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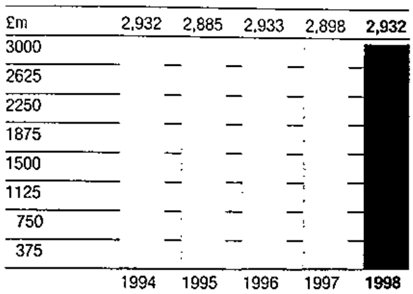
POWERGEN REPORT '98

THE POWER BEHIND POWER

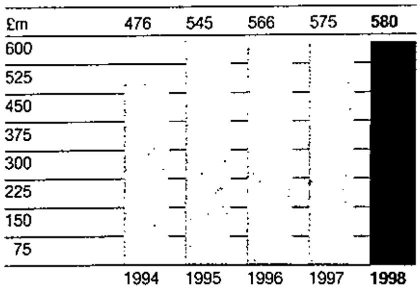
PowerGen is a leading international power generation business. We seek to grow our business by generating power and developing energy resources both in the UK and throughout the world. We want to create one of the world's leading independent electricity and gas businesses.

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

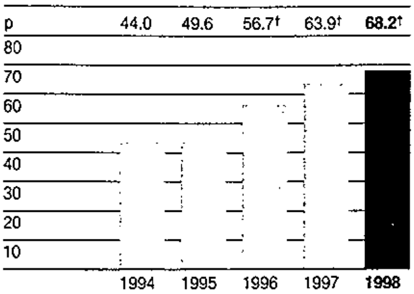
Turnover



Pre-exceptional profit before tax

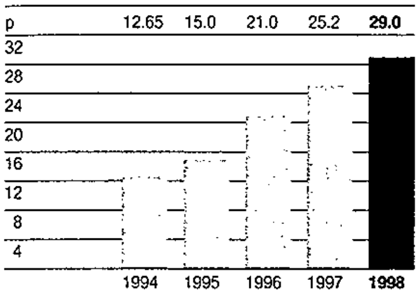


Earnings per ordinary share



†Excluding exceptional items.

Dividends per ordinary share



HIGHLIGHTS

Earnings per share and dividends increased by 7% and 15%
Major new electricity and gas deals signed with RECs
Warm winter depressed generation demand
Upstream gas business to be sold

Years ended March		1994	1995	1996	1997	**1998**
Turnover	£m	2,932	2,885	2,933	2,898	2,932
Pre-exceptional profit before tax	£m	476	545	566	575	580
Profit before tax[1]	£m	476	545	687	577	211
Earnings per ordinary share[2]	pence	44.0	49.6	56.7	63.9	68.2
Dividends per ordinary share	pence	12.65	15.0	21.0	25.2	29.0
Dividend cover per share[2]	times	3.5	3.3	2.7	2.5	2.4
Equity shareholders' funds	£m	1,919	1,880	2,252	1,925	1,560
Net debt	£m	282	194	334	655	481
Gearing	per cent	14.7	10.3	14.8	34.0	30.8
Shares in issue (year end)	millions	784.0	725.3	728.3	637.4	644.5
Staff numbers (year end)		4,399	3,736	3,413	3,551	3,453

Notes
1 In 1998, profit before tax is after charging £369 million of exceptional items. In 1997, profit before tax includes exceptional credits (net) of £2 million. In 1996, profit before tax includes exceptional credits of £121 million.
2 In 1998, earnings per ordinary share and dividend cover per share are based on profit before exceptional items and after taxation for the financial year of £438 million. Including exceptional items and windfall tax, the loss per ordinary share for 1998 was 19.3 pence. In 1997, earnings per ordinary share and dividend cover per share are based on profit before exceptional items and after taxation and minority interest for the financial year of £429 million. Including exceptional credits, earnings per ordinary share for 1997 was 64.2 pence and dividend cover per share was 2.5 times. The figures for 1996, including exceptional credits of £121 million, would be earnings per share of 71.4 pence and dividend cover of 3.4 times.

Ed Wallis Chairman

CHAIRMAN'S STATEMENT

Against the backdrop of the fifth warmest winter this century, PowerGen has performed strongly to continue its unbroken, upward profit trend.

Pre-tax profits, before exceptionals, were £580 million, up from £575 million in 1996/97. Earnings per share, before exceptionals and the windfall tax, increased by 7% to 68.2p.

The Board is recommending a final net dividend for the year of 20.0p per share, making the total net dividend 15% higher than last year at 29.0p. Subject to approval at the Annual General Meeting on 13 July 1998, this dividend will be paid to shareholders on the record at close of business on 5 June 1998. Subject to approval by the directors, the Company's Scrip Dividend Plan will apply to this dividend.

The directors have undertaken a thorough review of the carrying value of the Company's UK plant portfolio and this has resulted in an exceptional write down totalling £369 million.

PowerGen's Platform for Growth

Looking ahead to the strategic development of our business, our objective is to continue to use the experience we have gained in the UK liberalisation process as a basis from which to exploit opportunities in other liberalising markets. In this way, we can create new growth platforms from which to drive future success.

PowerGen is already well established in electricity generation, trading and supply in the UK, and we have taken advantage of the convergence of the electricity and gas markets to establish a similar position in the gas supply chain.

The trend towards vertical integration in the UK is already well established, with a number of major players already active in both electricity and gas. The next step in the strategic development of PowerGen's UK business is to consolidate our position through the acquisition of a supply and distribution business.

Internationally, competition for power projects has intensified but there are still significant opportunities for companies with the critical mass and breadth of skills to exploit them. We are focusing our development activity to maximise our success in growth markets, particularly Asia and Latin America. Development will be focused on projects and acquisitions which can provide an earlier contribution than greenfield independent power projects (IPPs). We continue to assess opportunities to enter the US market.

In this way, we aim to succeed in our vision of building one of the world's leading integrated electricity and gas businesses, and deliver benefits to shareholders, customers and employees.

Future UK Market Development

The UK energy industry is at a crossroads. The Government is actively reviewing the sector with a view to developing the sustainable energy policy that is now needed to provide a framework within which the industry can continue to deliver secure, diverse and competitive sources of energy.

Competition in generation will continue to intensify as the impact of new entrant gas plant takes full effect. However, it is clear that the Pool's trading arrangements need to be reformed. Full two-sided firm bidding is critical to create an efficient market with a dynamic price signal. Full demand-side participation will create opportunities to improve services to customers.

Performance in 1997/98

PowerGen successfully secured new coal contracts and new supply arrangements with Regional Electricity Companies (RECs) to replace the five-year coal-backed electricity sales contracts which expired at the end of March 1998. Following a successful trial we also now provide a comprehensive gas shipping service to London Electricity and Swalec.

We maintained our position as the leading electricity supplier to industrial and commercial customers with a market share of 16%. We are well positioned to compete for smaller industrial and commercial customers when the market opens later this year.

In the gas market, we reshaped the Kinetica sales portfolio to focus on customers buying bundled electricity and gas.

In the UK electricity production business, we made further improvements to unit costs, plant availability and thermal efficiency. Although this partially offset the effect of exceptionally warm winter conditions and subsequent low demand growth, increasing competition from over 30 other generators meant our market share fell by 2.1% to 19.5%.

Weather conditions also had an adverse effect on capacity payments which were approximately one quarter of 1996/97 levels at £7.5/kW. The average demand weighted Pool Purchase Price increased by 3% in real terms.

Development of our CHP business continued with two new plants beginning full commercial operation during the year, and construction of a third starting after the year end. We will continue to focus on larger, complex schemes, where we can add most value.

Despite weak oil prices, our upstream gas business PowerGen North Sea Ltd (PGNS) delivered a strong performance. This business was originally set up to secure low cost gas to support PowerGen's CCGT programme and to enable the Group to gain expertise and knowledge of the business. PowerGen's CCGT plants are now operational and the Group has developed expertise in a market where gas is freely traded down the value chain.

PGNS has the capability to find and develop its own gas fields, but further growth would require the injection of considerable capital. The Board has decided, therefore, to appoint SBC Warburg Dillon Read to find a buyer who is better positioned to focus on the development of the business.

Internationally, our current operations in Australia, Hungary and Germany performed well and produced improved results. However, difficult market conditions in Australia continued and Yallourn made a loss.

Over the next two years, our international operating capacity will more than double with the completion of four major projects, at Paguthan in India, Tapada in Portugal, Paiton II in Indonesia and Csepel II in Hungary.

In Thailand, the power purchase agreement for the Map Ta Phut project has been satisfactorily renegotiated following devaluation of the Baht. However, the development project at Serang was postponed by the Indonesian Government.

We have made particular progress with further project development in India, where a power purchase agreement has been signed for a coal-fired project at Bina, Madhya Pradesh, in which we will have a 49.9% stake. A number of other greenfield and acquisition projects are currently being evaluated.

The Board

Dr Alf Roberts left PowerGen in 1997 to pursue new career opportunities after seven years as an executive director, during which time he made an enormous contribution to the development and success of the Company. We were also very sorry to lose Mike Hoffman, who died earlier this year. Mike joined PowerGen as a non-executive director in 1993, and we will greatly miss him and the substantial international expertise that he brought to the Company.

We have also welcomed two new directors to the Board. Nick Baldwin, managing director of PowerGen's UK Electricity Production business, became an executive director, bringing with him very valuable experience of our UK electricity operations. Dr David Li, chairman and chief executive of the Bank of East Asia in Hong Kong, has joined the Board in a non-executive position. David has been a member of the PowerGen International Asia Pacific Advisory Board for the past three years, where he has played a key role in supporting our development in one of the world's major long-term growth areas.

I would like to take this opportunity to thank all our staff once more for their contribution to PowerGen's performance. It is their hard work and energy that enables us to grow our business into the future.

E A Wallis Chairman

Fig 1 **Sales to the Pool** TWh

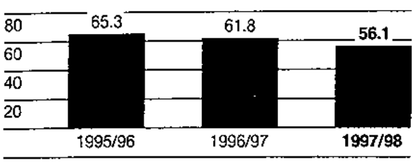


Fig 2 **Market Share** %

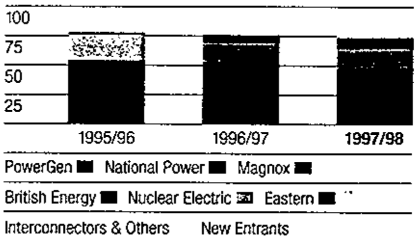
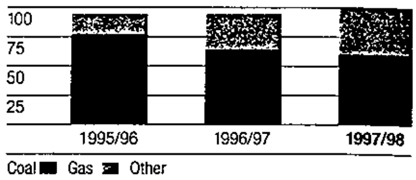


Fig 3 **Fuel Mix** % **of output**



OPERATING REVIEW

PowerGen's aim is to create one of the world's leading independent electricity and gas businesses.

The Company's core business in the UK is built on

- electricity production, including fuel purchasing and trading;
- electricity and gas marketing and trading.

These activities are complemented by the Company's businesses in upstream gas production and gas field development in the UK, and international power generation.

UK ELECTRICITY PRODUCTION

Competition in the electricity generation market continues to intensify. PowerGen's share of the market will be sensitive to the further entry of new competitor gas-fired plant expected to begin commissioning during 1998/99.

To meet this challenge to its core UK electricity production business, the Company continued to focus on optimising plant efficiency, reducing costs and maintaining a flexible fuel and plant portfolio during 1997/98.

Output and market share

A warm winter meant that total England and Wales electricity demand in 1997/98 rose by only 0.4%, to 287.7 TWh (1996/97 286.5 TWh; 1995/96 282.7 TWh).

PowerGen's market share was affected by the increase in competition, with over 30 generators now active in the electricity trading Pool. It was also affected by the improved reliability of competitor plant, and the first full year of operation of the 2 GW of plant divested by PowerGen to Eastern Group in June 1996.

As a result, the Company's output was reduced to 56.1 TWh (1996/97 61.8 TWh; 1995/96 65.3 TWh), with market share falling to 19.5% (1996/97 21.6%; 1995/96 23.1%).

The warm weather and generally good plant availability also meant that capacity payments were low in comparison to previous years. However, the production business benefited from a full year of lease income from the plants divested to Eastern Group. *See Fig 1 and Fig 2*

Plant portfolio and performance

PowerGen's plant portfolio comprises flexible coal units with good access to British and imported coal, and highly efficient gas-fired power stations. In 1997/98, the Company achieved world class performance standards in unit costs, availability and thermal efficiency. Plant performance was enhanced through the Company's capital investment programme.

A unit at Ferrybridge C power station and a further unit at Grain power station were identified as uneconomic and were closed and put into reserve respectively with effect from 1 April 1998. Increasing competition, excess generating capacity on the system and tightening environmental limits meant that these units only operated for a combined total of less than 50 hours in 1997/98.

Looking ahead, PowerGen is ensuring that its plant portfolio is well positioned to respond to future market conditions.

Construction has begun on Cottam Development Centre, PowerGen's joint venture with Siemens to develop, test and commercially operate the next generation of gas-fired power plant technology. Commissioning of the first 350 MW phase of the 500 MW plant is on schedule for 1998/99.

PowerGen's proposal to build a new gas-fired plant at Gartcosh, Scotland, is awaiting both the outcome of the public inquiry and clarification of future Government policy towards granting Section 36 consents for new gas-fired plant. The Government moratorium on gas-fired plant has also delayed PowerGen's application to convert 1,000 MW of plant to dual firing on coal and gas at Cottam and Fiddler's Ferry power stations.

Fuel

The effective management of fuel procurement plays a key role in PowerGen's profitability and operational effectiveness. The Company's balanced and diverse portfolio of fuel sources gives it the flexibility to respond to changing market conditions and to minimise costs. In 1997/98, 60% of PowerGen's electricity output was fuelled by coal; the remaining 40% by gas. *See Fig 3*

Coal

PowerGen's five year coal contracts with RJB Mining (formerly held with British Coal) expired in March 1998. During the year, the Company secured a large proportion of its coal supplies for 1998/99 and beyond from UK and overseas suppliers at competitive prices.

Gas

PowerGen's gas requirements for its gas-fired power stations and CHP schemes are sourced through non-interruptible long-term contracts direct with gas producers. The volume and price risks arising from PowerGen's gas interests are managed through an integrated portfolio approach, which enables the Company to maximise flexibility and minimise costs through active gas trading. Trading on the gas spot market is a key tool in the risk management of PowerGen's gas portfolio, and the Company took advantage of the historic lows in winter gas prices to purchase gas. This augmented the Company's long-term supply contracts and contributed a further reduction in PowerGen's average gas costs.

The flexibility of PowerGen's gas portfolio was further improved by the commissioning of its gas treatment plant at Connah's Quay during the year. The plant treats gas produced by the Liverpool Bay fields, which can then be sold into the National Transmission System for consumption at other PowerGen sites or by PowerGen gas customers.

Kinetica's pipeline business and expertise has now been integrated into PowerGen's gas business. As well as improving the pipeline business's financial performance over the year, PowerGen began construction of a new offtake from the existing Theddlethorpe to Killingholme pipeline. This should provide additional revenue from 1998/99 onwards.

Government reviews

PowerGen's UK electricity production business may be affected by the outcome of a number of reviews relating to the electricity industry initiated by the Government. Particularly significant are the Department of Trade and Industry's Review of Energy Sources for Power Generation, a review of trading arrangements by OFFER, and the Environment Agency's consultation paper suggesting a tightening of emission limits for power plants. PowerGen has been actively contributing to these reviews.

Combined heat and power

PowerGen's combined heat and power subsidiary, PowerGen CHP Ltd, is a market leader in the operation and development of large scale combined heat and power schemes. The business made steady progress during 1997/98, increasing operating profits fivefold to £5 million.

Two CHP plants, for Conoco and Iggesund Paperboard, were commissioned during the year. This increased PowerGen's total operational CHP capacity to 178 MWe at five plants. Section 37 consent for a 130 MWe plant for Brunner Mond was obtained after the year end, and construction is now under way. PowerGen CHP Ltd has also secured exclusive development agreements on two new schemes, and is negotiating with further potential customers.

By 2000/01, PowerGen will have 3 TWh of operational CHP capacity, equivalent to an additional 1% of market share in the England and Wales generation market.

The Government's proposal to increase the UK's CHP target to 10 GW by 2010 should offer further opportunities for PowerGen CHP Ltd, notwithstanding the increasing competitiveness of this market. *See Fig 4*

Renewables

PowerGen's portfolio of operational wind and hydro capacity currently stands at 90 MW.

Activity during 1997/98 was concentrated on progressing the development of further contracts secured under Government Non-Fossil Fuel Obligation orders in England and Wales, and Scotland. Construction is expected to begin on a number of these in 1999.

In addition, PowerGen secured planning consent for a 5 MW project in Cumbria, and was awarded a THERMIE grant from the EU to support plans to develop an offshore wind farm.

Fig 4 **PowerGen CHP Ltd**

Project	Output MWe	Date Approved	Operational Date
Completed			
SmithKline Beecham	14	May 92	Oct 93
Grovehurst	80	Nov 93	Nov 95
Dista	10	Jul 94	Nov 95
Iggesund	49	Jan 95	May 97
Conoco	25	Dec 95	Dec 97
Under construction			
Brunner Mond	130	Apr 96	Jul 00
Total	308		

ELECTRICITY/GAS MARKETING AND TRADING

Since the Pool price can be volatile, both buyers and sellers of electricity enter into contracts to predetermine the price paid for electricity.

