

SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

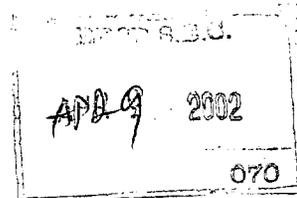
FORM 6-K

Report of Foreign Issuer

Pursuant to Rule 13a-16 or 15d-16  
of the Securities Exchange Act of 1934

For the month of March, 2002

POWERGEN plc  
53 New Broad Street  
London EC2M 1SL, England



PROCESSED  
APR 15 2002  
THOMSON  
FINANCIAL

Indicate by check mark whether the registrant files or will  
file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F

Form 40-F

Indicate by check mark whether the registrant by furnishing  
the information contained in this Form is also thereby furnishing  
the information to the Commission pursuant to Rule 12g3-2(b) under  
the Securities Exchange Act of 1934.

Yes

No

If "Yes" is marked, indicate below the file number assigned  
to the registrant in connection with Rule 12g3-2(b):

13.02 06 Mar RNS-REG-Powergen PLC <PWG.L> Holding(s) in Company

RNS Number:5066S

Powergen PLC

6 March 2002

Holding in Company

Powergen plc ("the Company") was notified on 6 March 2002 that, as at 4 March 2002 UBS Warburg ("UBS-W"), a business group of UBS AG, had an interest in 20,011,977 Ordinary shares of the Company, representing approximately 3.06% of the Ordinary shares of the Company then in issue.

These interests are held by UBS-W as beneficial owner in the ordinary course of its trading activities including an interest in 16,716,437 Ordinary shares of the Company (2.55%) held for hedging purposes in relation to contracts for differences entered into with clients.

Holdings of the Ordinary shares are registered or will be registered in the name of Apollo Nominees Ltd.

David Jackson, Company Secretary

This information is provided by RNS  
The company news service from the London Stock Exchange

END

HOLSSAFEMSESEID

For related news, double click on one of the following codes:

[RNS] [ELG] [EUROPE] [WEU] [GB] [REG] [LEN]

[PWG.L\c]

For related price quotes, double click on one of the following codes:

<PWG.L>

Wednesday, 6 March 2002 13:02:02

RNS [nRNSF5066S]

09:43 11 Mar RNS-REG-Powergen PLC <PWG.L> Holding(s) in Company

RNS Number:7157S

Powergen PLC  
11 March 2002

11 March 2002

Powergen plc

Holding in Company

Pursuant to Section 198 of the UK Companies Act 1985, Powergen plc ("the Company") was notified on 8 March 2002 that, as at 6 March 2002 Lehman Brothers had an interest in 72,622,497 shares, representing approximately 11.09% of the Ordinary shares of the Company then in issue.

David Jackson, Company Secretary

This information is provided by RNS  
The company news service from the London Stock Exchange

END

HOLSFFSUFSEELD

For related news, double click on one of the following codes:  
[RNS] [ELG] [EUROPE] [WEU] [GB] [REG] [LEN]  
[PWG.Lc]

For related price quotes, double click on one of the following codes:  
<PWG.L>

Monday, 11 March 2002 09:43:04  
RNS [nRNSK7157S]

10:13 21 Mar RNS-REG-Powergen PLC <PWG.L> Acquisition of Powergen plc

RNS Number:3422T  
Powergen PLC  
21 March 2002

THIS ANNOUNCEMENT DOES NOT CONSTITUTE AN OFFER TO PURCHASE OR A SOLICITATION OF AN OFFER TO SELL ANY SECURITIES

21 March 2002

Powergen plc

E.ON AG

Recommended Acquisition of Powergen plc ("Powergen") by E.ON UK plc ("E.ON UK"), a wholly-owned subsidiary of E.ON AG ("E.ON"), by means of a Scheme of Arrangement (the "Scheme") under Section 425 of the Companies Act 1985 (the "Acquisition")

The Boards of Powergen and E.ON have announced that the process for completion of the proposed acquisition of Powergen by E.ON UK, a wholly owned subsidiary of E.ON, by means of a scheme of arrangement under section 425 of the Companies Act 1985 will begin tomorrow with a hearing at the High Court to convene a meeting of Powergen shareholders (the "Court Meeting") and order the despatch of a Scheme document to such shareholders.

Completion of the Acquisition will be subject to the satisfaction or, if permitted, waiver of the conditions of the Acquisition, including, inter alia, the approval of Powergen shareholders and the sanction of the Scheme by the High Court.

In addition, two pre-conditions to the recommended pre-conditional cash offer announced on 9 April 2001, relating to approval under the United States Public Utility Holding Company Act of 1935 (as amended) ("PUHCA") remain to be satisfied. The Boards of Powergen and E.ON have agreed that these pre-conditions should become conditions to the Acquisition to enable the Scheme to be commenced as soon as possible. No assurances, however, can be given as to the satisfaction or timing of the satisfaction of the conditions to the Acquisition, including the approval under PUHCA.

The Boards of Powergen and E.ON believe it to be in the best interests of Powergen shareholders to begin the Scheme process, prior to satisfaction or waiver of the pre-conditions relating to the approval under PUHCA, so that the Acquisition can be completed as soon as practicable.

Under the terms of the Scheme, E.ON UK will become the owner of Powergen's entire issued share capital. This will be achieved by cancelling existing shares held by Powergen shareholders (other than shares held by Powergen shareholders who validly elect for the Loan Note Alternative in accordance with its terms) and issuing new shares to E.ON UK. Shares held by Powergen shareholders who make valid elections for the Loan Note Alternative will be transferred to E.ON UK.

The Scheme will require the passing of a special resolution by Powergen shareholders, to be proposed at an extraordinary general meeting ("EGM") of Powergen. The Scheme will also require approval separately by Powergen shareholders at the Court Meeting. The approval required at the Court Meeting is a majority in number of the Powergen shareholders present and voting (in person or by proxy) and representing 75 per cent. in value of the Powergen shares held by those Powergen shareholders.

The Scheme will become effective upon the delivery to the Registrar of Companies by Powergen of a copy of the order of the High Court sanctioning the Scheme and the registration of such order.

The expected timetable for the Acquisition, which is subject to SEC approval and the sanction of the High Court, is:

Posting of Scheme document to Powergen shareholders

27 March 2002

4

Last day for Powergen shareholders to vote by submitting proxy forms 17 April 2002

It is expected that the court hearing to sanction the Scheme will take place, and that the Scheme will become effective, shortly after the later of the court meeting and EGM or receipt of SEC approval (on the assumption that this approval is given). It is hoped that the SEC will approve the transaction in such time limit to permit E.ON UK to complete the Acquisition in May 2002. Cash entitlements and/or Loan Note certificates under the Scheme will be despatched within 14 days after the Scheme becomes effective.

