated Profit and Loss Account
for the financial year ended 31 December 2000

	Note	Year ended 31 December 2000 Before exceptional items £m	Year ended 31 December 2000 Exceptional items (note 3) £m	Year ended 31 December 2000 Total £m	Year ended 2 January 2000 Before exceptional items £m	Year ended 2 January 2000 Exceptional items (note 3) £m	Year ended 2 January 2000 Total £m
Turnover		4,344	-	4,344	3,989	-	3,989
Group's share of associates' and joint ventures' turnover		(269)	-	(269)	(243)	-	(243)
Group turnover – continuing activities	1	4,075	-	4,075	3,746	-	3,746
Operating costs	2,3	(3,690)	(79)	(3,769)	(3,293)	(293)	(3,586)
Other operating income	2	182	-	182	191	-	191
Group operating profit – continuing activities	2	567	(79)	488	644	(293)	351
Group's share of associates' and joint ventures' operating profit		70	-	70	83	-	83
Profit on disposal of fixed assets	3	-	337	337		543	543
Provision for loss on sale	3	-	(133)	(133)	-	-	-
Net interest payable							
– Group	6	(134)	(79)	(213)	(156)	-	(156)
– associates and joint ventures		(58)	-	(58)	(55)	-	(55)
Profit on ordinary activities before taxation	7	445	46	491	516	250	766
Tax on profit on ordinary activities	8	(88)	39	(49)	(100)	49	(51)
Profit on ordinary activities after taxation		357	85	442	416	299	715
Minority interest		(11)	-	(11)	(4)	-	(4)
Profit attributable to shareholders		346	85	431	412	299	711
Dividends	9			(240)			(227)
Retained profit for the year				191			484

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

	Year ended 31 December 2000 £m	Year ended 2 January 2000 £m
Profit attributable to shareholders	431	711
Revaluation reserve arising on acquisition	-	25
Currency translation differences on foreign currency net investments	6	63
Total recognised gains for the year	437	799

The accounting policies and the notes on pages 12 to 45 form part of these financial statements.

Powergen UK plc
Balance Sheet
as at 31 December 2000

		The Group		The Company	
	Note	31 December 2000 £m	2 January 2000 £m	31 December 2000 £m	2 January 2000 £m
Fixed assets					
Goodwill	12	**1,181**	1,309	**-**	-
Tangible assets	13	**3,127**	3,232	**1,235**	1,350
Investments	14	**428**	470	**3,247**	2,158
		4,736	5,011	**4,482**	3,508
Current assets					
Stocks	15	**120**	127	**99**	105
Debtors: amounts falling due after more than one year	16	**56**	11	**48**	-
Debtors: amounts falling due within one year		**1,320**	722	**1,249**	1,251
Less: securitisation		**(152)**	-	**(118)**	-
Net debtors falling due within one year	17	**1,168**	722	**1,131**	1,251
Cash and short-term deposits		**510**	646	**496**	653
		1,854	1,506	**1,774**	2,009
Creditors: amounts falling due within one year					
Loans and overdrafts	18	**(709)**	(98)	**(142)**	-
Trade and other creditors	19	**(1,234)**	(1,111)	**(1,398)**	(1,369)
Net current (liabilities)/assets		**(89)**	297	**234**	640
Total assets less current liabilities		**4,647**	5,308	**4,716**	4,148
Creditors: amounts falling due after more than one year					
Long-term loans	20	**(1,833)**	(2,572)	**(1,070)**	(1,070)
Other creditors	21	**(342)**	(415)	**(1,469)**	(1,076)
Provisions for liabilities and charges	23	**(270)**	(295)	**(84)**	(82)
Deferred tax	24	**(55)**	(47)	**(14)**	(64)
Net assets		**2,147**	1,979	**2,079**	1,856
Capital and reserves					
Called-up share capital	25	**325**	325	**325**	325
Share premium account	26	**97**	97	**97**	97
Capital reserve	26	**474**	474	**474**	474
Revaluation reserve	26	**23**	25	**-**	-
Capital redemption reserve	26	**85**	85	**85**	85
Profit and loss account	26	**1,107**	908	**1,098**	875
Equity shareholders' funds	27	**2,111**	1,914	**2,079**	1,856
Equity minority interests		**36**	65	**-**	-
		2,147	1,979	**2,079**	1,856

Approved by the Board on 2 March 2001

PC F Hickson

P C F Hickson

The accounting policies and the notes on pages 12 to 45 form part of these financial statements

Principal Accounting Policies

Nature of operations

The Powergen UK Group has two main businesses; UK Operations and International Operations. Powergen UK's principal business in the UK is the generation, distribution and sale of electricity and the sale of gas. Powergen UK's principal business overseas is the generation of electricity and associated energy-related businesses.

Basis of preparation of accounts

These financial statements are prepared under the historical cost convention, the accounting policies set out below and in accordance with applicable United Kingdom accounting standards all of which have been consistently applied. 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 (the Transfer Scheme) 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.

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. All of the results of operations included in 'acquisitions' are continuing activities. 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. 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.

Principal Accounting Policies (continued)

Turnover

Turnover, which excludes Value Added Tax, within the United Kingdom comprises sales of electricity, including fees under contracts for differences stated net of difference payments (Cfds), revenue from the sale of electricity and gas to industrial, commercial and domestic customers, and the sale of electricity and steam under combined heat and power schemes. The cost or the income attributable to Cfds is recorded when settlement is made. Where physical delivery under the Cfd has taken place prior to the year end, adjustment is made to account for the known variances between the contract strike price and the Pool price on the date of delivery.