PowerGen seeks to contract fully its expected electricity production through wholesale contracts with the Regional Electricity Companies (RECs) and direct sales contracts with industrial and commercial customers. These contracts are supplemented by short-term electricity trading which balances production and sales activity.

The direct sales market is now approaching the final stage of liberalisation, and customers in the under 100 kW market should be able to choose their preferred electricity supplier from September 1998. As competition in this market intensifies, retail electricity prices are expected to reduce over the next few years. While this will put greater pressure on PowerGen to maintain margins, it aims to sustain its market leading position by offering customers added value electricity and gas packages, and building its brand through a focused communications campaign.

The liberalisation of electricity markets across Europe may present new opportunities for PowerGen to expand its energy marketing and trading activities. PowerGen will assess the potential for activity as the individual markets open up.

Sales to the RECs

Over half of PowerGen's generation output in 1997/98 was covered by five year coal-backed contracts with the RECs. These arrangements expired in March 1998, and PowerGen has been successful in securing replacement contracts for 1998/99 and beyond. This wholesale market has become increasingly competitive, with a growing number of competitors offering a wider range of products. PowerGen maintained its competitive edge through the development of new types of contract, including products which enable the RECs to manage the risks of the newly liberalising under 100 kW market.

PowerGen's strategy for market liberalisation recognises the importance of combined gas and electricity products in the domestic market. A significant new development during the year was the introduction of a comprehensive gas shipping service to REC customers. This service includes the purchase of gas and its delivery to domestic and industrial customers of the RECs.

PowerGen aims to be one of the largest gas shippers for the domestic market, utilising its skills in gas trading and balancing. Following a successful trial, the Company now provides gas shipping services to two RECs, Swalec and London Electricity. Over half a million customers are expected to be supplied under these arrangements in 1998/99, the first full year of operation.

Direct sales

During the direct sales round for the year beginning April 1998, PowerGen successfully defended its position as the market leading electricity supplier, achieving a 16% share of the competitive industrial and commercial market. Over 80% of customers renewed their contracts. PowerGen has rebalanced its customer portfolio away from a smaller number of large customers towards a broader mix from all market sectors, and now supplies customers on some 3,000 sites.

PowerGen also made progress in building a strong business in Scotland. For 1998/99, it has increased the volume it supplies there by 21%, with the number of sites served rising to over 200. This represents a market share of 5%.

Liberalisation

PowerGen is committed to competing in the under 100 kW market when it opens up to competition, currently expected to start from September 1998.

In preparation for this final stage in the liberalisation of the electricity supply market, the Company has invested £7 million in a two year communications programme to build the PowerGen brand. This is positioning the Company to compete effectively in the under 100 kW market, both directly and through the RECs.

During the year, PowerGen invested in new systems to enable it to support a major expansion of the number of sites served. It has also largely completed a project to deliver new business process and information technology to support the direct sales business within the new trading arrangements. The Company has also responded to the needs of existing customers by developing and implementing electronic data interchange technology.

Kinetica Ltd

The integration of the retail operations of Kinetica, PowerGen's gas marketing and transportation business, into the PowerGen structure was completed ahead of schedule. Account managers are now able to sell both electricity and gas to existing gas customers.

The Kinetica retail business, which has a 10% market share, completed the year on budget despite the adverse impact of the mild winter on gas demand. Kinetica's portfolio of customers has been reshaped for 1998/99 by moving away from high volume, low margin, gas only business. PowerGen is now looking for ways to improve the performance of the gas retailing business further.

POWERGEN NORTH SEA LTD

PowerGen's upstream gas subsidiary, PowerGen North Sea Ltd, increased its contribution to profits from its investments in gas field development and production in the North Sea and Morecambe Bay.

In 1997/98, it delivered a strong financial performance against weak oil prices. This was due to continuing high output from the Ravenspurn North and Galleon gas fields, and increased oil production from Liverpool Bay as the field reached full output. The Liverpool Bay fields supply the gas requirements of Connah's Quay power station.

During the year, PowerGen North Sea Ltd secured a farm-in agreement with LASMO on the Chiswick gas field, and won operating rights for two blocks on the UK Continental Shelf.

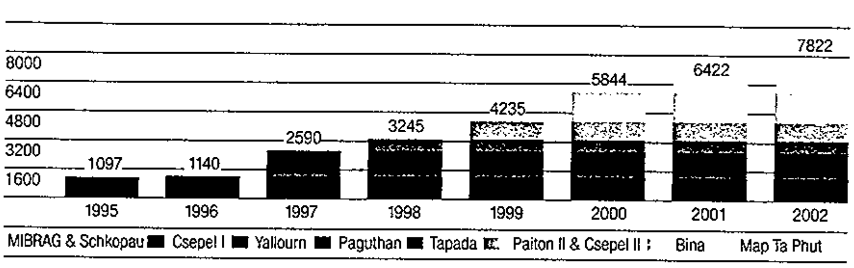
POWERGEN INTERNATIONAL

PowerGen International (PGI) is continuing to build a strong international power development business which will deliver shareholder value into the long term. The business is supported by PowerGen's core skills in electricity and fuel trading, project development, engineering project management and power station construction and

Fig 5 **PowerGen International**

Project	Total MW	PG owned %	PG share MW	Operational Date
Operational				
MIBRAG, Germany	197	33.33	66	Operational
Schkopau, Germany	900	22	200	Operational
Csepel I, Hungary	43	100	43	Operational
Yallourn, Australia	1450	49.95	724	Operational
Under construction				
Paguthan, India	655	27.8	182	First unit operational
Tapada do Outeiro, Portugal	990	49.99	495	1998/99
Paiton II, Indonesia	1220	35	427	1999
Total	5455		2137	
New projects				
Csepel II, Hungary	389	100	389	2000
Bina, India	578	49.9	288	2001
Map Ta Phut, Thailand	1400	30	420	2002/03

Fig 6 **Gross Generating Capacity** MW



operation. PGI currently has a total committed investment of around £700 million in 7,800 MW of plant in India, Asia Pacific, and Europe. It is building the business through asset acquisitions and greenfield projects in growth markets.

Opportunities for new project development in the Asian power industry are expected to increase provided that the current economic difficulties can be resolved. Continued strong demand growth and the forthcoming state privatisations in the Indian electricity industry mean that the climate for investment there also remains very encouraging. PGI's development activity is therefore focused on these two regions, together with the US, the world's largest energy market. It is also looking at privatisation opportunities in Brazil. In Europe, it is focusing on improving the efficiency of existing operations.

Despite difficult market conditions, the financial performance of PGI will be enhanced over the coming years through the completion of projects currently under development or construction, the effective management of existing operational assets, and the pursuit of further project opportunities. *See Fig 5 and Fig 6*

India

India is one of the world's largest developing private power markets. PowerGen has established a leading position there as one of the first foreign IPP developers in the country to operate a private power project – the 655 MW gas and naphtha plant at Paguthan, Gujarat. During the year, PowerGen increased its equity stake in the GTEC consortium which is developing the project from 20% to 27.8%. The first unit at the plant has been in commercial operation in open cycle mode since the end of 1997, and has made a small contribution to profit. Full combined cycle operation is on track to commence in October 1998.

PowerGen has built upon its success at Paguthan through significant advances in other Indian development activities. Financing is under way for a 578 MW coal-fired project at Bina, in Madhya Pradesh. PowerGen will have a 49.9% stake in the £455 million project, which is being developed in partnership with the Aditya Birla Group. A number of other greenfield and acquisition projects are currently being evaluated.

Asia Pacific

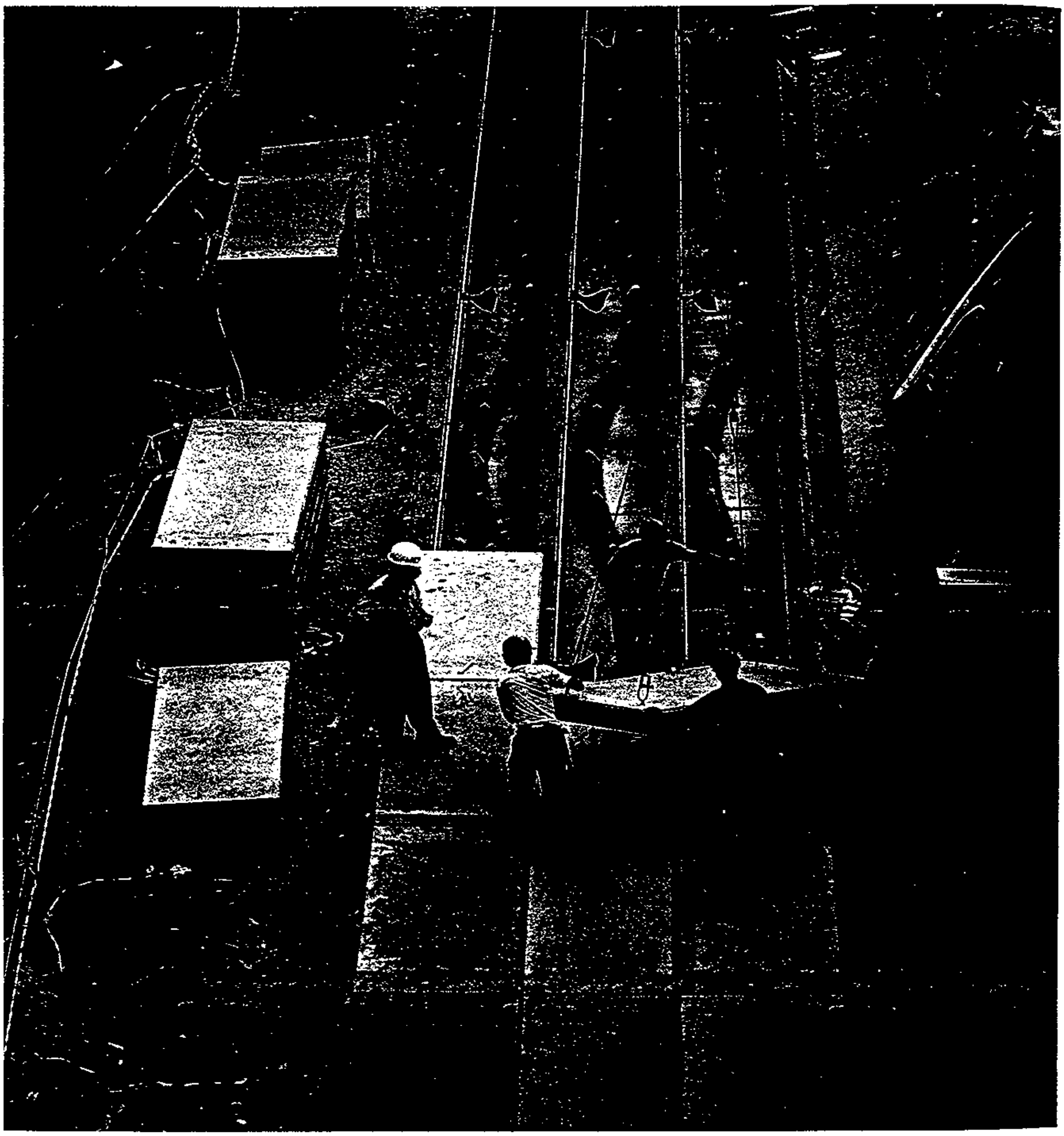
The financial difficulties in Indonesia and Thailand have limited both the electricity demand growth in the region and the financial capacity of many Asian electricity utilities. The number of greenfield IPP projects available for development has consequently reduced, and competition for those that remain has become more intense. However, the crisis has led to the emergence of a number of acquisition-based opportunities, particularly in Thailand. In view of recent events in Indonesia, PowerGen is taking a cautious approach to the region.

Indonesia's financial problems have to date had little effect on the Paiton II coal-fired plant, which PowerGen is developing with its partners through the project company PT Jawa Power. Construction of Paiton II is proceeding to time and budget, and PowerGen will operate and maintain the plant when it becomes commercially operational in 1999. However, the project to build a 450 MW coal-fired plant at Serang, Indonesia, has been delayed by the Indonesian Government as a result of the local financial situation.

In Thailand, the renegotiation of the power purchase agreement for the Map Ta Phut coal-fired project has been completed following the resolution of difficulties arising from the devaluation of the local currency. Other associated contracts are currently being finalised, with commissioning of the plant's first unit planned for 2002. PowerGen will operate and maintain the plant on behalf of its partners in the consortium, BLCP Ltd.

Australia

In Victoria, Australia, PowerGen has a 49.95% stake in Yallourn Energy. The financial performance of Yallourn has been improved through the negotiation of sales contracts which provide an effective hedge against Pool prices, the effective management of the operation's cost base, and the strength of sterling. It is still making a small loss, however. The disappointing market conditions in Victoria are not expected to improve until the privatisation of the neighbouring New South Wales market.



Construction work continues at Portugal's first gas-fired plant at Tapada do Outeiro. The plant will begin full commercial operation in 1998/99.

Europe
The lignite-fired 900 MW power plant at Schkopau near Leipzig, Germany, and the neighbouring MIBRAG mining and power generation operation are both performing well. PowerGen and its partners on each project are focusing on achieving technical improvements and cost reductions. However, the sterling value of their profits was adversely affected by the weakness of the Deutschmark.

The construction of the 990 MW gas-fired plant at Tapada, Portugal is progressing well, with commissioning of the first two units under way. Full commercial operation is on track for 1999. PowerGen's subsidiary, Portugen, will operate and maintain the plant on behalf of the Turbogas consortium.

In Hungary, PowerGen has improved the profitability of its fully owned co-generation plant, Csepel I. The financing and permitting arrangements for the 389 MW gas-fired plant, Csepel II, have been finalised, with site preparations under way.

POWERGEN PROPERTY
The National Distribution Park at Hams Hall continues to attract considerable interest from both end users and investment funds wanting a direct involvement in the development. PowerGen's other key sites are being actively marketed for development by industrial and commercial users.

ELECTRIC VEHICLES
Since the year end PowerGen has decided to close its Wavedriver subsidiary, which designs, develops

and manufactures recharging systems for electric vehicles. The underlying technology will be made available to third parties under licence. PowerGen remains highly supportive of the development of new electric vehicle technologies, and is continuing its involvement in the Coventry Electric Vehicle Project.

ENVIRONMENTAL PERFORMANCE
PowerGen's UK operations recorded another year of improved environmental performance, largely as a result of increased generation from gas-fired plant. The Company outperformed the emissions reductions targets set by Government for sulphur dioxide and nitrogen oxides. Emissions of carbon dioxide per unit generated also fell in the 1997 calendar year, by 8%. *See Fig 7*

The Environment Agency (EA) issued a Consultation Paper at the beginning of 1997, proposing tighter limits for sulphur dioxide emissions for power stations than those previously issued by the EA in March 1996. PowerGen is responding to this consultation process.

To reinforce its commitment to environmental responsibility, PowerGen began a programme to achieve worldwide certification under the international standard for environmental management, ISO 14001, in April 1997. Two power stations, Killingholme and Cottam, have already achieved certification, and the Company is on target for all relevant business operations to have met the standard by 1999.

PowerGen was not subject to any environmental prosecutions from the Environment Agency during the year.

R&D
PowerGen's research and development activities, conducted at its Power Technology Centre, are designed to give PowerGen a technical advantage in competitive markets. This work helps to differentiate PowerGen from its competitors through improving the profitability of operating plant and ensuring that new plant and plant acquisitions operate successfully. It also helps the Company to meet environmental regulations and supports its moves into new areas of business.

In 1997/98, PowerGen invested £6 million in its R&D activities (1996/97 £6 million; 1995/96 £7 million). In the UK, Power Technology conducted a programme of work to maintain the Company's high levels of plant performance and availability. Cost savings have also been made as a result of the development of a new power station control system which improves combustion efficiency, and through studies of the potentially damaging effects of 'two shift' operation on existing power plant.

Overseas, Power Technology broadened its support for PGI's acquisition and greenfield projects, providing services in new areas such as fuel assessment and new plant design.

A key area of Power Technology's research and development work concerns PowerGen's environmental performance. It has initiated a programme of work to assess the impact of more stringent environmental emissions limits on plant performance. It has also assisted a number of the Company's locations in their pursuit of the ISO 14001 standard for environmental management.

HEALTH AND SAFETY
During 1997/98, PowerGen adopted a vision for health and safety into the next century. This vision sets out PowerGen's goal of being recognised as a world leader in occupational health and safety performance within the electricity and gas sectors.

Progress was made towards that goal during the year, with the Company's accident frequency rate falling to an all-time low of 0.06, and its UK business units winning a record 24 awards in the annual presentations made by RoSPA for occupational health and safety. The awards are universally recognised as setting the standard for health and safety excellence throughout British industry.

EMPLOYEES
At the end of 1997/98, PowerGen employed 3,453 staff, of whom 2,823 were based in the UK and 630 overseas.

PowerGen is committed to the training and development of its people, both through in-house training resources and external providers. 12 business units have achieved the Investors in People award.

PowerGen's Values, 'Working Together, Working Better', were reinforced during the year through the launch of the Business Excellence Awards which reward success in the areas of Customer/Supplier Focus, Health and Safety, Innovation and Improvement, and Community.

COMMUNITY
PowerGen's programme of community involvement is focused on the areas of education, science and technology, the environment, and the local communities around its sites.