Full details of the terms and conditions of the Acquisition and the Scheme will be set out in the Scheme document which is expected to be posted to Powergen shareholders on or around 27 March 2002.

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Dresdner Kleinwort Wasserstein Limited is acting for Powergen and for no one else in connection with the Acquisition and will not be responsible to anyone other than Powergen for providing the protections afforded to clients of Dresdner Kleinwort Wasserstein Limited or for providing advice in relation to the Acquisition.

Goldman Sachs International is acting for E.ON and E.ON UK and for no one else in connection with the Acquisition and will not be responsible to anyone other than E.ON and E.ON UK for providing the protections afforded to clients of Goldman Sachs International or for providing advice in relation to the Acquisition.

This announcement contains certain statements that are neither reported financial results nor other historical information. These statements are forward-looking statements within the meaning of the safe-harbour provisions of the U.S. federal securities laws. Because these forward-looking statements are subject to risks and uncertainties, actual future results may differ materially from those expressed in or implied by the statements. Many of these risks and uncertainties relate to factors that are beyond the E.ON or Powergen's ability to control or estimate precisely, such as future market conditions, currency fluctuations, the behaviour of other market participants, the actions of governmental regulators and other risk factors detailed in E.ON's and Powergen's filings with the Securities and Exchange Commission. Readers are cautioned not to place undue reliance on those forward-looking statements, which speak only as of the date of this document. E.ON and Powergen do not undertake any obligation to publicly release any revisions to these forward-looking statements to reflect events or circumstances after the date of these materials.

The availability of the Loan Note Alternative to persons outside the United Kingdom may be affected by the laws of the relevant jurisdiction. Such persons

should inform themselves about, and observe, any applicable requirements of the relevant jurisdiction. Certain overseas shareholders will not be entitled to receive Loan Notes and will be entitled to receive only cash consideration. Copies of the Form of Election in relation to the Loan Note Alternative are not being mailed or otherwise distributed or sent in or into the United States, Canada, Australia, Japan, New Zealand, South Africa, Belgium, France, Germany, The Netherlands, Singapore, Malaysia or Spain.

The Loan Notes to be issued in connection with the Acquisition may not be offered, sold or delivered, directly or indirectly, in or into Canada, Australia, Japan, New Zealand, South Africa, Belgium, France, Germany, The Netherlands, Singapore, Malaysia or Spain (except in transactions exempt from or not subject to the relevant securities laws of those jurisdictions).

The Directors of Powergen accept responsibility for the information contained in this announcement, except for the information relating to the E.ON group. To the best of the knowledge and belief of the directors of Powergen (who have taken all reasonable care to ensure that such is the case), the information contained in this announcement for which they accept responsibility is in accordance with the facts and does not omit anything likely to affect the import of such information.

The members of the Management Board of E.ON and the Directors of E.ON UK accept responsibility for the information contained in this announcement relating to the E.ON group. To the best of the knowledge and belief of the members of the Management Board of E.ON and the Directors of E.ON UK (who have taken all reasonable care to ensure that such is the case), the information contained in this announcement for which they accept responsibility is in accordance with the facts and does not omit anything likely to affect the import of such information.

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For related news, double click on one of the following codes:  
[RNS] [ELG] [MRG] [EUROPE] [WEU] [GB] [REG] [LEN]  
[PWG.L\c]

For related price quotes, double click on one of the following codes:  
<PWG.L>

Thursday, 21 March 2002 10:13:32  
RNS [nRNSU3422T]

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt as to the action you should take, you are recommended to seek your own financial advice immediately from your stockbroker, solicitor, accountant or other independent financial adviser, duly authorised under the Financial Services and Markets Act 2000, if you are in the United Kingdom, or from another appropriately authorised independent financial adviser.

If you have sold or transferred all your Powergen Shares, please send this document and the accompanying documents to the purchaser or transferee or to the stockbroker, bank or other agent through or to whom the sale or transfer was effected for delivery to the purchaser or transferee. However, the Form of Election should not be forwarded in or into the United States, Canada, Australia, Japan, New Zealand, South Africa, Belgium, France, Germany, The Netherlands, Singapore, Malaysia or Spain.

Restricted Overseas Persons (including US Persons) will not be entitled to receive Loan Notes and will be entitled to receive only cash consideration. Copies of the Form of Election are not being mailed or otherwise distributed or sent in or into the United States, Canada, Australia, Japan, New Zealand, South Africa, Belgium, France, Germany, The Netherlands, Singapore, Malaysia or Spain.

Dresdner Kleinwort Wasserstein is acting for Powergen and no one else in connection with the Acquisition and will not be responsible to anyone other than Powergen for providing the protections afforded to clients of Dresdner Kleinwort Wasserstein or for providing advice in relation to the Acquisition or the Scheme, or the contents of this document.

Goldman Sachs International is acting for E.ON and E.ON UK and no one else in connection with the Acquisition and will not be responsible to anyone other than E.ON and E.ON UK for providing the protections afforded to clients of Goldman Sachs International or for providing advice in relation to the Acquisition or the Scheme, or the contents of this document.

This document should be read in conjunction with the accompanying Forms of Proxy, Form of Election, (if you are a holder of Powergen Shares through the Computershare Nominee Service) Nominee Form of Instruction and (if you are a holder of Powergen ADSs) Voting Instruction Card.

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**Recommended Acquisition**  
**of**  
**POWERGEN PLC**  
**by**  
**E.ON UK PLC**  
**a wholly-owned subsidiary of**  
**E.ON AG**  
**by means of a**  
**SCHEME OF ARRANGEMENT**  
**under section 425 of the Companies Act 1985**

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Your attention is drawn to the letter from the Chairman of Powergen set out in Part I of this document which contains the recommendation by the Powergen Directors to Powergen Shareholders to approve the Acquisition and to vote in favour of the resolutions to be proposed at the Court Meeting and the Extraordinary General Meeting.

Notices of a Court Meeting and an Extraordinary General Meeting of Powergen, both of which will be held at The Nine Kings Suite, Royal Lancaster Hotel, Lancaster Terrace, London W2 2TY on 19 April 2002, are set out at the end of this document. The Court Meeting will start at 9.30 a.m. and the Extraordinary General Meeting will start at 9.45 a.m. (or, if later, immediately following the conclusion or adjournment of the Court Meeting).