Income from the sale of electricity and gas to industrial, commercial and domestic customers 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.

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. 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	20-40
Distribution and transmission networks	40-60
Other buildings	40
Other operating and short-term assets	3-15

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 six years.

Principal Accounting Policies (continued)

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 rates 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. 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.

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 recognised, when incurred.

Financial instruments

The Group 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.

Principal Accounting Policies (continued)

Debt instruments

Following the issue of Financial Reporting Standard (FRS) 4 'Capital Instruments' 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 and are accounted for using hedge accounting. 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 termination 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 hedge 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.

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 net assets acquired. Purchased goodwill is capitalised in the balance sheet and amortised on a straight line basis over its estimated minimum useful economic life.

Negative goodwill is recognised in the profit and loss account on a straight-line basis over the life of the related fixed assets. Prior to the adoption of Financial Reporting Standard 10 'Goodwill and Intangible Assets' 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.

Principal Accounting Policies (continued)

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.

Operating 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 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.

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. 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.

Principal Accounting Policies (continued)

Pensions

The Group provides pension benefits through both defined benefit and defined contribution schemes. 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, 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.

Related party transactions

The Company is exempt under the terms of Financial Reporting Standard Number 8 from disclosing related party transactions with entities that are part of the PowerGen plc group or investees of the Powergen plc group.

Cash flow Statement

The company is a wholly owned subsidiary undertaking of PowerGen plc and is included in the consolidated financial statements of PowerGen plc. Consequently, the Company has taken advantage of the exemption from preparing a cash flow statement under the terms of Financial Reporting Standard Number 1 (revised).

1 Turnover

Turnover is analysed as follows:

	Year ended 31 December 2000 £m	Year ended 2 January 2000 £m
UK Operations		
Electricity and gas - wholesale and trading	**1,893**	1,685
Electricity - distribution	**307**	376
Electricity and gas - retail	**1,726**	1,751
Cogeneration and renewables	**115**	95
Internal charges from distribution to retail	**(191)**	(245)
	3,850	3,662
International Operations	**225**	84
	4,075	3,746

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

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:

	Year ended 31 December 2000 £m	Year ended 2 January 2000 £m
Fuel costs	**678**	840
- burnt in power stations	**678**	643
- gas buy-outs	**-**	197
Pool purchases and other costs of sales	**2,156**	1,722
Staff costs (note 4)	**203**	235
Depreciation, including exceptional charges	**284**	263
Goodwill amortisation	**71**	68
Other operating charges, including restructuring costs	**377**	458
Operating costs, after exceptional items	**3,769**	3,586

Operating costs, before exceptional items	**3,690**	3,293
Exceptional depreciation charge (note 3)	**79**	-
Exceptional operating charges (note 3)	**-**	293

The directors believe that the nature of the Group's business is such that the analysis of operating costs as set out in 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 activities.

The depreciation charge for the year ended 31 December 2000 includes a net £1 million charge as the result of an impairment review of the Group's UK power station portfolio. This comprises a £21 million charge for an impairment in the current year and a £20 million credit for the reversal of an impairment recognised in a previous period (year ended 2 January 2000 £45 million charge). The cashflows used in this impairment review were discounted at Powergen's cost of capital for UK Operations.

Other than foreign exchange gains disclosed in note 3, £28 million of foreign exchange losses were recognised in the profit and loss account.

Operating costs also include:	**Year ended 31 December 2000**	Year ended 2 January 2000
	£m	£m
Repairs and maintenance costs	**88**	99
Research and development costs	**4**	5
Operating leases	**11**	6
(Profit)/ Loss on disposal of fixed assets	**(21)**	1
Auditors' remuneration for audit (Company £0.5m, year ended 2 January 2000 £0.4 million)	**0.6**	0.5
Auditors' remuneration for non-audit services	**0.9**	4.7

Fees for non-audit services comprise due diligence, accounting advisory, tax advisory services and other general consultancy.

Other operating income includes £60 million (year ended 2 January 2000 £84 million) of income from operating leases. It also includes the recognition of £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 Fiddlers Ferry and Ferrybridge C power stations to Edison Mission Energy during 1999 (note 3). This figure represents £100 million of deferred income less £1 million of associated costs incurred in the period.

3 Exceptional items

Exceptional items comprise:

	Year ended 31 December 2000 £m	Year ended 2 January 2000 £m
Asset impairment – UK Operations	(79)	-
Re-negotiation of gas contract portfolio	-	(197)
Reorganisation and restructuring costs	-	(96)
Charged against operating profit	(79)	(293)
Bond buy-backs	(66)	-
Financing costs	(13)	-
Charged against interest costs	(79)	-
Profit on disposal of fixed assets – UK Operations	337	543
Asset impairment	(107)	-
Closure costs	(26)	-
Provision for loss on sale – International Operations	(133)	-
	46	250

Charged against operating profit

An impairment provision of £79 million has been made in respect of the Group's 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.

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.

Reorganisation and restructuring costs represent the costs of restructuring and integrating the UK business consequent upon the acquisition of Powergen Energy in July 1998. The amount includes committed severance payments and reorganisation costs.

In the year ended 31 December 2000, tax credits on these exceptional items totalled £nil (year ended 2 January 2000 £89 million).