During 1997/98, the Company launched a new educational initiative for over 200 primary schools around its UK sites. Based on simple weather monitoring activities, the project is aimed at encouraging children to develop awareness of their local environment and an interest in science and mathematics.

In addition to such corporate initiatives, PowerGen's operating sites in the UK also host visits and nature projects for local schools and associations, as well as offering work experience and student placements.

Fig 7 **Environmental Performance**

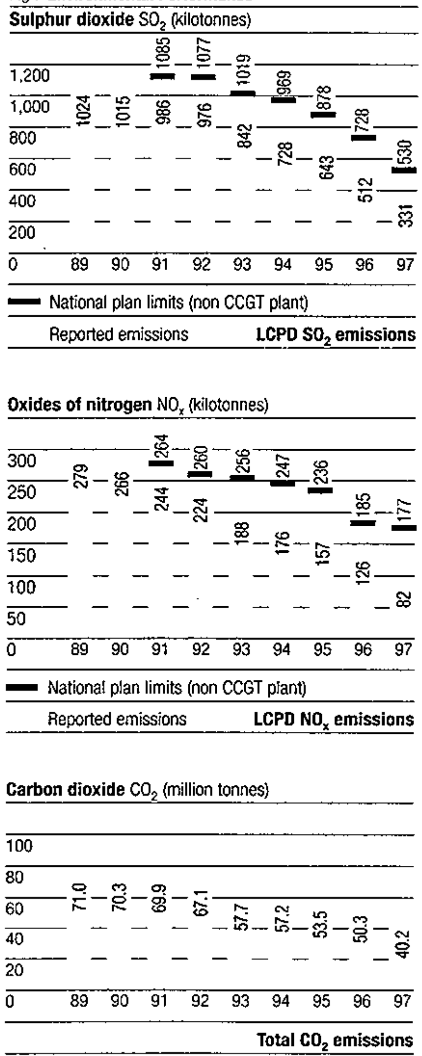


Fig 8 **Turnover**

	1997/98 £m	1996/97 £m	1995/96 £m
Sales through the Pool	**1,897**	2,071	2,184
Direct sales to customers	**622**	656	674
Gas trading and retail sales	**257**	43	–
Other energy and hydro carbon sales	**156**	128	75
	2,932	2,898	2,933

FINANCIAL REVIEW

RESULTS

Turnover

Turnover from operations within the Group has increased despite the lower sales through the Pool. These were anticipated as the marketplace became increasingly competitive. The impact of a warm winter also depressed overall demand for electricity. Gas trading and retail sales are now separately identified and the figures in previous years have been adjusted to present a like for like comparison. *See Fig 8*

The increase in gas sales reflects the inclusion of Kinetica, now a wholly owned subsidiary, in this year's results. Other sales by the Company's upstream gas and combined heat and power subsidiaries have also increased.

Operating costs

Details of Group operating costs are set out in note 2 to the accounts. Fuel costs continued to fall from £969 million in 1995/96 to £942 million in 1996/97 and £888 million in 1997/98. This fall largely reflected a reduction in output. However, average fuel costs per unit of generation in the core business have risen to 1.51p/KWh (1996/97 1.48p/KWh, 1995/96 1.48p/KWh) following an increase in the proportion of gas within fuel burned.

Pool purchases and other costs of sales consist principally of the cost of electricity purchased to meet direct sales obligations; charges from National Grid Group and the Regional Electricity Companies for the use of their transmission and distribution systems, and costs of the gas trading and retail businesses. These costs stand at £965 million (1996/97 £803 million, 1995/96 £762 million), following an increase in gas trading activities and the inclusion of gas retail costs in the Kinetica business which was acquired in March 1997. This is consistent with the increase in turnover already described above.

Staff costs rose to £128 million (1996/97 £121 million, 1995/96 £131 million). This reflected an increase in staff numbers in the current year with the acquisition of Kinetica and the continued growth of our International business. Within the UK core business staff numbers fell by 235 to 2,509 at 29 March 1998.

The Group's total depreciation charge for the year was £172 million (1996/97 £157 million, 1995/96 £132 million). Last year the charge shown in the accounts also included £98 million of additional depreciation following the closure of Ince power station with effect from 31 March 1997. In 1998, exceptional operating charges include a further writedown of fixed assets of £339 million, as discussed below.

Other operating charges include the costs of running both the UK and international businesses, together with the supporting corporate infrastructure. Major business costs include maintenance and overhaul costs at power stations, business rates (in the UK) and insurance and business development. These costs reduced between 1995/96 and 1996/97 but rose during the current year with an increase in the Group's activities outside the core business, both in the UK and overseas.

Exceptional items

The core UK electricity business faces a very competitive marketplace, as new gas fired plant continues to commission and output from nuclear plant increases. The directors have undertaken a thorough review of the Company's UK plant portfolio in the light of these market changes and have written down the value of plant by £339 million to reflect its future worth to the business. The majority of this writedown relates to our oil-fired power station at Grain. £30 million of associated business restructuring costs have also been charged against profits, which will be spent over the next three years.

Other operating income

Other operating income rose by £8 million to £128 million this year, reflecting principally income from the asset disposal arrangement entered into with Eastern Group plc during 1996/97. In 1997/98 this operating lease income totalled £99 million (1996/97 £65 million, 1995/96 £nil). The income is linked to total generation by Eastern Group plc, which was higher than in the previous year, since it included a full year's output rather than nine months in 1996/97. In 1995/96 other operating income totalled £145 million of which £121 million comprised exceptional credits as the result of an actuarial review of the funds held by the Group's captive insurance company to cover liability and damage claims, and a reassessment of provisions for litigation.

Operating profits excluding exceptionals were £591 million (1996/97 £578 million, 1995/96 £572 million). The Group's UK electricity and gas business continues to contribute the majority of the Group's profits. The International business contributed £9 million of profits from operations. This came primarily from the Company's German investments and was achieved despite £3 million of adverse currency movements due to the strength of sterling. £22 million was spent in further developing our overseas activities, particularly in India and Asia. The Group's new businesses in the UK again made an increased contribution, totalling £27 million, including £22 million from PowerGen North Sea Ltd, the upstream oil and gas business. Further analysis of the Group's profit before tax is set out in note 7 to the accounts.

Interest

Interest costs increased to £11 million (1996/97 £3 million, 1995/96 £6 million). The Company's long-term borrowing costs are similar to previous years, but following the commissioning of Connah's Quay, no element of interest costs has been capitalised in the balance sheet in 1997/98 and therefore the charge in the profit and loss account is higher than in previous years.

Inflation

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

TREASURY MANAGEMENT

As a major international business, PowerGen can be exposed to movements in market interest rates and foreign currency exchange rates. Active steps are taken to minimise these risks. Interest rate risk is managed primarily through using a combination of fixed and floating rate borrowings and interest rate swaps, and foreign currency rate risks through foreign exchange contracts and options. Derivative financial instruments such as swaps and options are primarily used where there is an underlying exposure. It is PowerGen's policy not to enter into speculative currency and interest rate transactions.

The majority of PowerGen's income and expenditure is settled in pounds sterling. However, the Company enters into foreign exchange contracts as a hedge against commitments, principally for fuel purchases denominated in foreign currencies. The purpose of these contracts is to protect PowerGen 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. Details of the Group's foreign exchange contracts, and swaps are set out in note 29 to the accounts.

There are three main elements to PowerGen's currency exposure management policies. These concern translation exposures, economic exposures and transaction exposures.

PowerGen has assets or investments on its balance sheet which are denominated in currencies other than sterling, the Group's reporting currency. PowerGen's policy is, where practicable, to hedge the translation exposure to protect the sterling net asset value. It hedges most of its overseas investments with foreign currency borrowings.

Long-term economic exposures, for example from dividend income streams denominated in currencies other than sterling are not hedged by PowerGen.

PowerGen hedges contractually committed transaction exposures, as soon as the commitment arises, and also covers regular business cash flows, and more uncertain cash flows if market conditions are favourable. All currency hedging is strictly controlled and regularly monitored.

The risks arising from exchange rate and interest rate exposures are managed by a central Group Treasury. A group-wide cash forecasting and exposure reporting structure exists which ensures regular reporting of future positions, both short and medium term, to management. The operations of Group Treasury are governed by Board approved policies and delegated authorities supplemented by procedures and bank mandates. Its activities are subject to regular review by senior management and close scrutiny by PowerGen's internal audit department. Financial liabilities, including guarantees, of the PowerGen Group are negotiated by, and managed by, Group Treasury.

As part of its operating activities PowerGen actively trades in the gas market to manage the price and volume risks associated with its gas business. The Group's portfolio is strictly maintained and controlled through delegated authorities and procedures, including transaction limits and credit risk management.

There has been no change since the year end to the major financial risks faced by PowerGen, or to the Company's approach to the management of these risks.

Capital resources

It is PowerGen'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.

PowerGen manages its cash requirements through a combination of long-term fixed borrowings, committed bank facilities and short-term funding. At 29 March 1998 it had total borrowings of £596 million.

The Group had £586 million of long-term borrowings which comprises two £250 million bonds, maturing in 2003 and 2006, and long-term currency loans with the European Investment Bank totalling £86 million (sterling equivalent) maturing in 1999 and 2000. Fixed interest rates on these borrowings vary between 7.9% and 8.875%. In addition, the Company has an £800 million syndicated revolving credit facility which expires in 2000, which it can call upon when required.

The Group's short-term funding is usually provided through uncommitted facilities, principally a US $500 million Euro Commercial Paper (ECP) programme backstopped by £800 million revolving credit facility mentioned above. However at 29 March 1998 no amounts were outstanding under this programme (1997 £127 million). At 29 March 1998 the Group had £10 million of short-term loans and bank overdrafts (1997 £5 million).

The Group's policy is to target a 50:50 ratio of fixed to floating debt maintained within a band of 66:34. This reduces 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 29 March 1998 PowerGen had £363 million of interest rate swaps with maturities of up to nine years.

At 29 March 1998 PowerGen had £115 million of cash and short-term investments, the majority of which were 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.

The Group's net borrowings at 29 March 1998 were £481 million compared with £655 million a year earlier. The overall interest cost for the year, when compared with average net borrowings, was 8.4%. With gearing (net debt as a percentage of net assets) at 30.8% (1997 34%) the balance sheet remains strong.

Cash flow from operations

The Consolidated Cash Flow Statement on page 25 is in accordance with FRS1, as revised. Net cash flow can be summarised as in *Fig 9*.

Fig 9 **Cash flow from operations**

	1997/98 £m	1996/97 £m	1995/96 £m
Operating cash flow	**548**	695	755
Interest	**(32)**	(4)	(18)
Tax	**(131)**	(299)	(67)
Dividends	**(151)**	(144)	(111)
Free cash flow	**234**	248	559
Capital expenditure and investment	**(188)**	(219)	(320)
Acquisition expenditure	**–**	(223)	(352)
Sale of investments	**89**	386	–
Other	**30**	40	(29)
Trading cash flow	**165**	232	(142)
Issue of shares	**9**	19	2
Share buybacks	**–**	(572)	–
Net cash flow	**174**	(321)	(140)

Fig 10 **Capital expenditure and investment**

	1997/98 £m	1996/97 £m	1995/96 £m
UK Electricity and Gas	**61**	73	71
PowerGen CHP and Renewables	**16**	36	29
PowerGen North Sea	**5**	12	110
PowerGen Property	**25**	20	6
International Projects:			
– Tapada do Outeiro	**9**	38	50
– GTEC	**22**	11	2
– PT Jawa Power	**21**	4	15
– Csepel II	**5**	–	–
Loan repayments	**(15)**	–	–
Other long term investments	**39**	25	37
	188	219	320

Free cash flow of £234 million was slightly lower than last year. This reflected lower operating cash flows from the business, offset by lower tax payments. 1996/97 tax figures include £128 million of ACT relating to the share buyback programme in that year, which were recovered this year by way of reduced Corporation tax payments and ACT repayments of £60 million. The 1997/98 figure also includes £101 million of windfall tax payments.

Capital expenditure and investment during the year included £146 million within the UK and £42 million on overseas projects. A full analysis of expenditure is set out in *Fig 10*.

In addition to the amounts shown above, at 29 March 1998 the Company had commitments of £335 million for capital expenditure and investment, of which £215 million related to expenditure to be incurred after one year. £309 million of these commitments related to international projects.

Acquisition expenditure during 1996/97 represented the investment of £223 million in 49.95% of Yallourn Energy Pty Ltd and the sale of investments in that year included the proceeds from the sale of shares in Midlands Electricity plc which has not been repeated this year. During 1996/97 PowerGen repurchased 106 million ordinary shares at a total cost of £572 million. There have been no share buybacks during the current year.

Taxation

The tax charge, excluding windfall tax and exceptional items, amounted to £142 million. The effective rate, before windfall tax and exceptional items, was 24.5% compared with 26.3% in 1996/97 and 27.2% in 1995/96. The fall in the rate this year reflects the lowering of Corporation Tax rates from 33% to 31% in the July Budget.

The windfall tax gave rise to a charge of £202 million, of which £101 million has been paid during 1997/98. The balance will be paid on 1 December 1998, from available cash resources.

US GAAP INFORMATION

A reconciliation between the Group's results in accordance with UK GAAP and those results in accordance with US GAAP is set out on pages 39 and 40 of the accounts.

Board of Directors, as at 29 March 1998

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Chairman and Chief Executive
Edmund Wallis (58) He was appointed Chief Executive in March 1990 and Chairman in July 1996. In May 1998 he became non-executive chairman of LucasVarity plc, having been deputy chairman since October 1997. He is a non-executive director of Mercury European Privatisation Trust plc.

Directors
Colin Short* (63) Deputy Chairman (non-executive). He was appointed a director in May 1996. He has been chairman of United Biscuits (Holdings) plc since 1995, and prior to that was Chairman, Australia and Head of Asia Pacific Region of ICI plc. He chairs the Audit, Nominations and Remuneration Committees of the PowerGen Board.

Deryk King (50) Group Managing Director (executive). He was appointed a director in March 1996. From 1973 to 1996, he held various posts with ICI plc, finally managing director, ICI Polyester and chairman, ICI Far Eastern Ltd. He is a non-executive director of Kvaemer ASA.

Nick Baldwin (45) Executive Director. He was appointed a director in February 1998 and retains the role of Managing Director, UK Electricity Production to which he was appointed in 1996. He joined the CEGB, the predecessor of PowerGen, in 1980 and his previous appointments with PowerGen include Director of Generation, Director of Strategy and Head of Strategic Planning. He is a director and Trustee of Midlands Excellence.

Sir Frederick Crawford* (66) (non-executive). He was appointed a director in June 1990 and is Chairman of the Criminal Cases Review Commission. He is a Fellow of the Royal Academy of Engineering and has held university appointments in electrical engineering at Stanford and Aston Universities. He was Vice-Chancellor of Aston University for 16 years.

Anthony Habgood* (51) (non-executive). He was appointed a director in November 1993 and is Chairman of Bunzl Plc., having joined that company in 1991. He was previously chief executive of Tootal Group plc. He is a non-executive director of Schroder Ventures International Investment Trust plc and of National Westminster Bank Plc.

Peter Hickson (52) Group Finance Director (executive). He was appointed a director in July 1996; having been Group Finance Director at MAI plc since 1991. He had previously held various senior management positions at United Scientific Holdings PLC and Tarmac Building Products Ltd. He is a non-executive director of Lex Service plc.

Michael Hoffman* (non-executive) Mr Hoffman died on 17 April 1998.

Dr David K-P Li* (59) (non-executive). He was appointed a director in January 1998. He is Chairman and Chief Executive of The Bank of East Asia Limited, having been a director since 1977, Deputy Chairman of Hong Kong Telecommunications Limited and holds directorships of numerous companies in the Far East and elsewhere including The Hong Kong and China Gas Company Limited.

Roberto Quarta* (49) (non-executive). He was appointed a director in July 1996. He is Chief Executive of BBA Group plc, having joined the board in 1993, and has also been a director of BTR plc.

Sir Alan Thomas* (55) (non-executive). He was appointed a director in May 1996 He has been chairman of Firth Holdings plc since 1994 and was previously Head of Defence Export Services Organisation at the Ministry of Defence. He is also chairman of Microcap Growth Investment Trust plc.

Company Secretary
David Jackson (45) Company Secretary.

*Member of the Audit, Nominations and Remuneration Committees.

Directors' Report

The directors present their report and the audited accounts of PowerGen plc for the financial year ended 29 March 1998.

Activities

The Company's principal activity is the generation of electricity and the marketing and trading of electricity and gas. The Chairman's Statement and the Operating and Financial Review, which form part of this report, describe the development of the business during the financial year and the outlook for the future. They also contain information about the Company's research and development activities and events which have taken place since 29 March 1998. Action being taken by the Company in respect of Year 2000 issues are described in the Report on Corporate Governance, on page 16.

The Company is committed to ensuring that the environmental implications of its business in all of the countries in which it operates are properly identified, assessed and managed. The Company separately publishes an Environmental Performance Report. Copies of the 1997 Report are available from the Company Secretary.

Profit and Dividends

Profit before taxation for the financial year to 29 March 1998 was £211 million (a decrease on the figure for 1996/97 of £366 million). Excluding exceptional items, profit before tax increased by 1% to £580 million (1996/97 £575 million).

The directors are recommending a final dividend of 20.0p net per ordinary share, payable on 31 July 1998 to shareholders on the register at 5 June 1998, making a total dividend for the year of 29.0p net per ordinary share. This compares with a total dividend paid for the financial year to 30 March 1997 of 25.2p net per ordinary share.