Powergen Shareholders will find enclosed with this document blue and white Forms of Proxy which they are asked to complete and sign in accordance with the instructions printed thereon and return them either by post or by hand to Powergen's Registrars, Computershare Investor Services PLC, P.O. Box 478, The Pavilions, Bridgwater Road, Bristol BS99 7JP, so as to be received as soon as possible and in any event at least 48 hours before the time fixed for the relevant meeting. A reply paid envelope (for use in the UK only) is enclosed for this purpose. Alternatively, you may return the Forms of Proxy electronically by logging onto the website [www.powergenplc.com](http://www.powergenplc.com). Full details of the procedure to be followed if you wish to return your Forms of Proxy electronically are given on the website.

If blue Forms of Proxy for the Court Meeting are not lodged by the relevant time, they may be handed to the Chairman of the Court Meeting at the Court Meeting. However, white Forms of Proxy for the Extraordinary General Meeting cannot be handed to the Chairman of the Extraordinary General Meeting and will be invalid unless they are received by Powergen's Registrars at least 48 hours before the time fixed for that meeting. The return of completed Forms of Proxy will not prevent you from attending the Court Meeting or the Extraordinary General Meeting and voting in person if you so wish and if you are entitled to do so.

If you hold your Powergen Shares through the Computershare Nominee Service, please complete and sign the enclosed Nominee Form of Instruction in accordance with the instructions printed thereon and return it either by post or by hand to Powergen's Registrars, Computershare Investor Services PLC, P.O. Box 478, The Pavilions, Bridgwater Road, Bristol BS99 7JP, so as to be received as soon as possible and in any event by no later than 9.30 a.m. on 17 April 2002. A reply paid envelope (for use in the UK only) is enclosed for this purpose.

If you hold Powergen ADSs, please complete and sign the enclosed Voting Instruction Card and return it in the enclosed envelope to the Depository so as to be received as soon as possible and in any event by no later than 5.00 p.m. (New York time) on 17 April 2002. If you hold your Powergen ADSs indirectly, you must rely on the procedures of your bank, broker or financial institution through which you hold your Powergen ADSs.

The action to be taken by Powergen Shareholders is further described in section 7 of Part II of this document.

Please note that different arrangements to those outlined above apply if you hold Powergen Shares through the Powergen Share Schemes. If you hold Powergen Shares through the Powergen Share Schemes, you will receive details of such arrangements in separate letters and accompanying documents which are being sent to all such holders.

The availability of the Loan Note Alternative to persons outside the United Kingdom may be affected by the laws of the relevant jurisdiction. Such persons should inform themselves about, and observe, any applicable requirements of the relevant jurisdiction. Restricted Overseas Persons (including US Persons) will not be entitled to receive Loan Notes and will be entitled to receive only cash consideration.

The Loan Notes to be issued in connection with the Acquisition may not be offered, sold or delivered, directly or indirectly, in or into Canada, Australia, Japan, New Zealand, South Africa, Belgium, France, Germany, The Netherlands, Singapore, Malaysia or Spain (except in transactions exempt from or not subject to the relevant securities laws of those jurisdictions).

This document and the accompanying documents have been prepared for the purpose of complying with English law and the Code and the information disclosed may not be the same as that which would have been disclosed if this document or the accompanying documents had been prepared in accordance with the laws of jurisdictions outside England.

The Acquisition of Powergen by E.ON UK is conditional, inter alia, on the SEC having granted prior approval to E.ON for the Acquisition of Powergen by E.ON UK under PUHCA. No assurances can be given as to the satisfaction or timing of satisfaction of any of the conditions of the Acquisition, including SEC approval. Any SEC approval, if given, will not constitute an opinion by the SEC as to the fairness of the terms of the Acquisition or a recommendation that Powergen Shareholders should vote in favour of the Scheme. The necessary action to make the Scheme effective will not be taken unless all the conditions of the Acquisition are satisfied or, where permitted, waived. Further details of the conditions of the Acquisition are contained in Part III of this document. Neither the SEC nor any state securities commission has expressed any opinion as to the accuracy, adequacy or completeness of this document or any other accompanying document.

This document contains certain statements that are neither reported financial results nor other historical information. These statements may be forward-looking within the meaning of the safe-harbour provisions of US federal securities laws. Because these forward-looking statements are subject to risks and uncertainties, actual future results may differ materially from those expressed in or implied by the statements. Many of these risks and uncertainties relate to factors that are beyond E.ON's and Powergen's ability to control or estimate precisely, such as future market conditions, currency fluctuations, the behaviour of other market participants, the actions of governmental regulators and other risk factors detailed in E.ON's and Powergen's filings with the SEC. Readers are cautioned not to place undue reliance on these forward-looking statements which speak only as at the date of this document. E.ON and Powergen do not undertake any obligation to release publicly any revisions to these forward-looking statements to reflect events or circumstances after the date of these materials.

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## EXPECTED TIMETABLE

2002

Latest time for lodging Nominee Forms of Instruction in respect of Powergen Shares held through the Computershare Nominee Service	9.30 a.m. on 17 April
Latest time for receipt by the Depositary of completed Voting Instruction Cards from holders of Powergen ADSs	5.00 p.m. (New York time) on 17 April
Requested time for lodging blue Forms of Proxy for Court Meeting	9.30 a.m. on 17 April*
Latest time for lodging white Forms of Proxy for Extraordinary General Meeting	9.45 a.m. on 17 April <sup>□</sup>
Court Meeting	9.30 a.m. on 19 April
Extraordinary General Meeting	9.45 a.m. on 19 April**
Latest time for lodging Loan Note Forms of Election for the Loan Note Alternative	9.30 a.m. on 3 May***

It is expected that the court hearing to sanction the Scheme will take place, and that the Scheme will become effective, shortly after receipt of SEC approval (on the assumption that this approval is given). It is hoped that the SEC will approve the transaction in such time limit to permit E.ON UK to complete the Acquisition in May 2002. Cash entitlements and/or Loan Note certificates under the Scheme will be despatched within 14 days after the Scheme becomes effective.

*All references in this document are to London time, unless otherwise stated.*

The Court Meeting and the Extraordinary General Meeting will be held at The Nine Kings Suite, Royal Lancaster Hotel, Lancaster Terrace, London W2 2TY.

Powergen Shareholders holding Powergen Shares through the Powergen Share Schemes should read this document in conjunction with the separate letters giving guidance to such holders.