Charged against interest costs

On 28 December 2000, Powergen repaid three Sterling Eurobonds originally issued by East Midlands Electricity plc (now Powergen Energy plc). The repayment of these bonds will facilitate the financial separation of its distribution and supply business, as required by the Utilities Act, which will come into force during 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.

During the year, the Company entered into an interest swaption arrangement to cap the interest payable on the $4,000 million term and revolving credit facility put in place by Powergen US Holdings Ltd. This facility was required to finance the acquisition of LG&E Energy Corp. by the Powergen group. The premium payable for this swap was £13 million.

In the year ended 31 December 2000, tax credits on the exceptional amounts charged against interest costs totalled £38 million (year ended 2 January 2000 £nil).

Disposal of fixed assets – 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 twenty seven 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 £3 million tax charge arises on this disposal.

On 19 July 1999, Powergen completed the sale of Fiddlers 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 have to 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 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. During 2000, £99 million of deferred income has been recognised within "Other Operating Income" under these warranty arrangements.

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. An exceptional tax charge of £40 million arises on this disposal.

Provision for loss on sale – International Operations

Following the decision to sell selected overseas assets, the carrying value of the Group's international asset portfolio has been reviewed. The value of its Indian and Australian assets has been reduced by £107 million (including goodwill written off of £48 million) to reflect the value implicit in the sale of these assets to companies which will be 80% owned and managed by CLP Power International, a subsidiary of CLP Holdings Limited, and in which Powergen will retain a 20% equity holding. This sale is expected to complete during 2001.

As part of the Powergen Group's strategy to refocus the business on the UK and US markets, its International Operations have been rationalised, and overseas offices closed. The amount of £26 million charged in these accounts principally comprises employee severance costs. £4 million of tax credits arise on this item.

4 Employee information

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

	Year ended 31 December 2000	Year ended 2 January 2000
UK Operations	**5,903**	7,130
International Operations	**830**	746
	6,733	7,876

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

	Year ended 31 December 2000 £m	Year ended 2 January 2000 £m
Wages and salaries	**186**	224
Social security costs	**16**	19
Other pension costs (note 22)	**16**	16
	218	259
Capitalised in fixed assets	**(15)**	(24)
Charged in profit and loss account	**203**	235

5 Directors' emoluments

The aggregate emoluments of the directors was £1,903,767 (year ended 2 January 2000 £1,946,734). The highest paid director received emoluments (excluding pension contributions) of £562,333 and performance related bonuses of £220,000. The amount of the accrued pension of the highest paid director was £346,700 (2 January 2000 £311,700). No directors exercised options during the year.

The number of directors who were members of a defined benefit pension scheme was 3 (2 January 2000 3). 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.

6 Net interest payable – Group

	Year ended 31 December 2000	Year ended 2 January 2000
	£m	£m
Investment income	1	7
Interest receivable from associated undertakings	7	9
Interest receivable and similar income	35	40
	43	56
Interest payable on loans		
Bank loans and overdrafts	(33)	(55)
Other borrowings	(141)	(153)
	(174)	(208)
Net interest payable before unwinding of discount	(131)	(152)
Unwinding of discount in provisions	(3)	(4)
	(134)	(156)
Exceptional interest costs (note 3)	(79)	-
	(213)	(156)

7 Profit on ordinary activities before taxation

	Year ended 31 December 2000	Year ended 2 January 2000
	£m	£m
UK Operations		
Electricity and gas – wholesale and trading	288	448
Electricity – distribution	116	154
Electricity and gas – retail	42	3
Cogeneration and renewables	18	14
Lease and other income	182	146
	646	765
International Operations	121	79
Intra-group foreign exchange differences	(12)	-
Corporate costs	(47)	(49)
Net interest payable – Group	(134)	(156)
- Associates and joint ventures	(58)	(55)
Profit before goodwill amortisation and exceptional items	516	584
Goodwill amortisation	(71)	(68)
Exceptional items (note 3)	46	250
	491	766

The net assets of the Group are analysed as follows:

	The Group	
	At 31 December 2000 £m	At 2 January 2000 £m
UK Operations	**3,476**	3,253
International Operations	**571**	631
Unallocated net liabilities	**(1,900)**	(1,905)
	2,147	1,979

During 2000, Powergen announced a number of asset disposals which had not completed by 31 December and are therefore not included in these accounts. These disposals include net assets for UK Operations of £186 million and for International Operations of £278 million.

8 Tax on profit on ordinary activities

	Year ended 31 December 2000 £m	Year ended 2 January 2000 £m
United Kingdom corporation tax at 30% (year ended 2 January 2000 30.25%)		
Current	**22**	114
Prior year	**9**	(52)
	31	62
Overseas taxation	**3**	-
Deferred (note 24)		
Accelerated capital allowances	**69**	19
Other timing differences	**(61)**	(17)
	42	64
Associates and joint ventures	**7**	(13)
	49	51

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

9 Dividends

	Year ended 31 December 2000 £m	Year ended 2 January 2000 £m
Net dividend per ordinary share		
First interim paid	**74**	70
Second interim paid	**56**	157
Third interim declared	**110**	-
	240	227

10 Profit of the Company

The profit for the financial year of the Group includes £455 million profit (year ended 2 January 2000 £721 million profit) 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.