After providing for taxation (£335 million), and after payment of the dividend (£189 million), the retained loss for the year amounted to £313 million.

Substantial Shareholdings

As at 20 May 1998, the Company had been notified of the following interests in 3% or more of the issued ordinary share capital of the Company:

- The Bank of New York (6.249%); and
- the Prudential Corporation group of companies and the segregated funds which they manage for clients (4.77%)

The Company is not aware of any other interest in the issued ordinary share capital of the Company of 3% or more.

Fixed Assets

DTZ Debenham Thorpe Ltd, property consultants, updated the valuation of the Company's properties, excluding the specialised parts of its power stations' sites and certain minor properties, on the basis of the properties' open market value within their existing use in the Company's occupation, as at 29 March 1998. Based on that valuation, the value of current properties held at 29 March 1998 is £123 million, approximately £47 million in excess of their net book value at the date of these accounts. The directors consider that there has been no significant reduction in value since the date of the valuation.

The Company's properties are subject to the property clawback debenture arrangements entered into shortly before flotation which entitle HM Government to a proportion of any property gains (above certain thresholds) accruing to the Company.

Directors

For clarity of presentation, information required in accordance with the provisions of the Companies Acts regarding the remuneration, share options and beneficial interests of the directors and the interests of the directors and their families in the share capital of the Company is included in full in the Report on Directors' Remuneration and Related Matters starting on page 17, as are details of the service contracts, if any, of all the directors.

Employees

The Company's Values, 'Working Together, Working Better' underpin the approach taken to business and the effort to deliver value to both employees and customers.

PowerGen 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. 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, PowerGen will seek to maintain their employment through training, redeployment and adjustments to the job role and workplace, where it is reasonable and practicable to do so.

A high priority is placed on effective two-way communications with staff. Managers regularly brief their teams on the business challenges facing PowerGen and the implications for the Company's operations and future development. Feedback and views from staff are sought regularly through face-to-face discussions, surveys and other communications exercises and are viewed as an important contribution to improving the business. In addition, there is a well-established framework for local and company-wide consultations with employees and their representatives on a wide range of employment related issues.

The Company's staff and contractors worldwide have continued to support our commitment to improving safety management systems, reducing numbers of accidents and reducing occupational health risks. The Company's overall Health and Safety performance has maintained a high level, with a slight improvement over last year. The Royal Society for the Prevention of Accidents has recognised the Company's Health and Safety performance with a 'Highly Commended' Award in the Electricity Industry Sector.

Employee Share Schemes

The Company has three Inland Revenue approved employee share schemes, the PowerGen ShareSave Scheme, the PowerGen Executive Share Option Scheme and the PowerGen Profit Sharing Scheme. The first two cover respectively share options available to employees generally and share options available to executives. The last-mentioned scheme is not currently used.

Contributions for Political and Charitable Purposes

Donations to charitable organisations during the financial year amounted to £290,889.

No political donations were made.

Policy on Payment to 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;

POWERGEN

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 supports the Prompt Payers' Code of the Confederation of British Industry 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 Company's trade suppliers calculated in accordance with the requirements of the Companies Act is 16 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 14 July 1997 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 financial year to 29 March 1998, being due to expire at the end of the 1998 Annual General Meeting. The directors intended that this power would be exercised only under certain circumstances and it is proposed that the authority be renewed at the forthcoming Annual General Meeting.

Summary Financial Statements
The Company is permitted under the Companies Act to send its shareholders summary financial statements in place of its full Report and Accounts. Full financial statements are available to shareholders on request and will be provided on receipt of a written request to the Company Secretary to that effect.

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

Annual General Meeting
The ninth Annual General Meeting of the Company will take place at 11.00 am on Monday 13 July 1998 at The International Convention Centre, Birmingham. A Circular letter from the Chairman of the Company explaining the business to be considered at the meeting, together with a Notice of the Meeting, accompanies this Report.

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 Group and of the profit or loss of the Group for that year. The accounts have been prepared on a going concern basis and a statement confirming this is included in the Report on Corporate Governance beginning on page 16.

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; and
• 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 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.

By order of the Board

D J Jackson
Company Secretary
20 May 1998

Reports on Corporate Governance and Directors' Remuneration and Related Matters

POWERGEN

Report on Corporate Governance

The Company has continued to comply fully with the provisions of the Code of Best Practice contained in the report of the Committee on Financial Aspects of Corporate Governance ("the Code") and with Section A of the Best Practice Provisions annexed to the Listing Rules of the London Stock Exchange ("the Listing Rules").

Following the publication of the final report of the Committee on Corporate Governance ("the Hampel Committee") and the subsequent preparation of the draft Combined Code setting out the principles of good governance and code of best practice, the Company is awaiting the finalisation of revised Listing Rules in respect of reporting on issues of corporate governance in the future. Any changes made in the Listing Rules will be addressed in the preparation of future reports.

Going Concern

The directors have reviewed the Group's budget and cash flow forecast for the year to 4 April 1999 and outline projections for the subsequent four years. They have considered the major risks connected with the Group's business. The directors confirm that they have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. The directors continue to adopt the going concern basis in preparing the Company's consolidated financial statements.

The Board

During the year, five executive and seven non-executive directors served on the Board. Mr Colin Short, as Deputy Chairman, acts as the senior non-executive director. Dr David Li joined the Board on 28 January 1998 as a non-executive director and Mr Nick Baldwin joined the Board on 25 February 1998 as an executive director. Dr Alf Roberts resigned as an executive director on 19 September 1997. Mr Michael Hoffman, a non-executive director since 1993, died on 17 April 1998. Brief personal details of each of the directors serving at the end of the year under Report are given on page 13.

The Board has reserved to itself powers in respect of areas significant to the Company's business. This includes the approval of Corporate Plans and annual budgets, acquisition and disposal of segments of the business, major investment and financial decisions, appointments to the Board and to the boards of subsidiary companies and changes to the management and control structure of the PowerGen Group (including key policies and procedures and delegated authority limits).

The Board meets routinely at regular intervals, with additional meetings taking place as necessary. In total, the Board met ten times in the last year. To facilitate the smooth transaction of business within the Company, the Board has established a number of standing and ad hoc committees. The terms of reference of each committee have been approved by the Board and, where applicable, comply with the Code.

The Remuneration Committee

The Remuneration Committee was set up in 1990. Membership comprises all of the non-executive directors, under the chairmanship of Mr Colin Short. The Chairman attends meetings of the Committee other than when matters concerning himself are under discussion. The Committee is responsible for determining and keeping under review the remuneration packages of the executive directors, administering the Company's incentive schemes for employees (including the grant of share options) and ensuring that the Company's succession policy is kept under review. A Report on Directors' Remuneration and Related Matters is set out on pages 17 to 21. During 1997/98 the Committee met four times.

The Audit Committee

The Audit Committee was established in 1990 and its membership comprises all of the non-executive directors. All executive directors have the right to attend its meetings. The Committee met three times during the year. All meetings are attended by senior members of the Company's External Auditors and the Head of the Company's Internal Audit Department. The Audit Committee reviews issues of accounting policy and presentation for external financial reporting, monitors the work of the internal audit function and ensures that an objective and professional relationship is maintained with the external auditors. The Committee has full access to the auditors, both internal and external, who in turn have access at all times to the Chairman of the Committee, Mr Colin Short.

The Nominations Committee

The Nominations Committee was set up in 1992. All non-executive directors are members, under the chairmanship of Mr Colin Short. The Committee meets as and when required; it has met twice in the last year.

Internal Controls

The directors recognise their responsibility for the maintenance of a system of internal control. The Board has kept under review the effectiveness of the Group's system of internal financial controls as it operates throughout the year.

The system of internal control is designed to ensure that the Company's assets are safeguarded against material loss and that transactions are properly authorised, recorded and reviewed, financial statements are prepared from reliable records and the requirements of applicable laws and regulations are met. However, as with any such system, the controls can provide reasonable, and not absolute, assurance against material misstatement or loss.

Key aspects of the Company's framework of internal financial control which cover the identification and evaluation of risks and control objectives, monitoring arrangements, the control environment, control procedures and relevant information are described below.

The Board continues to review the key commercial and financial risks facing the business and the more general risks. Evaluation of these risks has led to the development of specific management strategies to address the issues involved in the achievement of its business objectives whilst complying with the regulatory regimes within which the Company operates.

The annual planning process ensures that all business units review the long and short term risks and opportunities that are facing them in a timely manner, and that their local objectives are set in the context of the overall Corporate Vision and Objectives.

Monitoring arrangements are in place to ensure that the structure of controls in operation is appropriate to the Company's situation and that the levels of risk attributed to the expected development of events as they affect the Company generally are acceptable. Reports are provided for the Board as appropriate.

This framework is supported by Corporate Policies and Procedures which have been developed and communicated, covering among others such key areas as Delegation of Authority, Financial Policies and Procedures, Regulatory Compliance, Competition Law Compliance, Environmental Management Systems, Health and Safety, Procurement, Security and Information Technology including Disaster Recovery.

The Board and its Committees receive specific regular reports on key risk areas, including Environmental Compliance, Health and Safety, Regulatory Compliance, and Treasury Operations. Directors and senior managers confirm annually that they have complied with the Company's Probity policy.

Corporate Values, emphasising in particular team working and ethical behaviour, have been fully communicated to staff. The importance of the directors' behaviour demonstrably re-emphasising their commitment to these Values is recognised.

The Board has established clear lines of accountability and documented delegations of authority, which set out the proposed actions that must be referred to the Board for its prior approval, covering all areas of the organisation. These delegations are subject to periodic review throughout the year. Each business unit has clear accountabilities for ensuring appropriate control procedures are in place.

Annual budgets are approved by the Board in the context of the Business Plan. There is a monthly process under which each business unit reports actual performance to date against its budget and the forecast for the year. Cash management and non-financial performance indicators are also monitored. There is a monthly review of the performance of the Group by the Executive Directors and the Board.

The internal audit department conducts reviews which include the control of financial systems and their associated computer environments, business unit operations and compliance with policies, particularly relating to health and safety, regulatory and environmental compliance. Reports, including where relevant action plans agreed with local management, are circulated to responsible senior managers and directors.

Coopers & Lybrand, the Company's Auditors, have reported to the Company that in their opinion the directors' comments in this Report on internal financial control and on going concern provide the disclosures required by the Listing Rules 12.43(j) and 12.43(v) and are not inconsistent with the information of which they are aware from their audit work on the financial statements, and that the statement on compliance with the Code on page 16 appropriately reflects the Company's compliance with the other paragraphs of the Code specified by Listing Rule 12.43(j) for their review. They have not carried out the additional work necessary to, and do not, express any opinion on the effectiveness of either the Group's system of internal financial control or its corporate governance procedures, nor the ability of the Company or the Group to continue in operational existence.

Year 2000 and the Euro

The Company has established a dedicated project team to ensure that the risks, issues and costs associated with computer problems associated with the Year 2000 date change are properly assessed, and that sufficient resources are committed to ensure that PowerGen is not adversely affected by the use of dates beyond 31 December 1999. A work programme has been instituted to achieve these objectives well in advance of 1 January 2000, and progress is regularly reviewed by the Board. The programme covers three main areas identified as being critical for the Company: business systems, process control and issues relating to the energy supply/demand chain as a whole (including key suppliers and customers). The Company is working closely with other electricity supply industry parties including the Regulators, generators, National Grid and regional electricity companies to ensure that supply to customers is maintained throughout this period in accordance with present standards.

The cost of this project is expected to be £16 million, of which £3 million has been spent in 1997/98. This figure includes external expenditure and internal consultancy costs but does not cover internal labour used in managing and addressing the issue.

The Company is preparing for the introduction of the common European currency, which will have an impact on commercial arrangements and financial systems.

Report on Directors' Remuneration and Related Matters

This section of the Report covers the activities of the Remuneration Committee (the Committee) and also matters relating to the benefits and interests of directors which are the concern of the Board as a whole.

Remuneration Committee and Remuneration Policy

The composition and remit of the Committee is described on page 16. The members of the Committee receive fees as set out on page 18 and no other benefits.

The policy of the Committee is to ensure the recruitment and retention of the high quality management required by the Company's developing businesses both in the UK and abroad. The Committee aims to focus attention on sustained financial growth and business goals and development, and to establish a strong link between the level of compensation and individual performance against agreed targets.

The compensation package (the 'package') for executive directors comprises a number of separate elements including base salary level, bonus arrangements (both annual and medium term), retirement and certain non-cash benefits. Details of these are given below. In establishing a package of remuneration and other benefits applicable to the executive directors and other senior employees and in reviewing the level of payments involved, the Committee has given full consideration to Section B of the Best Practice Provisions annexed to the Listing Rules of the London Stock Exchange.

In reviewing the salary components of the package, the Committee has taken advice from independent consultants and considered external surveys and packages within comparable companies. These comparisons are made against median levels in respect of basic salary and against upper quartile market practice for the total package where justified by exceptional performance. Increases in salaries and benefits will reflect the performance of the Company and of the individual executives against comparable companies.

The package aims specifically to align the interests of executives with those of the Company's shareholders. Performance is measured against profit and other targets set from the Company's annual budget and five-year plans and from the returns provided to shareholders. The financial targets agreed annually by the Board as part of the planning and budgeting review process are reviewed by the Committee to ensure that they are appropriate yardsticks for judging the performance of the Company and of individuals. Executive directors and senior employees are encouraged to take incentive payments in the form of shares and to retain the holding of those shares.

During the year, the Committee reviewed the package in its entirety and took independent advice on its comparability. As a result of that review all the component parts of the package were confirmed. Other than under the annual review of payments, no change has taken place during the year.

Details of the compensation package and information on each individual director are given below. Copies of directors' employment contracts and agreements, together with documentation supporting the various schemes described, are available for inspection by shareholders at the Company's registered office.

Shareholders will have the opportunity to ask questions on remuneration policy when the Report of the Directors and the Audited Accounts are considered at the forthcoming Annual General Meeting.

Summary of Directors' Emoluments

Emoluments of the Chairman and the directors were:

	1998 Salaries/ fees £000	1998 Benefits £000	1998 Performance Related Bonuses £000	1998 Other payments £000	1998 Total £000	1997 Salaries/ fees £000	1997 Total £000	Total accrued pension p.a. at 29.3.98 £000	Pension p.a. accruing in 1997/98 £000	Transfer Values of Increases, at 29.3.98 £000
Chairman										
Edmund Wallis	**360**	**25**	**73**	–	**458**	331	466	**240**	15	244
Executive directors										
Nick Baldwin*	**14***	**1***	**45**	–	**60**	–	–	**56**	2	22
Peter Hickson	**235**	**13**	**65**	–	**313**	156	221	**13**	8	122
Deryk King	**255**	**13**	**58**	–	**326**	230	379	**103**	13	199
Dr Alfred Roberts*	**87**	**6**	–	**446**	**539**	179	248	**94**	3	40
Non-executive directors										
Sir Frederick Crawford	**20**	–	–	–	**20**	19	19	–	–	–
Anthony Habgood	**20**	–	–	–	**20**	19	19	–	–	–
Michael Hoffman	**20**	–	–	–	**20**	20	20	–	–	–
Dr David Li*	**4**				**4**	–	–	–	–	–
Roberto Quarta	**20**	–	–	–	**20**	14	14	–	–	–
Colin Short	**50**	–	–	–	**50**	42	42	–	–	–
Sir Alan Thomas	**20**	–	–	–	**20**	17	17	–	–	–

*The figures for Nick Baldwin relate to the period from his appointment on 25 February 1998.
The figures for Dr Alfred Roberts relate to the period to 19 September 1997 when he left the Board. With the exception of £849, 'other payments' represents agreed severance payments including £101,000 paid into his pension plan and augmentation of his pension benefits, the cost of which was £129,000.
The figures for Dr David Li relate to the period from his appointment on 28 January 1998.

Note
The pension information shown above are accrued benefit entitlements and transfer values of relevant increases in accrued benefits calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11. The amounts represent the total accrued pensions payable at normal retirement date of age 60, the increase or decrease in that amount during the year and the transfer value of relevant increases in accrued benefit during the year, except for Dr Alfred Roberts, where the amount represents the accumulated pension due on the date of his leaving the Board and the increase in that amount together with the transfer value of relevant increases calculated as at the same date.

Performance-related bonuses have been calculated as the aggregate value of:
(i) payments earned during the year, except where payment is deferred and the amount of the payment remains dependent on future performance and/or subject to forfeiture; plus
(ii) payments earned in previous years which have ceased to be dependent on future performance and/or forfeiture during the year (1998, nil)

Where payment arises in the form of shares, the value attributed to the shares has been calculated based on the market price of the shares either at the time the shares were awarded or, if later, the time the award ceased to be dependent on future performance and/or subject to forfeiture. Increases in value of share awards resulting from the addition of the share equivalent of dividends during deferral periods are included in executive directors' emoluments only up to the time the award ceased to be dependent on future performance and/or subject to forfeiture.

Under the arrangements described on page 20 which allow bonuses to be taken entirely in shares, Peter Hickson and Nick Baldwin have elected to receive the majority of their 1998 performance-related bonuses in the form of shares.