### Shareholder helpline:

Freephone 0800 953 0078 in the UK  
(or +44 (0) 870 703 0083 from outside the UK).

\* It is requested that blue forms of proxy for the Court Meeting be lodged with Powergen's Registrars by no later than 9.30 a.m. on 17 April 2002. If blue forms of proxy for the Court Meeting are not lodged by then, they may be handed to the Chairman of the Court Meeting at the Court Meeting.

□ White forms of proxy for the Extraordinary General Meeting must be lodged with Powergen's Registrars by no later than 9.45 a.m. on 17 April 2002 and cannot be handed to the Chairman of the Extraordinary General Meeting at the meeting.

\*\* Or, if later, immediately following the conclusion or adjournment of the Court Meeting.

\*\*\* This date is conditional upon the date on which the SEC may grant approval to the Acquisition and the date on which the Court sanctions the Scheme.

## PART I

### LETTER FROM THE CHAIRMAN OF POWERGEN PLC



City Point  
1 Ropemaker Street  
London EC2Y 9HT  
(Registered in England no. 3586615)

27 March 2002

*To Powergen Shareholders and, for information only, to participants in the Powergen Share Schemes*

Dear Shareholder,

#### **Recommended Acquisition of Powergen by E.ON UK, a wholly-owned subsidiary of E.ON**

##### **1. Introduction**

I am writing to you today to set out the terms of the Acquisition of Powergen by E.ON UK, to explain the background to and reasons for our recommendation of the Acquisition and to seek your support and approval for the Acquisition.

In order to approve the terms of the Acquisition, you will need to vote in favour of the resolutions to be proposed at two shareholder meetings (the Court Meeting and the Extraordinary General Meeting) to be held on 19 April 2002. The actions you should take, and the recommendation of the Powergen Directors, are set out in sections 7 and 8 of this letter.

##### **2. Current status of the Acquisition**

On 9 April 2001, Powergen and E.ON announced that they had reached agreement on the terms of a recommended pre-conditional cash offer for the acquisition of Powergen by E.ON. Since then, the Powergen and E.ON teams have been working closely together to satisfy the pre-conditions, all of which relate to regulatory matters.

Powergen and E.ON have agreed that the Acquisition is to be carried out by means of a scheme of arrangement under section 425 of the Act. We believe that a scheme of arrangement is the best way of achieving completion of the Acquisition as soon as practicable.

There are, however, two pre-conditions relating to PUHCA in the US which remain to be satisfied. Powergen and E.ON have decided that these pre-conditions should become conditions to the Acquisition so that the formal process to complete the Acquisition can begin while the process of obtaining the approval under PUHCA is being progressed.

The decision to proceed by way of a scheme of arrangement means that there will be two meetings of Powergen Shareholders to approve the Acquisition: a Court Meeting convened by an order of the Court and an Extraordinary General Meeting, both of which will be held on

19 April 2002. Further information on the Scheme process is set out in section 7 below and in sections 6 and 7 of Part II of this document.

Powergen Shareholders should note that no assurances can be given as to the satisfaction or timing of satisfaction of the conditions of the Acquisition, including the approval under PUHCA, and, accordingly, that the Acquisition may not be completed. It is hoped, however, that the SEC will approve the transaction in such time limit to permit E.ON UK to complete the Acquisition in May 2002. Further information on the conditions relating to PUHCA is set out in section 2 of Part II of this document.

The necessary steps to implement the Scheme and complete the Acquisition will not be taken until all of the conditions of the Acquisition have been satisfied or, if permitted, waived. Consequently, there could be some delay between Powergen Shareholders giving their approval to the Acquisition and its completion.

### **3. Summary of the terms of the Acquisition**

The Acquisition is to be carried out by means of a scheme of arrangement between Powergen and its shareholders under section 425 of the Act. The Scheme is subject to the conditions and further terms set out in this document. Under the Scheme, Powergen Shareholders will receive either cash or, subject to certain conditions, Loan Notes for their shareholdings.

The Scheme Shares will, subject to the Loan Note Alternative, be cancelled and Powergen Shareholders will receive:

for each Powergen Share	£7.65 in cash
for each Powergen ADS	£30.60 in cash

The £30.60 in cash for each Powergen ADS will be received by the Depositary and converted into US dollars by the Depositary according to the terms and conditions of the Deposit Agreement. It is expected that once the Depositary has received the funds, holders of ADSs will receive their payment in US dollars from the Depositary upon surrender of their ADSs in accordance with the terms of the Deposit Agreement.

Powergen Shareholders will be entitled to retain the last quarterly dividend for 2001 (which was announced by Powergen on 21 February 2002). Powergen Shareholders will also be entitled to retain the first quarterly dividend for 2002. In addition, assuming that the Scheme becomes effective during the second quarter of 2002, the consideration to be paid under the Scheme will be increased on a daily basis, at a rate of 9.2 pence per quarter in respect of the period from the end of the first quarter of 2002 until the Scheme Effective Date.

Powergen Shareholders (other than Restricted Overseas Persons (including US Persons)) will, subject to the terms of the Scheme, be able to choose to receive Loan Notes instead of some or all of the cash consideration they would otherwise receive. Further details of the Loan Note Alternative are set out in Part V of this document and information concerning overseas persons is set out in section 14 of Part II of this document.

The Acquisition values the whole of Powergen's share capital at approximately £5.1 billion (assuming the exercise in full of all outstanding options under the Powergen Share Schemes).

Further information concerning the structure of the Acquisition is set out in Part II of this document.

#### **4. Background to and reasons for the recommendation of the Acquisition**

Since the privatisation of the electricity industry in 1990, Powergen has become a leading company in the UK's electricity and gas markets through the rationalisation of its generating interests and its acquisition of East Midlands Electricity plc, one of the largest Regional Electricity Companies in England and Wales. Powergen had seen investment in a diverse portfolio of assets in a number of countries as its strategic goal to deliver growth and value.

Developments in the liberalisation of the electricity and gas markets in the United States led to Powergen refocusing its growth strategy. Powergen successfully entered the US market through the acquisition of LG&E Energy Corp in 2000 and instigated a programme of disposals to reduce its interests in other international assets. Powergen's strategy is now to concentrate on Anglo-American growth opportunities. The acquisition of LG&E was seen by Powergen as a platform to make further acquisitions in the US market.

Developments during 2000 meant that Powergen could only realise its Anglo-American strategy either with a partner or as part of a financially stronger group. Discussions with the newly formed E.ON provided the opportunity to realise Powergen's vision as part of a larger group which had a strategy to become a global utility group. These discussions led to the recommended pre-conditional cash offer which was announced on 9 April 2001.