11 Acquisitions

On 10 October 2000, the Group acquired an additional 13.89% stake in Gujarat Powergen Energy Corporation (GPEC) from Siemens Project Ventures GmbH for consideration of £34 million. The fair value of assets acquired was £40 million, leading to negative goodwill arising of £6 million. GPEC owns a 655MW dual fired power station in Gujarat, North India. This purchase brought the Group's total stake in GPEC to 88%. GPEC continues to be accounted for as a subsidiary undertaking.

On 29 September 2000, Powergen completed the purchase and sale of shares and related assets in Corby Power Ltd (CPL) from Dominion Resources Inc and ESBI Engineering (UK) Ltd (ESBI). As a result of this transaction, CPL is now 50% owned by Powergen and 50% owned by ESBI. Following the acquisition, CPL has been treated as a joint venture by the Group. The consideration paid for this 50% stake was £34 million and the fair value of net assets acquired was £50 million leading to negative goodwill arising of £16 million. CPL owns a 350MW gas-fired power station in the United Kingdom.

On 18 February 2000, Powergen acquired a 50% stake in TeleCentric Solutions Limited (TCS), a joint venture with Affinity Internet Holdings plc, for consideration of £10 million. £5 million of the consideration was paid during 2000. The fair value of assets acquired was £1 million, leading to goodwill arising of £9 million.

12 Goodwill

The Group

	£m
Cost	
At 2 January 2000	1,405
Acquisitions (note 11)	(6)
Disposals	(3)
31 December 2000	**1,396**
Amortisation	
At 2 January 2000	96
Charge for the year	71
Amounts written off	48
At 31 December 2000	**215**
Net book value at 31 December 2000	**1,181**
Net book value at 2 January 2000	1,309

Amounts written off goodwill relate to the proposed sale of Gujarat Powergen Energy Corporation as part of the disposal of International Operations (note 3).

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 2 January 2000	3,816	1,499	619	5,934
Foreign exchange movements	26	-	-	26
Additions	54	95	98	247
Transfers	40	(15)	(25)	-
Disposals	(270)	-	(44)	(314)
At 31 December 2000	**3,666**	**1,579**	**648**	**5,893**
Depreciation				
At 2 January 2000	1,985	524	193	2,702
Foreign exchange movements	24	-	-	24
Charge for the year	128	38	39	205
Transfers	4	(15)	11	-
Disposals	(221)	(2)	(32)	(255)
Exceptional write down	11	-	79	90
At 31 December 2000	**1,931**	**545**	**290**	**2,766**
Net book value at 31 December 2000	**1,735**	**1,034**	**358**	**3,127**
Net book value at 2 January 2000	1,831	975	426	3,232

The Company	Generating assets £m	Assets in course of construction £m	Other assets £m	Total £m
Cost				
At 2 January 2000	3,232	42	153	3,427
Additions	33	10	3	46
Transfers	48	(22)	(26)	-
Disposals	(262)	(5)	(10)	(277)
At 31 December 2000	**3,051**	**25**	**120**	**3,196**
Depreciation				
At 2 January 2000	1,961	-	116	2,077
Charge for the year	106	-	7	113
Disposals	(221)	-	(8)	(229)
Transfer	4	-	(4)	-
At 31 December 2000	**1,850**	**-**	**111**	**1,961**
Net book value at 31 December 2000	**1,201**	**25**	**9**	**1,235**
Net book value at 2 January 2000	1,271	42	37	1,350

Group assets include freehold land and buildings with a net book value of £189 million (at 2 January 2000 £203 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 both 31 December 2000 and 2 January 2000.

£7 million of interest was capitalised during the year (year to 2 January 2000 £4 million). Accumulated interest capitalised gross of tax relief, included in the total cost for the Group, amounts to £72 million at 31 December 2000 (2 January 2000 £65 million).

Company assets include freehold land and buildings with a net book value of £140 million (year ended 2 January 2000 £150 million).

14 Fixed asset investments

The Group	Associated undertakings		Joint ventures			
	Share of net assets £m	Loans £m	Share of net assets £m	Loans £m	Other investments £m	Total £m
At 2 January 2000						
- net assets	329	26	7	38	70	**470**
- goodwill	-		-		-	-
Acquired during the year						
- net assets	-	-	51	-	-	**51**
- goodwill	-		(7)			**(7)**
Additions	13	23	-	1	19	**56**
Disposals	(37)	(29)	(1)	(7)	(18)	**(92)**
Exceptional write-down	(48)	-	-	-	-	**(48)**
Share of retained profits	-	-	3	-	-	**3**
Currency translation differences	(5)	-	-	-	-	**(5)**
At 31 December 2000						
- net assets	**252**	**20**	**60**	**32**	**71**	**435**
- goodwill	-		(7)		-	(7)
	252	**20**	**53**	**32**	**71**	**428**

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

Goodwill arising on the acquisition of joint ventures includes £9 million of positive goodwill in respect of TCS, which is being amortised over ten years, and £16 million of negative goodwill in respect of CPL which is being amortised over seventeen years. Aggregate amortisation of goodwill of associates and joint ventures as at 31 December 2000 was £nil, therefore the net book value of that goodwill at both 2 January 2000 and 31 December 2000 was equal to its cost.

Other investments include investments listed on a recognised stock exchange of £69 million (year ended 2 January 2000 £70 million) set aside by subsidiary companies for certain medium and long-term insurance liabilities. At 31 December 2000, the market value of these investments was £3 million in excess of cost (2 January 2000 £1 million).