Options over ordinary shares granted to, and exercised by, the executive directors

	Options held at 30 March 1997			Options granted during year			Held at 29 March 1998	First date of exercise	Expiry date
Name	Date Granted	Price	Number	Date	Price	Number			
Edmund Wallis	28.03.91	£1.96	46,000						
	06.12.91	£2.21	54,000				54,000	06.12.94	06.12.01
	01.12.92	£2.78	25,500				25,500	01.12.95	01.12.02
	01.07.93	£3.87	27,500				27,500	01.07.96	01.07.03
	22.11.94	£5.57	53,500				53,500	22.11.99	22.11.04
	29.11.95	£5.32	56,000				56,000	29.11.00	29.11.05
	26.06.96	£5.32	63,500				63,500	26.06.01	26.06.06
				02.07.97	£7.35	20,000	20,000	02.07.02	02.07.07
			326,000				**300,000**		
(ShareSave)	24.07.96	£3.77	2,586				2,586	01.08.99	31.01.00
							2,586		
Deryk King	26.06.96	£4.705	102,000				102,000	26.06.01	26.06.06
				02.07.97	£7.35	35,000	35,000	02.07.02	02.07.07
			102,000				**137,000**		
(ShareSave)	24.07.96	£3.77	4,575				4,575	01.08.01	31.01.02
							4,575		
Peter Hickson	11.12.96	£5.72	78,500				78,500	11.12.01	11.12.06
				02.07.97	£7.35	32,000	32,000	02.07.02	02.07.07
			78,500				**110,500**		
(ShareSave)				25.07.97	£5.81	1,678	1,678	01.08.00	31.01.01
							1,678		
Nick Baldwin**	22.11.94	£5.57	11,000				11,000	22.11.97	22.11.04
	29.11.95	£5.32	13,000				13,000	29.11.98	29.11.05
	26.06.96	£4.705	15,500				15,500	26.06.99	26.06.06
				02.07.97	£7.35	14,000	14,000	02.07.00	02.07.07
			39,500				**53,500**		
(ShareSave)	24.07.96	£3.77	4,575				4,575	01.08.01	31.01.02
							4,575		
Dr Alf Roberts	06.12.91	£2.21	27,000						
	01.12.92	£2.78	11,500						
	01.07.93	£3.87	7,000						
	22.11.94	£5.57	30,500				30,500*	22.11.99	22.11.04
	29.11.95	£5.32	32,000				32,000*	29.11.00	29.11.05
	26.06.96	£5.32	34,000				34,000*	26.06.01	26.06.06
				02.07.97	£7.35	26,000	26,000*	02.07.02	02.07.07
			142,000				**122,500***		
(ShareSave)	12.03.92	£1.76	4,261				4,261*	01.06.97	30.11.97
	24.07.96	£3.77	1,551				1,551*	01.08.99	31.01.00
			5,812				**5,812***		

Options granted on or after 22 November 1994 are subject to performance criteria.

Notes

* As at date of ceasing to be a director.
Dr Alfred Roberts retained his outstanding options on ceasing to be a director.
** Figures for Nick Baldwin 'at 30 March 1997' are as at the date of his appointment as a director (25 February 1998).

Options were exercised by the following executive directors during the year:

	Total Gain £000
Edmund Wallis	265
Dr Alf Roberts	195

No other options were exercised by executive directors during the year. No options lapsed during the year. The mid-market price for ordinary shares in PowerGen plc on 29 March 1998 was 835.5p. The price range during the year 30 March 1997 to 29 March 1998 was 589p (low) to 893p (high).

Notice Periods of Employment Contracts

Mr E A Wallis has a service contract with the Company with entitlement to a rolling two-year period of notice. Mr D I King and Mr P C F Hickson have service contracts for an initial period of three years respectively from 1 March 1996 and from 22 July 1996 which thereafter can be terminated on a rolling one-year period of notice. Mr N P Baldwin has a service contract with the Company which can be terminated on a rolling one year period of notice. It is the policy of the Committee that the Company should not enter into contracts with rolling notice periods exceeding one year for any executive director to be appointed in future.

If an executive director's contract is terminated by the Company, the benefits for which the Company is liable will be not more than a termination payment of up to full salary and benefits for the outstanding period of the contract, and benefits and enhanced early retirement under the Company's pension schemes, subject to mitigation by the individual concerned.

Annual Bonus Scheme

Payments under the scheme are dependent, in all cases except the Chairman, on the achievement of corporate and personal performance targets. The Chairman's annual bonus is determined solely according to corporate performance.

Corporate performance is measured by the annual increase in the Company's earnings per share excluding any exceptional items. The payment of a bonus is conditional upon achievement of a defined increase in earnings per share against the previous year. The level of bonus, set in 1997 at 25% in respect of target performance increasing to a maximum of 40% for exceptional achievement, is determined by the Committee.

Annual bonus payments may be made in either cash or shares. To encourage executive directors to take bonuses in shares, shares issued in lieu of bonus payments may be put into trust. Subject to certain conditions, additional matching shares will be issued by the Company to the individual director in respect of such shares after three years.

Medium Term Bonus Scheme

This scheme is based on the performance of the Company over a five-year period and was first introduced in the 1994/95 financial year. Membership of the scheme is limited to executive directors selected at the discretion of the Committee. All the executive directors are currently members, although Mr Nick Baldwin, appointed to the Board in February 1998, was not a member during the year under report. Dr Alf Roberts who left the Board in September 1997 was a member. The numbers of shares placed, or to be placed, in trust under the scheme are:

	at 30 March 1997	Grants during Year date	Grants during Year Number	at 29 March 1998	Granted 20 May 1998
Edmund Wallis	59,854	15.05.97	19,927	79,781	18,929
Peter Hickson	16,321	15.05.97	13,187	29,508	12,301
Deryk King	15,879	15.05.97	14,066	29,945	13,410
Dr Alf Roberts	33,186	15.05.97	10,608	43,794*	–
Nick Baldwin	–	–	–	–	9,542

Note: *As at the date he left the Board, 19 September 1997, Dr Alf Roberts retained his entitlement to 43,794 shares held in trust under the scheme, and the performance criteria relating to their exercise were waived. David Dance, a former director, retains an entitlement to 29,650 shares under the scheme. The performance criteria relating to their exercise were waived when he left the Company.

Performance targets for a five year period are determined each year. These relate to Total Shareholder Return (determined with reference to the Company's share price and dividends), the performance of the Company being measured against that of a comparator group of FTSE 100 companies. Awards under the scheme are in the form of restricted shares which are held by Trustees (the PowerGen Employee Share Trust), shares equivalent to the value of the annual bonus of a participating executive director for the previous year (currently 40% of salary) being placed in Trust. For the shares to vest, and the director to be able to call for the transfer of shares to him, the Company must meet the target criteria over the next three years or, failing that, enhanced criteria over a further two years. The actual number of shares available for transfer to the director depends on the Company's performance against the comparator group, no shares being released if the Company is in the lower half of the group and a maximum of 100% being released if the Company is in the top quartile. Additional shares may be released if, an entitlement having been established, shares are not called for immediately after they have vested and the performance of the Company then continues to improve. If neither target performance is achieved, the award is lost.

Certain shares placed in trust under the scheme have vested during the year. No shares awarded under the scheme have been lost during the year. Executive directors (and former directors) first become eligible to call for the transfer of the vested shares under the scheme on 7 June 1998.

Share Options

The PowerGen Executive Share Option Scheme was established in 1991 and was approved by shareholders and the Inland Revenue. The Rules of the Scheme were amended by the Board in May 1996 under powers granted to them by the Scheme, to give effect to implications for the operation of the Scheme of the provisions of the Finance Act 1996. Membership of the Scheme is at the discretion of the Committee. All executive directors are members of the Scheme together with certain other senior executives and managers. Details of grants of options are given on page 19.

Grants of options are conditional upon specific performance criteria similar to those applicable to the Medium Term Bonus Scheme having been met at the time of exercise. Options are exercisable between three and ten years after the date of grant (between five and ten years in the case of executive directors who are members of the Medium Term Bonus Scheme). At the time when an option holder wishes to exercise his options, the performance of the Company in terms of Total Shareholder Return is compared with that of the relevant comparator companies.

Options are granted at the market price of the Company's share at the time of grant or higher where options have previously been exercised at a higher price. In normal circumstances, the maximum levels of grant for any one year for executive directors will be equivalent to their salary for that year; the maximum levels for other participants will be a proportion of their base salary. Total grants of options outstanding at any time will not exceed four times salary.

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Retirement Benefits

The executive directors are all members of the Electricity Supply Pension Scheme and of the PowerGen Senior Executive Pension Scheme. Members are entitled on normal retirement to a pension of two thirds of final year's base salary after twenty years' service, together with dependants' pensions in the event of death, a lump sum on death in service and a pension in the event of early retirement on the grounds of ill health. Contributions to the Electricity Supply Pension Scheme paid by the Company are determined by the actuary and are expressed as a percentage of total pensionable salaries. Members are required to contribute 6% of their pensionable salary. In a similar way, the Company meets all the costs of the PowerGen Senior Executive Pension Scheme which is also determined by an actuary and expressed as a percentage of pensionable salaries for all members. Further details of the Scheme are set out in note 22 on page 33.

PowerGen ShareSave Scheme

The PowerGen ShareSave Scheme is an Inland Revenue approved Scheme available to all eligible employees. Non-executive directors are not eligible for membership.

Options granted to executive directors under the PowerGen ShareSave Scheme are included in the table on page 19.

Other Benefits

Each executive director and certain other senior employees receive a car provided by the Company together with petrol for private mileage. Certain executive directors also have the use of a pool car and chauffeur. Telephone rental charges are reimbursed and a mobile telephone is provided. The Company operates a private health insurance scheme through PPP.

Non-executive directors' remuneration

The remuneration of the non-executive directors is determined by the Board. The fees of non-executive directors consist of a basic sum plus an additional payment for specific duties in respect of chairmanship of committees. Non-executive directors do not receive pension contributions and do not have service contracts with the Company or any of its subsidiaries. The appointment of a non-executive director is subject to review on the third anniversary of the director's first appointment.

Appointment of Directors

Dr David Li was appointed a director on 28 January 1998.
Mr N P Baldwin was appointed a director on 25 February 1998.
In accordance with the Company's Articles of Association, Dr Li and Mr Baldwin, being directors appointed after the 1997 Annual General Meeting, will retire at the forthcoming Annual General Meeting and will offer themselves for reappointment.

Sir Frederick Crawford and Mr A J Habgood will retire by rotation at the forthcoming Annual General Meeting and will offer themselves for reappointment.

As at the date of the Annual General Meeting, there will be an unexpired term of 1 year on Mr N P Baldwin's service contract at the date of the Annual General Meeting as his contract is subject to termination on 1 year's notice on a rolling basis. Dr David Li, Sir Frederick Crawford and Mr A J Habgood are members of the Remuneration Committee and they do not have service contracts with the Company or any of its subsidiaries.

Beneficial Interests

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

	As at 29 March 1998	As at 30 March 1997
Nick Baldwin	4,235	4,233*
Sir Frederick Crawford	7,164	6,900
Anthony Habgood	3,000	3,000
Peter Hickson	10,000	10,000
Michael Hoffman	3,698	3,623
Deryk King	2,461	2,377
Dr David Li	nil	nil*
Roberto Quarta	3,000	3,000
Dr Alf Roberts	**	124,609
Colin Short	10,000	10,000
Sir Alan Thomas	4,984	4,984
Edmund Wallis	39,241	40,126

Notes
As at date of appointment, respectively:
* Nick Baldwin, 25 February 1998
Dr David Li, 28 January 1998.
** No longer a director as at 29 March 1998.

Since 29 March 1998, the beneficial interests of Sir Frederick Crawford in the ordinary share capital of PowerGen plc have increased to 7,212 ordinary shares and the beneficial interests of Deryk King have increased to 2,467 ordinary shares. There have been no other changes in the beneficial interests of the directors in the ordinary share capital of PowerGen plc between 29 March 1998 and the date of this Report.

In addition, certain executive directors have interests in shares held in the PowerGen Employee Share Trust as shown on page 20.

There were no non-beneficial interests of the directors in the ordinary share capital of the Company.

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

No director during the financial year had a material interest in any contract significant to the Group's business.

Report of the Auditors

to the members of PowerGen plc

POWERGEN

We have audited the financial statements on pages 23 to 38, and the summary of differences between UK and US generally accepted accounting principles on pages 39 and 40.

Respective responsibilities of directors and auditors

As described on page 15, the Company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board which are substantially the same as those followed in the United States. 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.

UK 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 29 March 1998 and of the results, total recognised gains and losses and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

US Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Group as at 29 March 1998 and 30 March 1997 and the results of their operations, total recognised gains and losses and their cash flows for the years ended 29 March 1998, 30 March 1997 and 31 March 1996 in conformity with accounting principles generally accepted in the United Kingdom. These principles differ in certain respects from accounting principles generally accepted in the United States. The effect of the differences in the determination of net income, shareholders' equity and cash flows is shown on pages 39 and 40.

Coopers & Lybrand

Coopers & Lybrand
Chartered Accountants and Registered Auditors
London
20 May 1998

Consolidated Profit and Loss Account

for the financial year ended 29 March 1998

POWERGEN

	Note	1998 Before exceptional items £m	1998 Exceptional items (note 3) £m	1998 Total £m	1997 Before exceptional items £m	1997 Exceptional items (note 3) £m	1997 Total £m	1996 Total £m
Turnover – continuing activities	1	**2,932**	**–**	**2,932**	2,898	–	2,898	2,933
Operating costs	2	**(2,474)**	**(369)**	**(2,843)**	(2,421)	(67)	(2,488)	(2,359)
Other operating income	2	**128**	**–**	**128**	120	–	120	145
Income/(loss) from interests in associated undertakings		**5**	**–**	**5**	(19)	–	(19)	(26)
Operating profit – continuing activities	2	**591**	**(369)**	**222**	578	(67)	511	693
Profit on sale of fixed asset investment	3	**–**	**–**	**–**	–	69	69	–
Net interest payable	6	**(11)**	**–**	**(11)**	(3)	–	(3)	(6)
Profit on ordinary activities before taxation	7	**580**	**(369)**	**211**	575	2	577	687
Tax on profit on ordinary activities	8	**(142)**	**9**	**(133)**	(151)	–	(151)	(168)
Windfall tax	9	**–**	**(202)**	**(202)**	–	–	–	–
Profit/(loss) on ordinary activities after taxation		**438**	**(562)**	**(124)**	424	2	426	519
Minority interest		**–**	**–**	**–**	5	–	5	–
Profit/(loss) attributable to shareholders		**438**	**(562)**	**(124)**	429	2	431	519
Dividends	10			**(189)**			(160)	(153)
Retained (loss)/profit for year				**(313)**			271	366
(Loss)/earnings per ordinary share	12			**(19.3)p**			64.2p	71.4p
Earnings per ordinary share (excluding windfall tax and exceptional items)	12			**68.2p**			63.9p	56.7p
Dividends per ordinary share	10			**29.0p**			25.2p	21.0p

Statement of Total Recognised Gains and Losses

for the financial year ended 29 March 1998

	1998 £m	1997 £m	1996 £m
(Loss)/profit attributable to shareholders	**(124)**	431	519
Currency translation differences on foreign currency net investments	**(79)**	(57)	1
Total recognised (losses)/gains for the year	**(203)**	374	520

The notes on pages 28 to 38 form part of these financial statements

Balance Sheets
as at 29 March 1998

POWERGEN

	Note	The Group 29 March 1998 £m	The Group 30 March 1997 £m	The Company 29 March 1998 £m	The Company 30 March 1997 £m
Fixed assets					
Tangible assets	13	**1,998**	2,409	**1,564**	1,957
Investments	14	**541**	601	**1,300**	1,345
		2,539	3,010	**2,864**	3,302
Current assets					
Stocks	15	**178**	170	**175**	168
Debtors: amounts falling due after more than one year	16	**7**	–	**7**	–
Debtors: amounts falling due within one year	17	**508**	486	**497**	463
Short-term deposits		**115**	62	**110**	49
		808	718	**789**	680
Creditors: amounts falling due within one year					
Loans and overdrafts	18	**(10)**	(132)	**(26)**	(132)
Trade and other creditors	19	**(959)**	(822)	**(819)**	(659)
Net current liabilities		**(161)**	(236)	**(56)**	(111)
Total assets less current liabilities		**2,378**	2,774	**2,808**	3,191
Creditors: amounts falling due after more than one year					
Long-term loans	20	**(586)**	(585)	**(500)**	(500)
Other creditors	21	**(104)**	(138)	**(799)**	(835)
Provisions for liabilities and charges	23	**(126)**	(112)	**(63)**	(51)
Deferred tax	24	**(2)**	(14)	**(2)**	(13)
Net assets		**1,560**	1,925	**1,444**	1,792
Capital and reserves					
Called-up share capital	25	**322**	319	**322**	319
Share premium account	26	**70**	46	**70**	46
Capital reserve	26	**474**	474	**474**	474
Capital redemption reserve	26	**85**	85	**85**	85
Profit and loss account	26	**609**	1,001	**493**	868
Equity shareholders' funds		**1,560**	1,925	**1,444**	1,792

Approved by the Board on 20 May 1998

E A Wallis **P C F Hickson**

The notes on pages 28 to 38 form part of these financial statements

Consolidated Cash Flow Statement
for the financial year ended 29 March 1998

POWERGEN

	Note	1998 £m	1997 £m	1996 £m
Cash flow from operating activities	28a	**548**	695	755
Returns on investments and servicing of finance				
Interest received		**34**	50	37
Interest paid		**(66)**	(54)	(55)
		(32)	(4)	(18)
Taxation		**(131)**	(299)	(67)
Capital expenditure and financial investment				
Purchase of tangible fixed assets		**(111)**	(179)	(266)
Purchase of fixed asset investments		**(83)**	(40)	(383)
Repayment of/(new) loans to associated undertakings		**6**	–	(34)
Sale of fixed asset investments		**89**	386	–
Sale of tangible fixed assets		**30**	32	5
		(69)	199	(678)
Acquisitions and disposals				
Purchase of subsidiary undertakings		**–**	–	(6)
Net cash acquired with subsidiary undertakings		**–**	1	–
Purchase of associated undertakings		**–**	(223)	(17)
Receipts from sale of subsidiary		**–**	10	–
Net cash disposed with subsidiary		**–**	(3)	–
		–	(215)	(23)
Equity dividends paid		**(151)**	(144)	(111)
Net cash inflow/(outflow) before use of liquid resources		**165**	232	(142)
Management of liquid resources				
Cash (paid for)/withdrawn from short-term deposits		**(61)**	228	(122)
Financing				
Issue of ordinary share capital		**9**	19	2
Repurchase of ordinary share capital		**–**	(572)	–
Equity funding by minority interests		**–**	–	1
Debt due within one year:				
(Repayment)/issue of commercial paper		**(127)**	(112)	179
Repayment of short-term loans		**–**	–	(17)
Debt due beyond one year:				
Issue of bonds repayable in 2006		**–**	250	–
New unsecured loans repayable in 1999 and 2000		**–**	–	100
Movement in sterling equivalent long-term loans		**1**	(15)	–
Capital element of finance lease rental payments		**–**	–	(1)
		(117)	(430)	264
(Decrease)/increase in cash in the period	28b	**(13)**	30	–

The notes on pages 28 to 38 form part of these financial statements

Principal Accounting Policies

Nature of operations
PowerGen's principal business is the generation and sale of electricity in England and Wales in accordance with the provisions of an Electricity Generation Licence issued by the Director General of Electricity Supply under powers granted by the Electricity Act 1989. The Company 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. 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 that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results can differ from those estimates.