The combination of Powergen's skill and experience, together with the financial power and common strategy of E.ON, is seen by the Powergen Directors as the best solution for shareholders, employees and other stakeholders.

The Powergen Directors believe that the terms of the Acquisition are fair and reasonable for Powergen Shareholders. The consideration represents a premium (excluding the value of the dividends referred to above) of:

- 0.3 per cent. over the closing price of Powergen Shares of 763.0 pence on 20 March 2002 (the latest practicable date prior to the publication of this document);
- 25.8 per cent. over the closing price of Powergen Shares of 608.0 pence on 16 January 2001 (the last Business Day before the announcement by Powergen that it was in preliminary talks with E.ON in relation to the Acquisition); and
- 35.2 per cent. over the average closing price of Powergen Shares of 565.7 pence over the six months ended 16 January 2001.

Accordingly, the Powergen Directors have arrived at their unanimous recommendation set out below.

#### **5. Management and employees**

E.ON has confirmed that, upon completion of the Acquisition, Powergen will operate as a separate subsidiary of E.ON and Powergen's management team will be responsible for the development and operation of E.ON's Anglo-American energy business.

E.ON has proposed that the Board of Powergen will comprise: Ulrich Hartmann, Chairman; Edmund Wallis, Deputy Chairman and Chief Executive; Dr. Paul Golby, Executive Director (UK operations); Victor Staffieri, Executive Director (US operations); Michael Soehlke, Executive Director (Chief Financial Officer); and Dr Hans Michael Gaul, Dr Hans Dieter Harig and Professor Rainer Elsaesser.

There will, in addition, be two UK-based independent directors who may be appointed from the existing non-executive directors of Powergen.

Edmund Wallis will also be appointed Chairman and Chief Executive of E.ON US Verwaltungs GmbH (a company through which E.ON intends to develop its presence in the US through acquisition) and will join the E.ON Energie Supervisory Board.

No terms have been agreed with Edmund Wallis, Dr. Paul Golby and Victor Staffieri regarding any of the above appointments.

Nick Baldwin and Peter Hickson will leave the Board of Powergen once the Acquisition has been completed. E.ON has confirmed that the terms of their contracts, details of which are set out in section 8(a)(iii) of Part VI of this document and which include provisions for the payment of compensation upon a change in control, will be met in full.

E.ON has stated that the employment rights, including pension rights, of Powergen Group employees will be fully safeguarded in accordance with applicable law.

## **6. Preliminary results and current trading**

On 21 February 2002, Powergen announced its preliminary results for the 12 months ended 31 December 2001. The preliminary results statement is set out in section B of Part IV of this document.

## **7. Action to be taken**

The Scheme will require approval at the Court Meeting to be held at 9.30 a.m. on 19 April 2002. The approval required at the Court Meeting is that those voting to approve the Scheme must:

- represent a majority in number of those Powergen Shareholders present and voting in person or by proxy; and
- also represent three-fourths in value of the Powergen Shares held by those Powergen Shareholders present and voting in person or by proxy.

Implementation of the Scheme will also require the passing by Powergen Shareholders of the special resolution to be proposed at the Extraordinary General Meeting to be held after the Court Meeting. **If the Scheme becomes effective, it will be binding on all Powergen Shareholders, including any Powergen Shareholders who did not vote to approve the Scheme.**

Notices of the Court Meeting and the Extraordinary General Meeting are set out at the end of this document. You will find enclosed with this document:

- a blue Form of Proxy for use in respect of the Court Meeting;
- a white Form of Proxy for use in respect of the Extraordinary General Meeting;
- (if you hold your Powergen Shares through the Computershare Nominee Service) a Nominee Form of Instruction; and
- (if you are a holder of Powergen ADSs) a Voting Instruction Card.

If you are a holder of Powergen Shares, whether or not you intend to attend these meetings, please complete both Forms of Proxy in accordance with the instructions printed thereon and return them either by post or by hand to Powergen's Registrars, Computershare Investor Services PLC, P.O. Box 478, The Pavilions, Bridgwater Road, Bristol BS99 7JP, so as to be received as soon as possible and in any event at least 48 hours before the time fixed for the relevant meeting. A reply paid envelope (for use in the UK only) is enclosed for this purpose. Alternatively, you may return the Forms of Proxy electronically by logging onto the website [www.powergenplc.com](http://www.powergenplc.com). Full details of the procedure to be followed if you wish to return your Forms of Proxy electronically are given on the website. Further information on the return of Forms of Proxy electronically and the conditions of use which apply is set out in section 7 of Part II and section 10 of Part VI of this document. Please note that an electronic communication that is found to contain a computer virus will not be accepted.

If the blue Form of Proxy relating to the Court Meeting is not lodged by the relevant time, it may be handed to the Chairman of the Court Meeting at the Court Meeting. However, in the case of the Extraordinary General Meeting, unless the white Form of Proxy is lodged so as to be received

by the time mentioned above and in accordance with the instructions printed on that Form of Proxy, it will be invalid.

The completion and return of a Form of Proxy will not prevent you from attending and voting in person at the Court Meeting and the Extraordinary General Meeting, or any adjournment thereof, if you so wish.

If you hold your Powergen Shares through the Computershare Nominee Service, please complete and sign the enclosed Nominee Form of Instruction in accordance with the instructions printed thereon and return it either by post or by hand to Powergen's Registrars, Computershare Investor Services PLC, P.O. Box 478, The Pavilions, Bridgwater Road, Bristol BS99 7JP, so as to be received as soon as possible and in any event by no later than 9.30 a.m. on 17 April 2002. A reply paid envelope (for use in the UK only) is enclosed for this purpose.

If you are a holder of Powergen ADSs, you may only vote in person at the Court Meeting and/or the Extraordinary General Meeting if you become a registered holder of Powergen Shares by arranging for the surrender of your Powergen ADSs in accordance with the terms and conditions of the Deposit Agreement. Please contact the Depository on telephone number (001) (646) 885 3288 for further information on surrendering your Powergen ADSs. Alternatively, you may instruct The Bank of New York, as Depository, how to vote the Powergen Shares underlying your Powergen ADSs at the Court Meeting and/or Extraordinary General Meeting. A Voting Instruction Card is enclosed for this purpose and must be completed, signed and returned to the Depository so that the Depository receives it no later than 5.00 p.m. (New York time) on 17 April 2002. If you hold your Powergen ADSs indirectly, you must rely on the procedures of your bank, broker or financial institution through which you hold your Powergen ADSs.