The Company

	Group Undertakings £m	Associates £m	Joint ventures £m	Total £m
At 2 January 2000	2,110	-	48	**2,158**
Additions	1,593	54	5	**1,652**
Disposals	(317)	(26)	-	**(343)**
Provision	(220)	-	-	**(220)**
At 31 December 2000	3,166	28	53	**3,247**

The Company holds 49,998 fully paid up £1 redeemable preference shares in its 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 that company available for distribution by way of dividend or otherwise.

The Company's investments of £3,247 million (2 January 2000 £2,158 million) include loans to group undertakings of £1,440 million (2 January 2000 £324 million) and loans to associates and joint ventures of £60 million (2 January 2000 £38 million).

A provision of £220 million has been made against the value of the Company's investments in Group undertakings following a review of the recoverable amount of the underlying international assets and CHP plant portfolio.

Interests in Group subsidiary 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 UK as a whole.

Name	Proportion of nominal value of issued equity shares and voting rights held by the Group or the Company %	Country of incorporation or registration	Principal business activities
Powergen Energy plc +	100	England and Wales	Distribution and supply of electricity
Powergen International Ltd *	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 Gas Limited *	100	England and Wales	Transportation and marketing of gas in the UK
Powergen Retail Gas Limited +	100	England and Wales	Supply, trading and shipping of gas in the UK
Csepel Power Company +	100	Hungary	Generation and sale of electricity
Csepeli Aramtermelo Rt +	100	Hungary	Generation and sale of electricity
Gujarat Powergen Energy Corporation Limited (GPEC) +	88	India	Generation and sale of electricity

* direct interest

\+ indirect interest

Associates and joint ventures

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

	Accounting reference date	Country of incorporation or registration	Shares held	Percentage of capital held directly or indirectly by the Company
Saale Energie GmbH	31 December	Germany	Deutschmark ordinary capital	50%
MIBRAG BV	31 December	Netherlands	Dutch guilders ordinary capital	33.33%
MIBRAG GmbH	31 December	Germany	Deutschmark 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%
Yallourn Energy Pty Limited	30 June	Australia	Australian dollar ordinary shares	49.95%
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 associates and joint ventures are:

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	-	Generation and sale of electricity from gas-fired power station
PT Jawa Power	-	Generation and sale of electricity from coal-fired power station
Yallourn Energy Pty Limited	-	Mining of brown coal and production and sale of electricity from coal-fired power station
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

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

	At 31 December 2000		At 2 January 2000	
	Joint ventures	**Associates**	Joint ventures	Associates
Share of assets:				
Share of fixed assets	**80**	**1,456**	46	1,533
Share of current assets	**89**	**136**	3	163
	169	**1,592**	49	1,696
Share of liabilities:				
Amounts falling due within one year	**(15)**	**(117)**	(1)	(133)
Amounts falling due after more than one year	**(101)**	**(1,223)**	(41)	(1,234)
	(116)	**(1,340)**	(42)	(1,367)
Share of net assets	**53**	**252**	7	329
Turnover	**27**	**242**	10	233
Operating profit	**8**	**62**	2	81

15 Stocks

	The Group		The Company	
	At 31 December 2000 £m	At 2 January 2000 £m	**At 31 December 2000 £m**	At 2 January 2000 £m
Fuel stocks	**61**	70	**46**	62
Stores	**59**	57	**53**	43
	120	127	**99**	105

16 Debtors: amounts falling due after more than one year

	The Group		The Company	
	At 31 December 2000 £m	At 2 January 2000 £m	**At 31 December 2000 £m**	At 2 January 2000 £m
Other debtors	**56**	11	**48**	-

Other debtors include £4 million in respect of pensions (2 January 2000 £5 million) and £51 million (2 January 2000 £nil) in respect of income under operating leases.

17 Debtors: amounts falling due within one year

	The Group		The Company	
	At 31 December 2000 £m	At 2 January 2000 £m	At 31 December 2000 £m	At 2 January 2000 £m
Trade debtors	568	484	311	328
Less: securitisation	(152)	-	(118)	-
Net trade debtors	416	484	193	328
Other debtors	173	204	202	202
Prepayments and accrued income	36	34	11	20
Amounts due from fellow group undertakings	543	-	725	701
	1,168	722	1,131	1,251

Other debtors include £31 million (2 January 2000 £70 million) in respect of income under operating leases.

On 15 December 2000, the Powergen UK Group launched a revolving-period £300 million securitisation programme to sell all of its right, title and interest in certain billed and unbilled trade debtors (for electricity and gas retail customers) to Kittyhawk Funding Corporation, a trust established for the purpose of purchasing these trade debtors from Powergen. The trust then sells the trade debtors to outside investors. Interest is charged on the amounts borrowed under the securitisation programme at a margin above LIBOR, and is payable monthly. The Powergen UK Group 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 agreed not to seek recourse against any other assets, apart from the identified billed and unbilled trade debtors. The Powergen UK Group has an option to repurchase defaulted debt from the trust for a nominal sum.

At 31 December 2000, amounts advanced by the trust to the Powergen UK Group totalled £300 million (Company £216 million), of which £152 million (Company £118 million) was backed by billed and unbilled trade debtor balances. The Powergen UK Group retains the responsibility for servicing these trade debtors. The remaining £148 million (Company £98 million) advanced by the trust is included in loans and overdrafts within creditors due within one year.