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. 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 is written off immediately against reserves. Intra-group sales and profits are eliminated on consolidation.

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 14. 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 producing oil and gas fields and sales of gas.

Overhaul and decommissioning of generation plant
Charges are 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 and of decommissioning such plant at the end of its useful life.

Restructuring costs
Amounts are set aside for the Company's restructuring programme which involves the future closure of power stations and reductions in staff numbers. Amounts relating to future station closures are included in provisions for liabilities and charges in the balance sheet; other restructuring costs, where amounts and timing of payments can be assessed with greater accuracy, are included in other creditors.

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
Other buildings	40
Other operating and short-term assets	3–15

Oil and gas assets are depleted, field by field, on a unit of production basis. Depletion is calculated by reference to the proportion that production for the year bears to the total estimated commercial reserves at the beginning of the year. Commercial reserves are proven and probable reserves as defined in the Statement of Recommended Practice on Accounting for Oil and Gas Exploration and Development Activities.

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 year in which they arise.

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 also 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.

Tangible fixed assets
Tangible fixed assets, including plant spares, are stated at original cost less accumulated depreciation and provisions for permanent diminution in value. All expenditure connected with exploration, appraisal and development of specific oil and gas fields is capitalised within tangible fixed assets. In the case of assets constructed by the Company and its subsidiaries, related works, administrative overheads and commissioning costs are included in cost.

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.

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 prepayments in the balance sheet.

Notes to the accounts
for the financial year ended 29 March 1998

1 Turnover
Turnover, which arises mainly in the UK, relates to continuing activities and is analysed as follows:

	1998 £m	1997 £m	1996 £m
Sales through the Pool	**1,897**	2,071	2,184
Direct sales to customers	**622**	656	674
Gas trading and retail	**257**	43	–
Other energy and hydrocarbon sales	**156**	128	75
	2,932	2,898	2,933

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.

Gas trading and retail sales have been separately identified as a material stream within turnover. Previously, these amounts were netted off against 'pool purchases and other costs of sales'. The comparatives for 1997 and 1996 have been restated accordingly.

2 Operating profit
Operating costs, all of which relate to continuing activities, were as follows:

	1998 £m	1997 £m	1996 £m
Fuel costs	**888**	942	969
Pool purchases and other costs of sales	**965**	803	762
Staff costs (note 4)	**128**	121	131
Depreciation	**172**	255	189
Other operating charges – before exceptional items	**321**	300	308
Exceptional operating charges (note 3)	**369**	67	–
	2,843	2,488	2,359

Depreciation figures shown above include £nil (1997 £98 million; 1996 £57 million) of accelerated depreciation, of certain plant at coal- and oil-fired power stations. In 1998, as detailed in note 3, exceptional operating charges include a further writedown of fixed assets of £339 million.

Operating costs include:	1998 £m	1997 £m	1996 £m
Repairs and maintenance costs	**79**	87	66
Research and development costs	**6**	6	7
Operating leases	**8**	10	8
Profit on disposal of fixed assets	**(22)**	(17)	(1)
Auditors' remuneration (Group and Company) for audit	**0.3**	0.3	0.3
Auditors' remuneration for non-audit services	**0.8**	0.7	0.7

Other operating income includes £99 million (1997 £65 million, 1996 £nil) of income from operating leases. In 1996, other operating income includes £121 million of exceptional credits (note 3).

3 Exceptional items

Exceptional items comprise:	1998 £m	1997 £m	1996 £m
Plant portfolio rationalisation and restructuring	**(369)**	–	–
Provisions for gas take-or-pay contracts	**–**	(67)	–
Profit on sale of fixed asset investment	**–**	69	–
Release of provisions for liability and damage claims	**–**	–	91
Release of provision for litigation claims	**–**	–	30
	(369)	2	121

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 has been reduced by £339 million. £30 million of associated business restructuring costs have also been charged against profits, of which £13 million is included in provisions for liabilities and charges (note 23) and £17 million in other creditors (note 19).

Following the acquisition of Kinetica, on 19 March 1997, a provision of £67 million was made against certain gas take-or-pay purchase contracts where the contracted price, on gas volumes in excess of planned generation or trading requirements, was higher than anticipated future gas prices. On 14 May, 1996, the Company sold its 20.3% stake in Midlands Electricity plc for 440p per share, realising a profit of £69 million. No tax liability arose as a result of that disposal.

The release of provisions in 1996 followed an actuarial review of the funds held by the Group's captive insurance company to cover liability and damage claims and a reassessment of provisions for litigation.

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

	1998	1997	1996
United Kingdom business	**2,865**	2,833	3,558
International business	**591**	534	590
	3,456	3,367	4,148

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

	1998 £m	1997 £m	1996 £m
Wages and salaries	**110**	107	114
Social security costs	**8**	8	9
Other pension costs (note 22)	**10**	6	8
	128	121	131

5 Summary of directors' emoluments

	1998 £	1997 £	1996 £
Total emoluments			
As directors	**153,552**	136,322	67,500
For management services:			
– Salaries	**1,010,932**	1,261,457	1,338,675
– Performance related bonuses	**241,832**	299,974	409,985
Compensation for loss of office	**444,918**	1,180,779	–
Gain on the exercise of share options	**460,867**	181,227	–
	2,312,101	3,059,759	1,816,160

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 on pages 17 to 21.

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6 Net interest payable

	1998 £m	1997 £m	1996 £m
Investment income of subsidiary undertakings	**30**	22	23
Income from fixed asset investments	**–**	3	6
Interest receivable from associated undertakings	**8**	24	–
Interest receivable and similar income	**7**	6	11
	45	55	40
Interest payable on loans			
Bank loans and overdrafts	**(6)**	(20)	(41)
By associates	**(6)**	(8)	(5)
Other loans	**(44)**	(38)	(22)
	(11)	(11)	(28)
Less: interest capitalised (note 13)	**–**	8	22
	(11)	(3)	(6)

7 Profit on ordinary activities before taxation

	1998 £m	1997 £m	1996 £m
UK			
– electricity and gas, including interest in associates	**561**	564	562
– upstream oil and gas	**22**	15	5
– combined heat & power schemes	**5**	1	(1)
– property	**16**	12	11
International			
– operations, including interest in associates	**9**	12	12
– development costs	**(22)**	(26)	(17)
	591	578	572
Net interest payable	**(11)**	(3)	(6)
Exceptional items (note 3)	**(369)**	2	121
	211	577	687

Total net assets of £1,560 million (1997 £1,925 million) include £260 million (1997 £266 million) relating to assets employed in the International business. International business is primarily carried out through associated undertakings and therefore turnover of the International business in the Group accounts is not material in 1998, 1997 or 1996. In the opinion of the directors PowerGen has only one class of business. The above analysis is intended to assist in an understanding of the results.

8 Tax on profit on ordinary activities

	1998 £m	1997 £m	1996 £m
United Kingdom corporation tax at 31% (1997 33%, 1996 33%)			
Current	**137**	149	153
Prior year	**(3)**	(28)	(68)
Deferred (note 24)			
Accelerated capital allowances	**–**	–	30
Other timing differences	**(9)**	20	55
	125	141	170
Associated undertakings	**8**	10	(2)
	133	151	168

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

	1998 %	1997 %	1996 %
United Kingdom corporation tax rate	**31**	33	33
Accelerated capital allowances	**1**	4	2
Plant divestment	**(5)**	(4)	–
Prior-year items	**–**	(5)	(7)
Other	**(3)**	(2)	(1)
Effective tax rate on profit before exceptional items	**24**	26	27
Exceptional items	**39**	–	(3)
Effective tax rate	**63**	26	24

9 Windfall tax

	1998 £m	1997 £m	1996 £m
Windfall tax	**202**	–	–

On 1 July 1997 HM Government announced details of legislation to be introduced for a windfall levy on UK Utilities. PowerGen's liability has been agreed at £202 million, of which half was paid to HM Government during the year. The remainder is payable on 1 December 1998.

10 Dividends

	1998 £m	1997 £m	1996 £m
Net dividend per ordinary share			
Interim paid 9.0p (1997 7.8p, 1996 6.5p)	**59**	49	47
Final proposed 20.0p (1997 17.4p, 1996 14.5p)	**130**	111	106
	189	160	153

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11 Profit of the Company

The (loss)/profit for the financial year of the Group includes £150 million loss (1997 £445 million profit, 1996 £389 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. The share of net results after tax of associated undertakings amounted to a £4 million loss (1997 £29 million loss, 1996 £23 million loss).

12 Earnings per ordinary share

Earnings per ordinary share has been calculated by dividing the (loss)/profit attributable to shareholders for the financial year of £124 million loss (1997 £431 million profit, 1996 £519 million profit) by 642,002,743 ordinary shares (1997 671,818,108 ordinary shares, 1996 726,770,054 ordinary shares), being the weighted average number of ordinary shares in issue during the year.

Earnings per ordinary share before windfall tax and exceptional items are calculated as follows:

	1998 £m	1997 £m	1996 £m
(Loss)/profit attributable to shareholders	**(124)**	431	519
Windfall tax	**202**	–	–
Exceptional items (net of tax)	**360**	(2)	(107)
Adjusted earnings	**438**	429	412
Earnings per share (before windfall tax and exceptional items)	**68.2p**	63.9p	56.7p

13 Tangible fixed assets

The Group	Generating assets £m	Oil and gas assets £m	Assets in course of construction £m	Other assets £m	Total £m
Cost					
At 30 March 1997	3,525	342	90	200	4,157
Foreign exchange differences	(1)	–	–	–	(1)
Additions	42	9	53	8	112
Transfers	22	3	(77)	55	3
Disposals	(60)	–	(6)	(5)	(71)
At 29 March 1998	**3,528**	**354**	**60**	**258**	**4,200**
Depreciation					
At 30 March 1997	1,624	46	–	78	1,748
Charge for year	118	28	–	26	172
Provision for permanent diminution	339	–	–	–	339
Transfers	(19)	6	–	19	6
Disposals	(59)	–	–	(4)	(63)
At 29 March 1998	**2,003**	**80**	**–**	**119**	**2,202**
Net book value at 29 March 1998	**1,525**	**274**	**60**	**139**	**1,998**
Net book value at 30 March 1997	1,901	296	90	122	2,409

The Company	Generating assets £m	Assets in course of construction £m	Other assets £m	Total £m
Cost				
At 30 March 1997	3,489	53	105	3,647
Additions	41	35	7	83
Transfers	29	(36)	7	–
Disposals	(60)	(7)	(4)	(71)
At 29 March 1998	**3,499**	**45**	**115**	**3,659**
Depreciation				
At 30 March 1997	1,623	–	67	1,690
Charge for year	115	–	14	129
Provision for permanent diminution	339	–	–	339
Transfers	(18)	–	18	–
Disposals	(59)	–	(4)	(63)
At 29 March 1998	**2,000**	**–**	**95**	**2,095**
Net book value at 29 March 1998	**1,499**	**45**	**20**	**1,564**
Net book value at 30 March 1997	1,866	53	38	1,957

Group and Company assets include freehold land and buildings with a net book value of £152 million (1997 £281 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 in 1997 and 1998.

Additions for the Group and the Company include £nil (1997 £8 million) 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 and the Company, amounts to £61 million in 1997 and 1998.

14 Investments

The Group	Associated undertakings: Share of net assets £m	Associated undertakings: Loans £m	Other investments £m	Total £m
At 30 March 1997	261	56	284	601
Additions	44	10	39	93
Disposals	–	–	(88)	(88)
Repayments	–	(15)	–	(15)
Share of retained losses	(4)	–	–	(4)
Currency translation differences	(40)	(6)	–	(46)
At 29 March 1998	**261**	**45**	**235**	**541**

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

Other investments include investments listed on a recognised stock exchange of £235 million (1997 £212 million) set aside by a subsidiary company for certain medium and long-term insurance liabilities. At 29 March 1998, the market value of these investments was £1 million in excess of cost (1997 £5 million).

Other investments can be analysed under US GAAP as follows:

	1998 Carrying value £m	1998 Fair value £m
Equity investments	47	48
Debt investments	188	188
Total	235	236

Proceeds from the sale of investments classified as 'available for sale' under US GAAP amounted to £711 million for the year ended 29 March 1998. On these sales gross realised profits and losses amounted to £16 million and £8 million respectively. These gains and losses were computed by reference to the actual cost of the specific securities being sold.

The contracted maturity of the Group's debt investments at 29 March 1998 was as follows:

	£m
Within one year	18
1–5 years	74
5–10 years	70
After 10 years	26
Total	188

The Company	Group undertakings £m	Associated undertakings £m	Other investments £m	Total £m
At 30 March 1997	1,255	56	34	1,345
Additions	76	10	–	86
Disposals	(22)	–	(34)	(56)
Repayments	–	(15)	–	(15)
Provisions	(54)	–	–	(54)
Currency translation differences	–	(6)	–	(6)
At 29 March 1998	**1,255**	**45**	**–**	**1,300**

The Company's investments of £1,300 million (1997 £1,345 million) include loans to group undertakings of £222 million (1997 £223 million) and loans to associated undertakings of £44 million (1997 £56 million). The disposal of 'other investments' represents the sale of the Company's remaining holding in National Grid Group plc for proceeds of £36 million.

Interests in Group undertakings

Details of the Company'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 the Group 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 Company %	Country of incorporation or registration	Principal business 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 North Sea Limited	100	England and Wales	Oil and gas-related activities
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

For commercial reasons, the accounting reference dates of Ergon Insurance Limited and Csepel Power Company are 31 December. Their results are consolidated based on nine months' results extracted from audited accounts to 31 December 1997, together with three months' results extracted from management accounts to 29 March 1998, which the directors consider to be reliable.

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 by the Group
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 mbH	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	1 April	England and Wales	Ordinary Shares	50%

14 Investments continued

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 mbH
MIBRAG mbH	– 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

15 Stocks

	The Group		The Company	
	1998 £m	1997 £m	1998 £m	1997 £m
Fuel stocks	**124**	120	**124**	120
Stores	**54**	50	**51**	48
	178	170	**175**	168

16 Debtors: amounts falling due after more than one year

	The Group		The Company	
	1998 £m	1997 £m	1998 £m	1997 £m
Advance corporation tax	**29**	26	**29**	26
Less: amount set off against deferred tax provision (note 24)	**(29)**	(26)	**(29)**	(26)
	–	–	**–**	–
Other debtors	**7**	–	**7**	–
	7	–	**7**	–

17 Debtors: amounts falling due within one year

	The Group		The Company	
	1998 £m	1997 £m	1998 £m	1997 £m
Trade debtors	**322**	316	**258**	249
Other debtors	**172**	93	**171**	89
Prepayments and accrued income	**14**	16	**19**	23
Advance corporation tax	**–**	61	**–**	61
Amounts due from subsidiary undertakings	**–**	–	**49**	41
	508	486	**497**	463

Other debtors include £92 million (1997 £34 million) in respect of income from operating leases.