It is particularly important that as many votes as possible are cast at the Court Meeting so that the Court may be satisfied that there is a fair representation of Powergen Shareholder opinion. You are therefore strongly urged to return your Forms of Proxy or, as the case may be, Nominee Form of Instruction or Voting Instruction Card as soon as possible.

Please note that different arrangements to those outlined above apply if you hold Powergen Shares through the Powergen Share Schemes. If you hold Powergen Shares through the Powergen Share Schemes, you will receive details of such arrangements in separate letters and accompanying documents which are being sent to all such holders.

To elect for the Loan Note Alternative, Powergen Shareholders should complete and sign the Form of Election accompanying this document in accordance with the instructions printed thereon, whether or not your Powergen Shares are in CREST and return it either by post or by hand to Powergen's Registrars, Computershare Investor Services PLC, P.O. Box 478, The Pavilions, Bridgwater Road, Bristol BS99 7JP, as soon as possible and in any event before 9.30 a.m. on 3 May 2002. A reply paid envelope (for use in the UK only) is enclosed for this purpose. Further instructions on how to elect for the Loan Note Alternative are set out in clause 5 of Part VIII of this document.

If you have any queries in relation to the action to be taken, please contact the shareholder helpline on freephone 0800 953 0078 in the UK (or +44 (0)870 703 0083 from outside the UK). Please note that calls to this number may be monitored or recorded and no advice on the merits of the Acquisition can be provided.

Your attention is also drawn to the letter from Dresdner Kleinwort Wasserstein set out in Part II of this document which gives fuller details of the Acquisition.

## 8. Recommendation

The Powergen Directors, who have been so advised by their financial adviser, Dresdner Kleinwort Wasserstein, consider the terms of the Acquisition (including the Scheme) to be fair and reasonable. In giving advice to the Powergen Directors, Dresdner Kleinwort Wasserstein has taken into account the Powergen Directors' commercial assessments.

The Powergen Directors believe that the terms of the Acquisition (including the Scheme) are in the best interests of Powergen Shareholders as a whole and unanimously recommend that Powergen Shareholders vote in favour of the resolutions to be proposed at the Court Meeting and the Extraordinary General Meeting, as they intend to do in respect of their own beneficial holdings, which on 20 March 2002 (the latest practicable date prior to the publication of this document) amounted in aggregate to 104,093 Powergen Shares.

Yours sincerely,



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Edmund A. Wallis  
Chairman

**PART II**  
**EXPLANATORY STATEMENT**

**(in compliance with section 426 of the Companies Act 1985)**

 Dresdner Kleinwort Wasserstein

20 Fenchurch Street  
London EC3P 3DB  
(Registered in England no. 551334)

27 March 2002

*To Powergen Shareholders and, for information only, to participants in the Powergen Share Schemes*

Dear Sir or Madam,

**Recommended Acquisition of Powergen by E.ON UK,  
a wholly-owned subsidiary of E.ON**

**1. Introduction**

On 9 April 2001, Powergen and E.ON announced that they had agreed terms for the Acquisition of Powergen by E.ON. The Acquisition is to be effected by means of a scheme of arrangement of Powergen under section 425 of the Act.

Your attention is drawn to the letter from the Chairman of Powergen set out in Part I of this document, which forms part of this explanatory statement and which contains, among other things, information on the reasons for the Acquisition and the unanimous recommendation by the Powergen Directors to Powergen Shareholders to approve the Acquisition and to vote in favour of the resolutions to approve and implement the Acquisition to be proposed at the Court Meeting and the Extraordinary General Meeting.

The Powergen Directors have been advised by Dresdner Kleinwort Wasserstein in connection with the Acquisition and the Scheme. We have been authorised by the Powergen Directors to write to you to explain the terms of the Acquisition and the Scheme and to provide you with other relevant information.

Statements made in this letter which refer to E.ON's reasons for the Acquisition, to information concerning the business of E.ON and E.ON UK and to intentions and expectations regarding E.ON, E.ON UK and the Enlarged Group reflect the views of the E.ON Management Board and the directors of E.ON UK referred to in section 3 of Part VI of this document. Statements made in, or deemed to be included in, this letter which refer to the background to the recommendation of the Powergen Directors, to information concerning the business of Powergen and to expectations regarding Powergen reflect the views of the Powergen Directors.

The Scheme is set out in full in Part VIII of this document. Your attention is also drawn to the other parts of this document which all form part of this explanatory statement.

**2. Summary of the terms of the Acquisition and the Scheme**

The Acquisition is to be effected by means of a scheme of arrangement of Powergen under section 425 of the Act. The Scheme is subject to the conditions and further terms set out in this document, including the approval of the terms of the Scheme by the requisite majorities of Powergen Shareholders at the Court Meeting and the Extraordinary General Meeting, approval under PUHCA, and the sanction of the Scheme by the Court. The requisite majority for each

meeting of Powergen Shareholders is specified in section 6 below. No assurances can be given as to the satisfaction or timing of satisfaction of any of the conditions of the Acquisition, including the conditions relating to PUHCA. E.ON and Powergen have agreed, with the consent of the Panel, that E.ON will not be required to treat the conditions relating to PUHCA as satisfied if certain specified requirements are imposed on E.ON by the SEC and, accordingly, the Acquisition may not be completed. Any approval under PUHCA, if given, will not constitute an opinion by the SEC as to the fairness of the terms of the Acquisition or a recommendation that Powergen Shareholders should vote in favour of the Scheme.

Powergen Shareholders should note that the Court will not be asked to sanction the Scheme until after the conditions relating to PUHCA and all other conditions have been satisfied or, if permitted, waived. The Scheme will not become effective and the Acquisition will not be completed unless (i) the conditions relating to PUHCA have been satisfied or, if permitted, waived by the close of business (London time) on 9 July 2002, or such later date as Powergen and E.ON may agree; and (ii) all the other conditions of the Acquisition have been satisfied or, if permitted, waived by the close of business (London time) on 9 October 2002, or such later date as Powergen and E.ON may agree and the Court may approve.

(a) The Scheme

The purpose of the Scheme is to provide for E.ON UK to become the owner of the whole of the issued share capital of Powergen. This is to be achieved by:

- (i) the cancellation of the Scheme Shares (other than those referred to in (ii) below) held by Powergen Shareholders and the application of the reserve arising from such cancellation in paying up in full a number of new Powergen Shares which is equal to the number of Scheme Shares cancelled and issuing the same to E.ON UK; and
- (ii) the subsequent transfer by Powergen Shareholders to E.ON UK of those Scheme Shares in respect of which valid elections for Loan Notes are made and accepted under the Loan Note Alternative.