18 Loans and overdrafts

	The Group		The Company	
	At 31 December 2000 £m	At 2 January 2000 £m	**At 31 December 2000 £m**	At 2 January 2000 £m
Bank overdrafts	**3**	37	**43**	-
Other short-term loans	**706**	61	**99**	-
	709	98	**142**	-

Included in other short-term loans is £535 million drawdown on the £1,000 million five year revolving credit facility. Details of the facility are provided in note 20.

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. There was no commercial paper outstanding at 31 December 2000 and 2 January 2000. The weighted average interest rate on all short-term loans during the year was 8.4% (year ended 2 January 2000 7.3%).

19 Trade and other creditors falling due within one year

	The Group		The Company	
	At 31 December 2000 £m	At 2 January 2000 £m	**At 31 December 2000 £m**	At 2 January 2000 £m
Trade creditors	**479**	393	**375**	279
Payments on account	**-**	11	**-**	2
Amounts owed to parent undertaking and fellow subsidiaries	**76**	4	**71**	4
Amounts owed to subsidiaries	**-**	-	**447**	604
Corporation tax	**109**	86	**103**	83
Other taxation and social security	**70**	9	**62**	8
Accruals and other creditors	**290**	351	**130**	132
Deferred income	**100**	100	**100**	100
Proposed dividend	**110**	157	**110**	157
	1,234	1,111	**1,398**	1,369

Accruals and other creditors include 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.

20 Long term loans

	The Group		The Company	
	At 31 December 2000 £m	At 2 January 2000 £m	**At 31 December 2000 £m**	At 2 January 2000 £m
7.1% US Dollar Yankee Bond 2002	**252**	253	-	-
Sterling term facility expiring 2003	-	299	-	-
8.875% Sterling Bond 2003	**250**	250	**250**	250
8.5% Sterling Bond 2006	**250**	250	**250**	250
8.375% Eurobond 2006	-	106	-	-
8.125% Eurobond 2007	-	105	-	-
7.45% US Dollar Yankee Bond 2007	**260**	262	-	-
Loan notes 2007	**4**	4	-	-
5% Euro Eurobond 2009	**326**	326	**326**	326
12% Eurobond 2016	-	224	-	-
6.25% Sterling Eurobond 2024	**244**	244	**244**	244
Bank loans in overseas subsidiaries	**247**	249	-	-
	1,833	2,572	**1,070**	1,070

The Sterling term facility expiring in 2003 bears interest at variable rates, fixed in advance for periods up to six months, by reference to Sterling LIBOR.

None of the bonds described above has any financial covenants.

On 28 December 2000, Powergen redeemed the 8.375% Sterling Eurobond 2006, the 12% Sterling Eurobond 2016 and the 8.125% Sterling Eurobond 2007 at a cost of £493 million funded from a combination of cash and existing bank facilities. These three Sterling Eurobonds were inherited with its acquisition of East Midlands Electricity plc in July 1998. The premium paid of £66 million has been treated as an exceptional cost in these accounts (see note 3).

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

	At 31 December 2000 £m
In one year or less, or on demand	709
In more than one year but not more than two years	277
In more than two years but not more than five years	320
In more than five years	1,236
	2,542

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

	At 31 December 2000 £m
Expiring in one year or less	31
Expiring in more than two years but not more than five years	465
	496

These facilities comprise a five year revolving credit facility expiring on 26 June 2003. The annual commitment fee is 20 basis points and the facility carries financial covenants that vary over time. The covenants relating to the syndicated loan facility, at 31 December 2000, comprise a cap on total borrowings of £3,500 million, a maximum net debt to earnings before interest, tax, depreciation and amortisation ratio of 4.25, and a minimum interest to earnings before interest, tax and amortisation ratio of 2.25. There is also an 364 day committed bi-lateral facilities totalling £25 million, and undrawn committed facilities in overseas subsidiaries of £6 million. On 18 January 2001 the £25 million facility expired, and the £6 million undrawn facilities in overseas subsidiaries expired on 2 February 2001.

21 Other creditors falling due after more than one year

	The Group		The Company	
	At 31 December 2000	At 2 January 2000	**At 31 December 2000**	At 2 January 2000
	£m	£m	**£m**	£m
Accruals and other creditors	**102**	75	**101**	75
Deferred income	**240**	340	**240**	340
Amounts due to subsidiary undertakings	**-**	-	**1,128**	661
	342	415	**1,469**	1,076

Accruals and other creditors shown above include £67 million in respect of pensions (2 January 2000 £57 million).

22 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 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 1998. Particulars of this actuarial valuation are contained in the consolidated accounts of Powergen plc.

In the financial year ended 31 December 2000, the normal pension cost for the Group amounted to £21 million (year ended 2 January 2000 £21 million) and was determined in accordance with the advice of an independent, professionally qualified actuary. A net credit of £5 million (year ended 2 January 2000 £5 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. The accounts include a prepayment of £23 million (2 January 2000 £18 million) representing the excess of the amounts funded over the pension cost for the year.

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.