18 Loans and overdrafts

The Group	1998 £m	1997 £m
Commercial paper (unsecured)	**–**	127
Bank overdrafts	**10**	5
	10	132

The Company

The above figures apply to the Company with the exception of the bank overdrafts. At 29 March 1998, there were bank overdrafts in the Company's accounts of £26 million (1997 £5 million). The Company has a Euro Commercial Paper programme which allows it to issue paper for maturities of seven to 364 days up to a maximum of $500 million or equivalent at sub-LIBOR rates. The weighted average interest rate on commercial paper during the year was 7% (1997 6.2%). At 29 March 1998 and 30 March 1997 no portion of bank overdrafts, which primarily comprise unpresented payments, was interest bearing.

19 Trade and other creditors falling due within one year

	The Group		The Company	
	1998 £m	1997 £m	1998 £m	1997 £m
Trade creditors	**235**	261	**224**	241
Payments on account	**8**	1	**6**	1
Corporation tax	**164**	88	**160**	88
Windfall tax	**101**	–	**101**	–
Other taxation and social security	**91**	90	**88**	90
Accruals and other creditors	**230**	271	**110**	128
Proposed dividend	**130**	111	**130**	111
	959	822	**819**	659

Accruals and other creditors include amounts provided in respect of major plant overhaul, correction of major plant defects, accruals for capital work performed but not yet paid for, and rationalisation and restructuring of the Company.

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	
	1998 £m	1997 £m	1998 £m	1997 £m
Long-term bonds	**500**	500	**500**	500
Long-term loans	**86**	85	**–**	–
	586	585	**500**	500

The Company has £250 million of long-term bonds due for repayment at the principal amount on 26 March 2003 and a further £250 million of long-term bonds due for repayment at the principal amount in July 2006. These bonds bear interest at the rate of 8⅞% per annum and 8½% per annum respectively, payable annually in arrears and are not subject to any financial covenants. At 29 March 1998, the Group had long-term foreign currency loans with the European Investment Bank, swapped into £86 million sterling equivalent (1997 £85 million). These loans are repayable in two tranches in 1999 and 2000 and bear interest at a weighted average sterling equivalent rate of 8.4% (1997 7.9%), payable semi-annually in arrears.

At 29 March 1998 PowerGen had unused committed lines of credit of £800 million. This comprised a syndicated revolving credit facility, with a five-year term, terminating on 19 September, 2000. The annual commitment fee for this facility is 0.08%. This facility includes a covenant that at the end of each financial year, up to and including 1997/98, the ratio of operating profit to net interest payable for that financial year must not be less than 3.0:1, and must not be less than 2.5:1 thereafter.

21 Other creditors falling due after more than one year

	The Group		The Company	
	1998 £m	1997 £m	1998 £m	1997 £m
Accruals and other creditors	**96**	120	**96**	119
Payments on account	**8**	18	**–**	–
Amounts due to subsidiary undertakings	**–**	–	**703**	716
	104	138	**799**	835

Accruals and other creditors shown above include £51 million in respect of pensions (1997 £82 million).

22 Pension scheme arrangements

UK GAAP

The Group participates in the industry-wide scheme, the Electricity Supply Pension Scheme (ESPS), for the majority of its employees. This scheme is of the defined benefit type, with assets invested in separate trustee administered funds.

An actuarial valuation of the ESPS is normally carried out every three years by the Scheme's professionally qualified actuary, who recommends the rates of contribution payable by each group participating in the scheme. In intervening years the actuary reviews the continuing appropriateness of the rates. The latest actuarial valuation of the ESPS was at 31 March 1995. This revealed a surplus of £9 million in respect of the PowerGen Group. This valuation showed that the market value of the assets of the ESPS that related to the Group was £980 million and the actuarial value of those assets covered 101% of the benefits that had accrued to members, after allowing for expected future increases in earnings. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rates of increase in salary and pensions. In the valuation it was assumed that, over the long term, the annual rate of return on investments would be 2.5% higher than the annual increase in salaries and 4% higher than the annual increase in pensions.

In the financial year ended 29 March 1998, the normal pension cost amounted to £12 million (1997 £7 million, 1996 £9 million) and was determined in accordance with the advice of an independent, professionally qualified actuary using the projected unit credit method. 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 (1997 net credit of £1 million, 1996 net credit of £1 million). The accounts include a prepayment of £11 million (1997 £9 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.

US GAAP

The effect of adopting US Statements of Financial Accounting Standards (SFAS 87 and SFAS 88) is shown on page 40.

The pension cost determined under SFAS 87 requirements for the three years ended 29 March 1998 and the projected benefit obligation as at 29 March 1998 were calculated using the following assumptions:

	Projected benefit obligation	Pension cost		
	1998 %	1998 %	1997 %	1996 %
Discount rate	**6.75**	**8.5**	8.5	8.5
Rate of future salary increases	**5.5**	**6.5**	6.5	7.5
Rate of expected return on plan assets	**8.0**	**9.0**	9.0	9.0

22 Pension scheme arrangements continued

The components of the Scheme's pension cost under SFAS 87 are as follows:

	1998 £m	1997 £m	1996 £m
Cost of benefits earned during the period	**10**	10	10
Interest cost on projected benefit obligation	**96**	90	91
Actual return on assets	**(348)**	(99)	(252)
Net amortisation and deferral	**226**	(18)	158
Pension cost for the year under US GAAP	**(16)**	(17)	7

Additional costs in relation to severances under SFAS 88 are as follows:

	1998 £m	1997 £m	1996 £m
Cost of termination benefits	**4**	10	37

The information required to be disclosed in accordance with SFAS 87 concerning the funded status of the PowerGen portion of the ESPS at 29 March 1998 and 30 March 1997 is as follows:

	1998 £m	1997 £m
Actuarial present values of accumulated benefit obligations (all benefits vested)	**1,243**	1,096
Projected benefit obligations	**1,285**	1,133
Plan assets at fair value	**1,631**	1,288
Projected benefit obligation less than scheme assets	**(346)**	(155)
Reconciliation of fund's status:		
Unrecognised net obligation at date of initial application of SFAS 87 (a)	**(6)**	(8)
Unrecognised net gain	**353**	236
Accrued pension costs under US GAAP	**1**	73

(a) The unrecognised net obligation at the date of initial application is being amortised over 15 years.

The scheme's assets are invested in UK and overseas equities and property.

23 Provisions for liabilities and charges

Movements on provisions comprise:

	30 March 1997 £m	Charged to profit and loss account £m	Provisions utilised £m	29 March 1998 £m
Rationalisation and restructuring of the Company	–	13	–	**13**
Liability and damage claims	59	14	(14)	**59**
Pensions	3	–	–	**3**
Decommissioning	46	7	(8)	**45**
Abandonment of oil and gas fields	4	2	–	**6**
	112	36	(22)	**126**

The Company

The above figures apply to the Company with the exception of the liability and damage claims and the abandonment provision. At 29 March 1998, the balance on the liability and damage claims provision in the Company's accounts was £2 million (1997 £2 million). There was no abandonment provision held in the Company's accounts.

24 Deferred tax

An analysis of the full potential liability (which represents the US GAAP deferred tax liability) and the net deferred tax liability recognised at 29 March 1998 under UK GAAP is as follows:

	1998			1997		
The Group	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	**321**	**(291)**	**30**	462	(432)	30
Other timing differences	**(25)**	**26**	**1**	(18)	28	10
	296	**(265)**	**31**	444	(404)	40
ACT recoverable offset against deferred tax provision (see note 16)			**(29)**			(26)
			2			14
The Company						
Accelerated capital allowances	**282**	**(252)**	**30**	433	(404)	29
Other timing differences	**(23)**	**24**	**1**	(17)	27	10
	259	**(228)**	**31**	416	(377)	39
ACT recoverable offset against deferred tax provision (see note 16)			**(29)**			(26)
			2			13

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% (1997 33%). The liability in respect of other timing differences is calculated at 31% (1997 33%).

25 Share capital

The share capital of the Company comprises:

Authorised	1998 £m	1997 £m
1,050,000,000 ordinary shares of 50p each	**525**	525
Special rights redeemable preference share of £1	–	–
	525	525
Allotted, called up and fully paid		
644,526,232 (1997 637,424,188) ordinary shares of 50p each	**322**	319
Special rights redeemable preference share of £1	–	–
	322	319

During the year, 3,969,402 ordinary shares of 50p each were issued under employee share schemes realising £7,383,088. An amount of £5,398,387 has been credited to share premium account (1997 £11,480,077).

533,000 ordinary shares of 50p each were issued under the Executive Share Option Scheme realising £1,719,105. An amount of £1,452,605 has been credited to share premium account (1997 £829,865).

In addition, 2,599,642 ordinary shares of 50p each were issued as scrip dividends realising £17,949,262. An amount of £16,649,441 has been credited to share premium account (1997 £9,821,297).

The special share is redeemable at par at any time at the option of the Secretary of State, after consulting the Company. This share, which may only be held by the Secretary of State or another person acting on behalf of HM Government, does not carry any rights to vote at general meetings but entitles the holder to attend and speak at such meetings. The special share confers no right to participate in the capital or profits of the Company except that, on a distribution of capital in a winding up, the special shareholder is entitled to repayment of £1 in priority to other shareholders. Certain matters, in particular the alteration of specific sections of the Articles of Association of the Company (including the Article relating to limitations that prevent a person from owning or having an interest in 15% or more of the ordinary shares in the Company), require the prior written consent of the holder of the special share.

Share Option Schemes

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

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

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

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

Options granted, exercised and lapsed under these share option schemes during the three financial years ended 29 March 1998 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 2 April 1995	19,849,185	£1.63	1,878,000	£3.30
Granted	–	–	465,500	£5.29
Exercised	(901,002)	£1.52	(412,000)	£2.15
Lapsed	(514,896)	£1.82	–	–
Outstanding at 31 March 1996	18,433,287	£1.62	1,931,500	£4.05
Granted	4,353,755	£3.77	670,000	£5.16
Exercised	(12,702,441)	£1.40	(318,000)	£3.11
Lapsed	(754,328)	£2.36	(70,500)	£5.45
Outstanding at 30 March 1997	9,330,273	£2.87	2,213,000	£4.48
Granted	1,686,291	£5.81	521,000	£7.35
Exercised	(3,969,402)	£1.86	(533,000)	£3.23
Lapsed	(375,013)	£4.19	–	–
Outstanding at 29 March 1998	**6,672,149**	**£4.14**	**2,201,000**	**£5.46**

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25 Share capital continued

Options outstanding at 29 March 1998, together with their exercise prices and dates of exercise, are as follows:

Date of Grant	Price per share £	Normal dates of exercise	Number of ordinary shares 1998	1997
PowerGen ShareSave Scheme				
12 March 1992	1.76	1997	–	3,706,367
12 July 1993	3.06	1998	**1,258,651**	1,369,927
24 July 1996	3.77	1999 & 2001	**3,758,070**	4,253,979
25 July 1997	5.81	2000 & 2003	**1,655,428**	–
PowerGen Executive Share Option Scheme				
28 March 1991	1.96	1994–2001	–	70,000
6 December 1991	2.21	1994–2001	**97,500**	258,500
1 December 1992	2.78	1995–2002	**109,000**	187,000
1 July 1993	3.87	1996–2003	**84,000**	220,500
22 November 1994	5.57	1997–2004	**312,500**	374,500
5 July 1995	4.86	1998–2005	**44,000**	44,000
5 July and 29 November 1995	5.32	1998–2005	**347,500**	373,000
29 November 1995	5.59	1998–2005	**15,500**	15,500
26 June 1996	4.705	1999–2006	**231,500**	231,500
26 June 1996	5.32	1999–2006	**332,500**	332,500
26 June 1996	5.34	1999–2006	**11,000**	11,000
26 June 1996	5.59	1999–2006	**16,500**	16,500
11 December 1996	5.72	2001–2006	**78,500**	78,500
2 July 1997	7.35	2000–2007	**521,000**	–

The Company had options exercisable totalling 603,000, 736,000 and 996,000 and shares available for the grant of options totalling 225,504,295, 222,834,171 and 214,012,657 at 29 March 1998, 30 March 1997, and 31 March 1996 respectively. No options expired during the three financial years ended 29 March 1998.

US GAAP

Fair value of options

The weighted average fair value of options granted under the Executive Share Option Scheme during 1998 was £1.40 (1997 £0.86). The weighted average fair value of options granted under the ShareSave Scheme during 1998 was £2.22 (1997 £1.14). The weighted average remaining contractual life of options outstanding at 29 March 1998 was 7.9 years. The fair value of options granted under each scheme is estimated using the Black Scholes options pricing model with the following weighted average assumptions for grants in 1998: expected volatility – 15%; interest rates – 7% (based upon UK Gilts on the date of grant with a maturity equal to the expected term); expected dividend growth – 10% and expected term – three years for the ShareSave Scheme and four years for the Executive Share Option Scheme.

The Company has adopted the disclosure-only option under SFAS 123, 'Accounting for Stock Based Compensation'. If the accounting provisions of the new standard had been adopted, PowerGen's net income and earnings per share would be as the pro forma amounts indicated below.

	29 March 1998	30 March 1997
Net income		
– as reported	**£45m**	£487m
– pro forma	**£43m**	£486m
Earnings per share		
– as reported	**7.0p**	72.5p
– pro forma	**6.7p**	72.3p

26 Reserves

The Group	Share premium account £m	Capital reserve £m	Capital redemption reserve £m	Profit and loss account £m
At 30 March 1997	46	474	85	1,001
Premium on shares issued	24	–	–	–
Currency translation differences on foreign currency net investments	–	–	–	(79)
Retained loss for year	–	–	–	(313)
At 29 March 1998	**70**	**474**	**85**	**609**

Aggregate goodwill written off to the Group profit and loss reserve totals £16 million (1997 £16 million).

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

	Profit and loss account £m
At 30 March 1997	(9)
Retained loss for year	(4)
Currency translation differences	(34)
At 29 March 1998	**(47)**

The Company	Share premium account £m	Capital reserve £m	Capital redemption reserve £m	Profit and loss account £m
At 30 March 1997	46	474	85	868
Premium on shares issued	24	–	–	–
Currency translation differences on foreign currency net investments	–	–	–	(36)
Retained loss for year	–	–	–	(339)
At 29 March 1998	**70**	**474**	**85**	**493**

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.

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27 Reconciliation of movements in shareholders' funds

	1998 £m	1997 £m	1996 £m
(Loss)/profit for the financial year	**(124)**	431	519
Shares issued	**27**	30	10
Dividends	**(189)**	(160)	(153)
Shares repurchased	**–**	(572)	–
Goodwill written back/(written off)	**–**	1	(5)
Currency translation differences on foreign currency net investments	**(79)**	(57)	1
Net (decrease)/increase in shareholders' funds for the year	**(365)**	(327)	372
Opening shareholders' funds	**1,925**	2,252	1,880
Closing shareholders' funds	**1,560**	1,925	2,252

28 Cash flow

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

	1998 £m	1997 £m	1996 £m
Operating profit	**222**	511	693
Depreciation (including exceptionals)	**511**	157	132
Accelerated depreciation	**–**	98	57
Profit on sale of tangible fixed assets	**(22)**	(17)	(1)
Profit on sale of investments	**(2)**	(8)	–
(Profit)/loss from interests in associated undertakings	**(5)**	19	26
Dividends from associated undertakings	**(1)**	–	1
(Increase)/decrease in stocks	**(8)**	(62)	79
(Increase)/decrease in debtors	**(79)**	34	(58)
Decrease in creditors	**(82)**	(27)	(24)
Increase/(decrease) in provisions	**14**	(10)	(150)
	548	695	755

The movement in creditors and provisions for the year ended 29 March 1998 includes cash outflows of £4 million (1997 £2 million, 1996 £18 million) relating to exceptional charges arising in previous years.

b) Analysis of changes in net debt in the period

	1998		1997	
	£m	Change in year £m	£m	Change in year £m
Cash at bank and in hand	**4**	**(8)**	12	(6)
Overdrafts	**(10)**	**(5)**	(5)	36
	(6)	**(13)**	7	30
Debt due after one year	**(586)**	**(1)**	(585)	(235)
Debt due within one year:				
Commercial paper	**–**	**127**	(127)	112
Short-term deposits	**111**	**61**	50	(228)
	(481)	**174**	(655)	(321)

29 Financial instruments

Financial instruments and risk management

As part of the financing of its normal operating activities, the Company 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 varying maturities and interest rates. The Company is exposed to movements in market interest rates and foreign currency exchange rates. Active steps are taken to minimise 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 UK power generation business, PowerGen is building a portfolio of overseas investments, which have introduced additional potential foreign currency and interest rate exposures.

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

PowerGen enters into foreign exchange contracts, and takes out options, as a hedge against commitments, principally for fuel purchases denominated in foreign currencies. The net sterling amounts of each foreign currency PowerGen has contracted to purchase (or sell), and has options to purchase are as follows:

	Foreign exchange contracts		Foreign exchange options	
	29 March 1998 Notional amount £m	30 March 1997 Notional amount £m	29 March 1998 Notional amount £m	30 March 1997 Notional amount £m
US dollars	**267**	275	**–**	1
Swiss francs	**–**	4	**–**	–
Portuguese escudos	**(34)**	23	**–**	–
Deutschmarks	**68**	–	**2**	–
French francs	**4**	5	**–**	–
European currency units	**–**	15	**–**	–
	305	322	**2**	1

29 Financial instruments continued

In order to mitigate foreign exchange risk, PowerGen arranges its funding and investments to hedge translation exposures arising from movements in the sterling value of foreign investments. This hedging is effected through local currency borrowings, and forward contracts or swaps, as appropriate. The instruments not described above can be summarised as follows:

	29 March 1998 Notional amount £m	30 March 1997 Notional amount £m
Foreign currency swaps	**102**	–

Interest rate risk management

In order to mitigate interest rate risk, PowerGen arranges its funding and investments to achieve a mix of fixed and floating interest rates, with a range of different maturities. The instruments used can be summarised as follows:

	29 March 1998 Notional amount £m	30 March 1997 Notional amount £m
Interest-rate swap contracts	**363**	282

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.