Holders of Scheme Shares who are on the register of Powergen on the Scheme Record Date (close of business on the Business Day immediately preceding the Scheme Effective Date) will then receive cash and/or Loan Notes on the basis set out below.

(b) Consideration

Under the Scheme, and subject to (c) below, holders of Scheme Shares will receive from E.ON UK a cash payment on the following basis:

for each Powergen Share	£ 7.65
for each Powergen ADS	£30.60

The £30.60 in cash for each Powergen ADS will be received by the Depositary and converted into US dollars by the Depositary pursuant to the terms and conditions of the Deposit Agreement. It is expected that once the Depositary has received the funds, holders of ADSs will receive their payment in US dollars from the Depositary upon surrender of their ADSs in accordance with the terms of the Deposit Agreement.

Powergen Shareholders have received quarterly dividends in respect of the first three quarters of 2001 and will be entitled to retain the last quarterly dividend for 2001 (which was announced by Powergen on 21 February 2002). Powergen Shareholders will also be entitled to retain the first quarterly dividend for 2002 and the dividends for any subsequent quarters ending on or before the Scheme Effective Date. Any such dividends will be payable on a date consistent with Powergen's previous dividend practice or, if earlier, with payment

of the consideration under the Scheme. It is a condition of the Scheme that any such quarterly dividends do not exceed 9.2 pence per Powergen Share.

The consideration to be paid under the Scheme will be increased, on a daily basis, at a rate of 9.2 pence per quarter, in respect of the period commencing immediately after the last quarter end date before the Scheme Effective Date and ending on the Scheme Effective Date.

If, after the date of this document, any dividend other than the dividends set out above is paid or becomes payable, E.ON UK will have the right, as an alternative to lapsing the Scheme for non-fulfilment of the conditions, to reduce the consideration for each Powergen Share (including any Powergen Share represented by Powergen ADSs) by an amount equal to the excess.

(c) Loan Note Alternative

Holder of Scheme Shares (other than Restricted Overseas Persons, including US Persons) may elect to receive Loan Notes in exchange for Scheme Shares in lieu of all or some of the cash consideration which would otherwise be due to them under the Scheme on the following basis:

for each £1 of cash consideration	£1 nominal of Loan Notes
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The Loan Notes, which will be guaranteed by E.ON, will be issued, credited as fully paid, in multiples of £1 nominal amount. Fractional entitlements to Loan Notes will be disregarded. The Loan Notes will bear interest from the date of issue to the relevant holder of the Loan Notes at a rate of 0.5 per cent. per annum below LIBOR for six month sterling deposits payable six monthly in arrear. The Loan Notes will be transferable, but no application will be made for them to be listed or dealt in on any stock exchange in any jurisdiction. The Loan Notes will be redeemable at par at the holder's option, in part or in whole, on any interest payment date on or following the date falling six months following the date of first issue of the Loan Notes, and any Loan Notes not previously repaid, redeemed or purchased will be repaid in full at par on the first interest payment date falling on or after the fifth anniversary of the first issue of the Loan Notes. Powergen may, in its sole discretion, at any time prior to the Scheme Effective Date, cancel any election made for the Loan Note Alternative at the request of any Powergen Shareholder who has validly elected for the Loan Note Alternative. Further information in respect of this is set out in section 11(e) below.

If valid elections for the Loan Note Alternative do not require the issue of Loan Notes exceeding £25 million in nominal value, no Loan Notes will be issued unless E.ON UK determines otherwise, and holders of Scheme Shares who have elected for the Loan Note Alternative will receive the cash to which they would otherwise be entitled under the Scheme.

Restricted Overseas Persons (including US Persons) will not be entitled to elect to receive Loan Notes and will only be entitled to receive cash consideration.

Copies of the Form of Election are not being mailed or otherwise distributed or sent in or into the United States, Canada, Australia, Japan, New Zealand, South Africa, Belgium, France, Germany, The Netherlands, Singapore, Malaysia or Spain.

A summary of the principal terms and conditions of the Loan Notes is set out in Part V of this document. Certain details of the procedure for the election for Loan Notes are also set out in clause 5 of the Scheme in Part VIII of this document. In addition, certain details of the UK taxation treatment of the Loan Note Alternative are set out in section 12 below.

Goldman Sachs International has advised that, based on market conditions as at the close of business on 20 March 2002 (the latest practicable date prior to the publication of this document) the estimated value of £1 nominal amount of the Loan Notes (had such notes been in issue on that date) would have been approximately 99.7 pence.

### 3. E.ON's reasons for the Acquisition

E.ON's strategy is to become a leading global integrated utility business. In line with this strategy, E.ON views the Acquisition as an important step towards building its global presence by entering two of its key target markets, the UK and US.

The Acquisition will provide E.ON with a leading pan-European position in energy utilities, with a first time presence in the UK, the third largest European electricity market.

E.ON believes the Acquisition will also provide a platform on which to build profitable future growth in the attractive US utility markets. The US, an energy market that is eight times the size of the German energy market, represents a highly fragmented market with further opportunities for organic growth and acquisition.

In addition to providing greater global scale, the Acquisition will accelerate E.ON's strategic move towards becoming a focused global integrated utility business. E.ON has divested large parts of its non-utility assets and intends to divest its remaining non-utility assets in a three to five year timespan and to redeploy the proceeds of these divestments in the growth of its utility activities.

The E.ON Management Board believes that Powergen and E.ON share a common managerial philosophy, comparable cultures and strategic objectives. These key areas of commonality, the E.ON Management Board believes, will facilitate a rapid extraction of the benefits of the business combination.

E.ON recognises the success that Powergen has enjoyed in building its UK and US businesses and is supportive of its strategy for the further development of these businesses.

### 4. Information on Powergen

Powergen was created in 1990 as one of the four successor companies to the Central Electricity Generating Board as part of the privatisation of the UK electricity industry under the Electricity Act of 1989. Powergen has been pursuing a strategy of transformation from a pure UK generator into a vertically integrated utility, which is now focused on the UK and US markets.

In 1998 it acquired, for £2 billion, East Midlands Electricity plc, one of the largest regional electricity companies in England and Wales. In 2000, it achieved the strategic redirection of the Powergen Group into an Anglo-American company with the £3.9 billion acquisition of LG&E, a vertically-integrated energy group based in Louisville, Kentucky.