23 Provisions for liabilities and charges

Movements on provisions comprise:

The Group	2 January 2000	Disposals during the year	Charged to profit and loss account	Amortisation of discount	Provisions utilised	Provision release	31 December 2000
	£m	£m	£m	£m	£m	£m	£m
Liability and damage claims	71	-	8	-	(12)	(7)	60
Contract provisions	150	-	-	-	(13)	-	137
Decommissioning	74	(5)	1	3	-	-	73
	295	(5)	9	3	(25)	(7)	270

At 31 December 2000, the provisions in the Company's accounts were as follows:

The Company	2 January 2000	Disposals during the year	Charged to profit and loss account	Amortisation of discount	31 December 2000
	£m	£m	£m	£m	£m
Liability and damage claims	8	-	3	-	11
Decommissioning	74	(5)	1	3	73
	82	(5)	4	3	84

The liability and damage claims provision includes reserves in respect of potential 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. Contract provisions, which relate to out of money electricity purchase contracts, were acquired on the purchase of Powergen Energy plc and will be utilised over the period to 2008, when the contracts terminate. Decommissioning provisions, which comprise amounts set aside for the estimated costs of terminating power station grid connections, decommissioning power stations and subsequent site restoration costs, based on engineering estimates will be utilised as each power station closes.

24 Deferred tax

An analysis of the full potential liability and the net deferred tax liability recognised at 31 December 2000 is as follows:

The Group

	31 December 2000			2 January 2000		
	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	508	(390)	118	525	(476)	49
Other timing differences	(101)	38	(63)	(134)	132	(2)
	407	(352)	55	391	(344)	47

The Company

	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	235	(189)	46	242	(141)	101
Other timing differences	(52)	20	(32)	(57)	20	(37)
	183	(169)	14	185	(121)	64

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.

25 Share capital

The share capital of the Company comprises:

	31 December 2000	2 January 2000
Authorised	**£m**	£m
Nil (2 January 2000 1,050,000,002) ordinary shares of 50p each	-	525
1,000 (2 January 2000: nil) 'A' ordinary shares of 50p each	-	-
1,049,999,002 (2 January 2000: nil) 'B' ordinary shares of 50p each	525	-
	525	525
Allotted, called-up and fully paid		
Nil (2 January 2000 649,241,799) ordinary shares of 50p each	-	325
1,000 (2 January 2000: nil) 'A' ordinary shares of 50p each	-	-
649,240,799 (2 January 2000: nil) 'B' ordinary shares of 50p each	325	-
	325	325

On 18 September 2000, the Company reorganised its share capital into 'A' and 'B' ordinary shares. The two classes carry the same rights except that the 'A' shares carry all of the voting rights.

26 Reserves

The Group	Share premium account £m	Special capital reserve £m	Revaluation reserve £m	Capital redemption Reserve £m	Profit and loss account £m
At 2 January 2000	97	474	25	85	908
Currency translation differences on foreign currency net investments	-	-	-	-	6
Transfers	-	-	(2)	-	2
Retained profit for the year	-	-	-	-	191
At 31 December 2000	**97**	**474**	**23**	**85**	**1,107**

Aggregate goodwill written off directly to the Group profit and loss reserve totals £16 million (2 January 2000 £16 million).

On 27 July 1999, the Group acquired an additional 46.3% stake in GPEC, formerly an associated undertaking. In accordance with FRS 2 'Accounting for Subsidiary Undertakings', and in order to give a true and fair view, purchased goodwill was calculated as the sum of the goodwill arising on each separate purchase of shares in GPEC. The increase, from the value of the associate stake in GPEC to the fair value of that stake on 27 July 1999, gave rise to the £25 million revaluation reserve shown above.

The Company	Share premium account £m	Special capital reserve £m	Capital redemption Reserve £m	Profit and loss account £m
At 2 January 2000	97	474	85	875
Currency translation differences on foreign currency net investments	-	-	-	8
Retained profit for year	-	-	-	215
At 31 December 2000	**97**	**474**	**85**	**1,098**

The share premium account, special capital reserve and capital redemption reserve are not available for distribution. The special 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.

27 Reconciliation of movements in shareholders' funds

	31 December 2000 £m	2 January 2000 £m
Profit for the financial year	**431**	711
Dividends	**(240)**	(227)
Revaluation reserve arising on acquisition	**-**	25
Currency translation differences on foreign currency net investments	**6**	63
Net increase in shareholders' funds for the year	**197**	572
Opening shareholders' funds	**1,914**	1,342
Closing shareholders' funds	**2,111**	1,914

28 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 Directors Report.

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. 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 risk management

The Powergen UK Group 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 the Powergen UK Group has contracted to purchase (or sell), and has options to purchase are as follows:

	Foreign exchange contracts		Foreign exchange options	
	31 December 2000 Notional amount £m	2 January 2000 Notional amount £m	**31 December 2000 Notional amount £m**	2 January 2000 Notional amount £m
US Dollars	**119**	(31)	-	-
Portuguese escudos	-	(11)	-	-
Deutschmarks	-	14	-	-
Euros	**(139)**	(51)	-	-
Australian dollars	**(52)**	(62)	**(11)**	(12)
	(72)	(141)	**(11)**	(12)

Some contracts involve purchases or sales of US Dollars against other, non-Sterling currencies. The Sterling equivalent amounts are as follows:

	31 December 2000 Notional amount £m	2 January 2000 Notional amount £m
Korean won	**(1)**	(18)
Euros	**(84)**	-
Indian rupees	**(35)**	-
	(120)	(18)

The weighted average time to maturity of foreign exchange contracts is two months (2 January 2000, four months).