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 is shown below. The fair values therefore reflect current unrealised gains or (losses) on all open contracts.

	29 March 1998 Fair value £m	30 March 1997 Fair value £m
Foreign currency contracts	**(20)**	(15)
Foreign currency options	**–**	–
Foreign currency swaps	**(14)**	–
Interest rate swaps	**6**	(9)

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

		29 March 1998		30 March 1997	
		Carrying amount £m	Fair value £m	Carrying amount £m	Fair value £m
Assets:	Note				
Short-term deposits	(a)	115	115	62	62
Investments	(b)	235	236	284	289
Liabilities:					
Short-term debt	(c)	(10)	(10)	(132)	(132)
Long-term debt	(d)	(586)	(630)	(585)	(594)

(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 bank overdrafts and commercial paper.
(d) The fair value of the long-term debt at the reporting date has been estimated at quoted market rates.

Energy-based futures

On a limited basis, the Company also purchases and sells energy-based futures contracts mainly for trading purposes. Changes in the market values of these trading contracts are reflected in income in the period in which the change occurs.

30 Commitments and contingent liabilities

a) At 29 March 1998, the Company had commitments of £355 million (1997 £157 million) for capital expenditure, of which £215 million (1997 £63 million) related to expenditure to be incurred after one year.

b) The Company 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 five-year arrangements with BCC (subsequently assigned to RJB Mining (UK) Ltd) and a number of smaller, private coal suppliers to supply coal at above market price ended on 31 March 1998. The Company now 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 29 March 1998 the Group's future commitments for the supply of coal under all its contractual arrangements totalled approximately £600 million.

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. The Company is also committed to purchase gas under various other long-term gas supply contracts held by its subsidiary Kinetica Limited. At 29 March 1998 the estimated minimum commitment for the supply of gas under all these contracts totalled approximately £8.5 billion.

d) In the normal course of business the Company 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 Related party transactions

As part of its international activities the Group has contracted on an arm's-length basis to provide power station construction management and operation and maintenance services to certain related companies. Total revenues during 1998 amounted to £7 million (1997 £3 million). There were no outstanding balances at either year end.

32 Regulatory accounts

The Company has been appointed by the Secretary of State as a generator of electricity under the Electricity Act 1989 and is required to comply with the conditions set out in its Generation Licence. Condition 2 of the Licence requires the publication of certain additional specified accounting information. This information is available, free of charge, by applying to:

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

Summary of differences between UK and US generally accepted accounting principles

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

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

b) **Deferred taxation** UK GAAP requires provision for deferred taxation only when it is expected that a liability will become payable or an asset will crystallise in the foreseeable future and then at the known future rates of tax. US GAAP requires full provision for deferred taxes to be made using enacted future tax rates.

c) **Severance costs** Under UK GAAP, voluntary severance costs for employees leaving as part of PowerGen's restructuring programme are accrued and recognised in the consolidated profit and loss account when both the decision to reduce staff numbers is taken and the amounts involved can be estimated with reasonable accuracy. Voluntary severance costs include severance payments, payments in lieu of notice and the costs of providing incremental pension benefits in respect of staff reductions. Under US GAAP, termination benefits are generally charged in the year in which the employees accept the terms under which they will leave PowerGen's employment. In addition, where the number of employees leaving results in a significant reduction in the accrual of pension benefits for employees' future service (a 'curtailment' under US GAAP), the effects are reflected as part of the cost of such termination benefits.

d) **Capitalisation of interest** Under UK GAAP, PowerGen capitalises interest payable 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. US GAAP requires that interest incurred on borrowings, which could have been theoretically avoided during construction of major capital projects, be included in tangible fixed assets and depreciated over the lives of the related assets. The amount of interest capitalised is determined by reference to average interest rates on outstanding long-term borrowings.

e) **Goodwill** Under UK GAAP, goodwill arising from the purchase of subsidiary and associated undertakings is written off on acquisition against retained earnings. Under US GAAP, such goodwill is held as an intangible asset in the balance sheet and amortised over its useful life, not exceeding 40 years.

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

g) **Ordinary dividends** Under UK GAAP, final ordinary dividends and the related UK Advance Corporation Tax are provided for in the financial year in respect of which they are recommended by the Board of Directors for approval by shareholders. Under US GAAP, such dividends and tax are not provided for until the dividends are formally declared by the Board of Directors.

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

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

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

	1998	1997	1996
Weighted average shares in issue under UK GAAP (and for US GAAP basic earnings)	**642,002,743**	671,818,108	726,770,054
Scrip dividends	**1,272,449**	1,020,929	876,551
Share options	**4,343,726**	6,615,186	13,822,855
Weighted average shares in issue under US GAAP (for diluted earnings)	**647,618,918**	679,454,223	741,469,460

1997 and 1996 figures have been restated in accordance with SFAS 128.

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

	1998 £m	1997 £m	1996 £m
Net income under UK GAAP	**(124)**	431	519
US GAAP adjustments:			
Pension costs	**28**	24	7
Severance costs	**13**	(8)	(9)
Capitalised interest, net of related depreciation	**3**	20	15
Goodwill amortisation	**(1)**	(1)	(1)
Share option scheme[1]	**(1)**	(1)	(1)
Taxation effects on the foregoing adjustments	**(12)**	(12)	(4)
Deferred taxation	**139**	34	(89)
Net income under US GAAP	**45**	487	437

	pence	pence	pence
Basic earnings per share under US GAAP	**7.0**	72.5	60.1
Diluted earnings per share under US GAAP	**7.0**	71.7	58.9

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

	29 March 1998 £m	30 March 1997 £m
Equity shareholders' funds under UK GAAP	**1,560**	1,925
US GAAP adjustments:		
Pension costs	**39**	11
Severance costs	**23**	10
Capitalised interest, net of related depreciation	**74**	71
Goodwill	**16**	17
Investment[1]	**1**	5
Dividends	**130**	111
Taxation effects on the foregoing adjustments	**(42)**	(30)
Deferred taxation	**(265)**	(404)
Equity shareholders' funds under US GAAP	**1,536**	1,716

(1) The movement on these adjustments is posted to retained earnings.

Consolidated statement of cash flows

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

	1998 £m	1997 £m	1996 £m
Net cash provided by operating activities	**385**	400	692
Net cash used in investing activities	**(69)**	(24)	(623)
Net cash (used in)/provided by financing activities	**(263)**	(685)	245
Net increase/(decrease) in cash and cash equivalents	**53**	(309)	314
Cash and cash equivalents under US GAAP at the beginning of the year	**43**	352	38
Cash and cash equivalents under US GAAP at the end of the year	**96**	43	352
Non-cash equivalent components of net debt under UK GAAP at the end of the year	**19**	19	(56)
Short-term debt at the end of the year	**(10)**	(132)	(280)
Long-term debt at the end of the year	**(586)**	(585)	(350)
Net debt under UK GAAP at the end of the year	**(481)**	(655)	(334)

There are no significant non-cash investing or financing activities during the period. For the purposes of US GAAP, cash and cash equivalents include short-term deposits having original maturities of three months or less, but do not include bank overdrafts.

Five Year Summary

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	1998 £m	1997 £m	1996 £m	1995 £m	1994 £m
Summarised Profit and Loss Accounts					
Turnover	**2,932**	2,898	2,933	2,885	2,932
Operating profit before exceptionals	**591**	578	572	545	485
Exceptional items	**(369)**	2	121	–	–
Net interest payable	**(11)**	(3)	(6)	–	(9)
Profit before taxation	**211**	577	687	545	476
Taxation	**(133)**	(151)	(168)	(157)	(131)
Windfall tax	**(202)**	–	–	–	–
Profit after taxation	**(124)**	426	519	388	345
Minority interest	–	5	–	–	–
Profit attributable to shareholders	**(124)**	431	519	388	345
Dividends	**(189)**	(160)	(153)	(112)	(99)
Retained (loss)/profit for year	**(313)**	271	366	276	246
Earnings per ordinary share (pence)[1][2][3]	**68.2**	63.9	56.7	49.6	44.0
Dividends per ordinary share (pence)	**29.0**	25.2	21.0	15.0	12.65
Dividend per ADS (£)[4][5]	**1.16**	1.01	0.84	0.60	0.51
Amounts in accordance with US GAAP:					
Net income for year	**45**	487	437	322	340
Basic earnings per ADS (£)[4][5]	**0.28**	2.90	2.41	1.65	1.74

Summarised Consolidated Balance Sheets

	1998 £m	1997 £m	1996 £m	1995 £m	1994 £m
Fixed assets	**2,539**	3,010	3,313	2,792	2,588
Stocks	**178**	170	108	177	415
Debtors	**515**	486	428	426	423
Creditors and provisions	**(1,191)**	(1,086)	(1,260)	(1,319)	(1,225)
	2,041	2,580	2,589	2,076	2,201
Short-term borrowings	**(10)**	(132)	(280)	(101)	(165)
Long-term loans	**(586)**	(585)	(350)	(250)	(250)
Short-term deposits	**115**	62	296	157	133
Net borrowings	**(481)**	(655)	(334)	(194)	(282)
Equity minority interests	–	–	(3)	(2)	–
Equity shareholders' funds	**1,560**	1,925	2,252	1,880	1,919
Amounts in accordance with US GAAP:					
Shareholders' funds	**1,536**	1,716	2,004	1,649	1,732
Total assets	**3,408**	3,793	4,244	3,539	3,502
Total long-term liabilities	**1,142**	1,283	1,144	1,043	1,090

Note

(1) In 1998, earnings per ordinary share is based on profit before exceptional items and after taxation for the financial year of £438 million. Including exceptional items, loss per ordinary share for 1998 was 19.3 pence.
(2) In 1997, earnings per ordinary share is based on profit before exceptional items and after taxation and minority interests for the financial year of £429 million. Including exceptional items, earnings per ordinary share for 1997 was 64.2 pence.
(3) In 1996, earnings per ordinary share is based on profit before exceptional credits and after taxation for the financial year of £412 million. Including exceptional credits, earnings per ordinary share for 1996 was 71.4 pence.
(4) American Depositary Shares ('ADSs') are calculated at a ratio of four ordinary shares to one ADS, which took effect on 3 March 1995. Before such time, each ADS represented ten ordinary shares.
(5) Dividend per share and per ADS exclude any associated UK tax credit available to certain holders of ordinary shares and ADSs.

Shareholder Information

Shareholder Profile
as at 21 May 1998

	No. of shareholders	% of total shareholders	No. of ordinary shares	% of issued capital
1– 250	673,588	82.58	88,815,120	13.78
251– 750	126,008	15.44	48,439,483	7.52
751– 1,000	5,206	0.64	4,551,880	0.71
1,001– 10,000	9,579	1.2	23,740,803	3.68
10,001– 30,000	479	0.05	8,041,397	1.25
30,001– 100,000	328	0.04	19,025,570	2.95
100,001– 500,000	263	0.03	59,224,701	9.19
500,001–1,000,000	82	0.01	58,535,244	9.08
1,000,001– and above	89	0.01	334,157,079	51.84

Financial Calendar

1 June 1998	Shares go ex dividend
5.00 pm 5 June 1998	Record date for dividend
	Scrip dividend: price of New Share available
1 July 1998	Scrip dividend: last date for receipt of mandates or cancellations
11.00 am 13 July 1998	AGM at the ICC, Birmingham
31 July 1998	1997/98 Final Dividend paid
	Scrip dividend: first day of dealings in New Shares
12 November 1998	1998/99 interim results announcement and announcement of 1998/99 Interim Dividend
23 November 1998	Shares go ex dividend
5.00 pm 27 November 1998	Record date for dividend
	Scrip dividend: price of New Share available
1 December 1998	Scrip dividend: last date for receipt of mandates or cancellations
23 December 1998	1998/99 Interim Dividend paid
	Scrip dividend: first day of dealings in New Shares

Scrip Dividend
The PowerGen Scrip Dividend Plan (the Plan) allows shareholders the opportunity to choose to receive dividends by way of shares (New Shares) in the Company (scrip dividends), rather than payment in cash. Subject to approval by the directors, the Plan will apply to the Final Dividend for 1997/98, which is payable on 31 July 1998 to holders of ordinary shares registered in the books of the Company at the close of business on 5 June 1998. Key dates are shown in the Financial Calendar above.

Shareholders who have already completed a Scrip Dividend Mandate (Mandate) will receive the dividend in the form of New Shares, and need take no further action.

The Terms and Conditions of the Plan may be obtained from the Company's Registrar, who can supply Mandate forms and deal with any queries. The Registrar must be advised, in order to cancel an existing Mandate.

The number of New Shares will be calculated on the basis of the net dividend declared and by reference to a price per share equal to the average of the middle market quotations for the Company's ordinary shares on The London Stock Exchange, as derived from the Daily Official List for the day when the ordinary shares are first quoted 'ex' the relevant dividend and the four subsequent dealing days (ie 1 to 5 June 1998). After the price per New Share is so established, the New Shares to be allotted will be expressed in the form of one New Share for a specified number of ordinary shares held, rounded to five decimal places.

The price of a New Share will be available from 5.00 pm on 5 June 1998 by telephoning the Company's Registrar on 0117 976 3005 (This document was sent to press before that date)

If you sold any of your ordinary shares prior to 1 June 1998, you are advised to contact your stockbroker or agent without delay as there may be a claim from the purchaser in accordance with the rules of The London Stock Exchange.

Any queries should be addressed to the Company's Registrar, at the address shown under 'Shareholder Enquiries' below. All communications, notices, certificates and remittances to be delivered by or sent to or from shareholders will be delivered or sent at their own risk. Neither the Company nor the Registrar will be liable for any accidental failure to receive any Mandate or notice of cancellation.

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Company Nominee Service

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

The key features of the Company Nominee Service are:

- shares are held in a nominee account, and regular statements of account are provided, rather than share certificates;
- it provides a facility to allow shareholders to deal in PowerGen shares rapidly and cost effectively through the CREST electronic settlement system;
- the benefits of direct shareholding are retained, such as prompt payment of dividends, a copy of the Annual Review, and attendance and voting at the Annual General Meeting;
- the Nominee Service is provided at no cost to the shareholder. However, if the facility to deal in PowerGen shares is used, charges are payable. Basic commission is 1% with a £10 minimum charge.

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

Low Cost Share Dealing Service

A simple and economic way of buying or selling certificated shareholdings is still available through Hoare Govett. This is a postal dealing service, with a basic 1% commission subject to a minimum charge of £10. Full details may be obtained from Pershing Securities on 0171 345 6000.

Dividend History

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

Payment	Date	Net amount per share	Scrip: Price of New Share
1	21 October 1991	5.55p	–
2	27 March 1992	3.05p	–
3	19 October 1992	6.20p	261.0p
4	26 March 1993	3.35p	294.2p
5	31 March 1993	7.15p	–
6	12 November 1993	3.95p	417.0p
7	29 July 1994	8.70p	465.6p
8	20 December 1994	5.00p	550.6p
9	28 July 1995	10.00p	498.0p
10	20 December 1995	6.50p	531.8p
11	31 July 1996	14.50p	485.0p
12	20 December 1996	7.80p	579.1p
13	31 July 1997	17.40p	658.5p
14	31 December 1997	9.00p	781.6p

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

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

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

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

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

Registrar

With effect from 12 March 1998, PowerGen plc's Registrar is Computershare Services PLC, formerly the registration business of The Royal Bank of Scotland.

Computershare Services PLC is a UK subsidiary of Computershare Limited, an Australian listed company. Computershare specialises in securities information technology and provides registration systems, stock exchange platforms and broker back office systems throughout the world. It provides software systems for 90% of the registration market in New Zealand, 80% of the market in Australia and, following the acquisition of the Royal Bank's registration business, 30% of the UK registration market. Computershare Services acts as registrar for around 900 listed companies in the UK.

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The Registrar's address is shown under 'Shareholder Enquiries' below.

Shareholder Enquiries

Enquiries on your shareholding should be made to the Registrar at the following address:
Computershare Services PLC, PO Box 96, Caxton House, Redcliffe Way, Bristol BS99 7ZG.
Telephone: 0117 976 3005
Fax: 0117 930 6509

General enquiries on the Company should be made to the Company Secretary at:
PowerGen plc, 53 New Broad Street, London EC2M 1JJ
Telephone: 0171 826 2826
Fax: 0171 826 2890

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

Unsolicited Mail

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

Telephone information service

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

PowerGen plc
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Registered in England and Wales
No. 2366970
Internet Web Site address: www.pgen.com

The PowerGen Values

The way in which we deliver value is very important to us at PowerGen. Our Working Together, Working Better Values provide a clear statement of what we stand for and underpin how we do business.

Working Together, Working Better

We work together
- for mutual benefit
- with integrity, honesty and trust
- showing respect and consideration for others

We work better by
- not compromising on safety
- constantly seeking innovation and improvement
- taking account of the future in what we do today
- delivering what we promise

POWERGEN

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