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

	31 December 2000 Notional amount £m	2 January 2000 Notional amount £m
Foreign currency swaps	**826**	864

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 2000 Notional amount £m	2 January 2000 Notional amount £m
Interest rate swap contracts	**764**	760

The weighted average time to maturity of interest rate swap contracts is 4.9 years (2 January 2000 3.1 years)

In addition, there are interest rate swaptions with a notional principal amount of £1,674 million and fair value of £nil. These swaptions cap the interest payable on part of the US Dollar term facility (see note 3).

Interest rate risk profile of financial assets and liabilities

		Floating rate	Fixed rate financial liabilities		
At 31 December 2000	**Total £m**	financial liabilities £m	£m	Weighted average interest rate %	Weighted average period for which rate is fixed Years
Sterling	**2,269**	1,468	801	8.6	10.8
US Dollar	**54**	54	-	-	-
Deutschmark	**190**	190	-	-	-
Indian rupee	**29**	29	-	-	-
	2,542	1,741	801	8.6	10.8

The figures in the above table are stated after taking account of relevant interest note swap contracts. The swaptions then provide a fixed cap on £1,674 million on US Dollar debt, resulting in the fixed/floating ratio complying with Board policy.

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:

Currency	**Rate**
Sterling	LIBOR
US Dollar	LIBOR, FIBOR
Deutschmark	LIBOR, FIBOR
Indian Rupee	Banks' Prime Lending Rates

In addition to the above, the Group's provisions include £137 million (2 January 2000 £150 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 half yearly 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 2000, the Group held £442 million (2 January 2000 £646 million) of financial assets in the form of Sterling bank deposits, £29 million (2 January 2000 £nil) in US Dollar deposits, and £39 million (2 January 2000 £nil) in other currency deposits. These deposits earn interest at floating rates, 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 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 2000 Fair value £m	2 January 2000 Fair value £m
Foreign currency contracts	**(12)**	3
Foreign currency swaps	**13**	(49)
Interest rate swaps	**5**	(22)

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

		31 December 2000		2 January 2000	
	Note	**Carrying amount £m**	**Fair value £m**	Carrying amount £m	Fair Value £m
Assets					
Cash and short-term deposits	1	510	510	646	646
Investments	2	69	72	70	71
Liabilities					
Short-term debt	3	(709)	(709)	(98)	(98)
Long term debt	4	(1,833)	(1,780)	(2,572)	(2,551)

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.

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

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

	Gains £m	Losses £m	Total net losses £m
Unrecognised gains/(losses) on hedges at 2 January 2000	10	(78)	(68)
(Gains)/Losses on hedges arising in previous periods that were recognised during the year	(6)	8	2
Gains on hedges arising before 2 January 2000 that were not recognised during the year	4	(70)	(66)
Gains on hedges arising during 2000 that were not recognised during the year	47	25	72
Unrecognised gains/(losses) on hedges at 31 December 2000	**51**	**(45)**	**6**
Of which:			
Gains/(losses) expected to be recognised in 2001	6	(18)	(12)
Gains/(losses) expected to be recognised in 2002 or later	45	(27)	18

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

Contracts for differences

Given the variability of UK pool prices, Powergen UK's policy is to enter into Cfds which effectively fix the price of its expected output sold through the Pool. Powergen UK seeks to achieve a broad match between the cover provided by these contracts and its expected sales through the Pool, thereby removing the majority of exposure to movements in pool prices. Powergen UK's direct sales portfolio spans the entire electricity market and includes industrial, commercial and domestic customers.

Powergen has a variety of wholesale contract types of varying lengths (although generally of one year's duration), with a number of Regional Electricity Companies (RECs), under which Powergen believes the RECs hedge their purchases from the Pool to meet their customer electricity demand. These Cfd sales totalled 21 TWh for the year to 31 December 2000.

The majority of Powergen UK's Cfd contract cover for any particular year is secured between January and March. Consequently the cover in place at the balance sheet date, for the twelve months to December 2001 equates to around 78 per cent of the Group's expected electricity output. The gross value of net Cfd sales cover outstanding as at 31 December 2000 was £53 million.

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 long-term UK power prices, availability, bidding behaviour of others within the marketplace and the appropriate market discount rates. Based on management's estimates of future electricity prices, modelled under various scenarios, the fair value of the Cfd portfolio at 13 December 2000 is £22 million favourable.

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.

29 Commitments and contingent liabilities

a) At 31 December 2000, the Group had commitments of £91 million (2 January 2000 £198 million) for capital expenditure, of which £5 million (2 January 2000 £18 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 above will 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 31 December 2000 the Group's future commitments for the supply of coal under all its contractual arrangements totalled £540 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 three UK power stations. At 31 December 2000 the estimated minimum commitment for the supply of gas under all these contracts totalled £2,646 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.

30 Post balance sheet events

On 21 February 2001, Powergen completed the sale of its East Midlands Electricity Metering business to Siemens Metering Limited. At 31 December 2000, the approximate net asset value of the business being sold was £25 million.

On 27 February 2001, Powergen completed the sale of its Australian assets to companies which will be managed and 80 per cent owned by CLP Power International, a subsidiary of CLP Holdings Limited. Powergen will take a 20 per cent equity stake in these companies.

31 Ultimate holding company

The immediate and ultimate parent undertaking and controlling party is Powergen plc, which is the parent company of the smallest and largest group to consolidate these financial statements. 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 1SL