Powergen's interests are currently:

- (a) **United Kingdom:** Powergen UK plc, one of the UK's leading integrated electricity and gas companies with a strong presence across the value chain. The business is built on competitive trading and retail businesses, together with a flexible portfolio of generation assets and distribution assets. It has 7,836 MW of core generation capacity (excluding combined heat and power plants, renewables capacity and the Corby Power plant); an electricity distribution network covering 16,000 km<sup>2</sup> serving 2.4 million customers; and over 3.5 million customer accounts;
- (b) **United States:** LG&E operates two utility businesses in the US: one in Kentucky, Louisville Gas and Electric Company, and the other, Kentucky Utilities Company, in Kentucky and Southwestern Virginia. These serve over 1.1 million electricity and gas accounts over a transmission and distribution network covering some 70,000 km<sup>2</sup>. LG&E also operates a number of unregulated generation businesses in the US. In total LG&E controls over 8,968 MW of generation capacity, of which 6,830 MW is subject to regulation. LG&E also has interests in three gas distribution businesses in Argentina; and
- (c) **International:** Following the sale of the majority of its other international assets as part of Powergen's strategic redirection, Powergen remains a shareholder and operator of a 1,220

MW power station at Paiton in Indonesia and has an equity interest in a joint venture with CLP Power International in India and Australia.

Further information relating to Powergen is set out in Parts IV and VI of this document.

## **5. Information on E.ON**

E.ON is Germany's fifth-largest industrial group, with approximately 150,000 employees. Based in Düsseldorf, E.ON's strategy is to focus exclusively on its utility activities (electricity, gas, water and related business). It is a leading integrated electricity business in Germany with a strong portfolio of energy assets covering substantial areas of Europe. E.ON is currently also involved in a series of additional activities, including speciality chemicals, telecommunications, real estate and certain other industrial activities.

E.ON was created through the merger of Veba AG and Viag AG in 2000. At the time, it was E.ON's stated strategy to grow internationally based on a focus on energy and chemicals. Since that time, E.ON has further focused its growth strategy. Today, E.ON's strategy is to concentrate on expanding globally its key utilities businesses with a particular focus on energy utilities.

E.ON currently has utility operations in Germany in electricity, gas and water. In electricity it holds a number of majority and minority stakes in electricity distributors. E.ON has a leading position in gas supply in Germany. In water supply, it also has a strong position in Germany through its 81 per cent. shareholding in Gelsenwasser, which also has gas distribution activities.

Internationally, E.ON has a well-established European position in electricity, with a presence in all major European electricity markets except the UK, France and Spain. E.ON's generation assets are favourably located and have a balanced primary energy mix that includes hard coal, nuclear energy, lignite, gas and hydro energy. Its high-voltage grid stretches from Scandinavia to the Alps.

Further information relating to E.ON is set out in Part VI of this document.

## **6. Meetings**

The Scheme will require the approval of Powergen Shareholders at the Court Meeting to be held at The Nine Kings Suite, Royal Lancaster Hotel, Lancaster Terrace, London W2 2TY at 9.30 a.m. on 19 April 2002. The implementation of the Scheme will also require the passing by Powergen Shareholders of the special resolution to be proposed at the Extraordinary General Meeting. Only Powergen Shareholders registered on the register of members of Powergen 48 hours before the times of the relevant meetings or, if such meetings are adjourned, on the register of members not less than 48 hours before the relevant adjourned meeting, shall be entitled to attend and vote at the relevant meeting in respect of the number of Powergen Shares registered in their name at the relevant time.

The Court Meeting is being held at the direction of the Court to seek the approval of the Powergen Shareholders to the Scheme. The Extraordinary General Meeting is being convened to enable Powergen to implement the Scheme and to amend the articles of association of Powergen. Notices of both the Court Meeting and the Extraordinary General Meeting are set out at the end of this document.

### **(a) Court Meeting**

The Court Meeting has been convened for 9.30 a.m. on 19 April 2002 to enable the Powergen Shareholders to consider and, if thought fit, approve the Scheme. At the Court Meeting, voting will be by poll and each Powergen Shareholder present in person or by proxy will be entitled to one vote for each Powergen Share held. The approval required at the Court Meeting is that those voting to approve the Scheme must:

- (i) represent a majority in number of those Powergen Shareholders present and voting in person or by proxy; and
- (ii) also represent three-fourths in value of the Powergen Shares held by those Powergen Shareholders present and voting in person or by proxy.

The Scheme will become effective upon the delivery of a copy of the Order of the Court sanctioning the Scheme to, and registration of it by, the Registrar of Companies in England and Wales. **If the Scheme becomes effective, it will be binding on all Powergen Shareholders, including any Powergen Shareholder who did not vote to approve the Scheme.**

The Scheme will not become effective and the Acquisition will not be completed unless (i) the conditions relating to PUHCA have been satisfied or, if permitted, waived by the close of business (London time) on 9 July 2002, or such later date as Powergen and E.ON may agree; and (ii) all the other conditions of the Acquisition have been satisfied or, if permitted, waived by the close of business (London time) on 9 October 2002, or such later date as Powergen and E.ON may agree and the Court may approve.

(b) Extraordinary General Meeting

The Extraordinary General Meeting has been convened for 9.45 a.m. on the same date as the Court Meeting to enable Powergen Shareholders to consider and, if thought fit, pass a special resolution for the reduction and subsequent restoration of the capital of Powergen in accordance with the Scheme. The Chairman intends to exercise his right to demand that the vote of the Powergen Shareholders at the Extraordinary General Meeting be held by way of a poll and, in such event, each Powergen Shareholder present in person or by proxy will be entitled to one vote for each Powergen Share held. The approval required at the Extraordinary General Meeting is that, on a poll, those voting to pass the special resolution must represent three-fourths in value of the Powergen Shares held by those Powergen Shareholders present and voting in person or by proxy.

The special resolution will also make certain amendments to Powergen's articles of association. The proposed amendments will provide that any Powergen Shares issued under the Powergen Share Option Schemes or otherwise between the date of the Extraordinary General Meeting and close of business on the business day before the Hearing Date will be subject to the Scheme. It is also proposed to amend the articles of association of Powergen so that any Powergen Shares issued to any person (other than a member of the E.ON Group) on or after the Scheme Effective Date will be automatically exchanged for (a) the same cash consideration per Powergen Share as was paid to a holder of Cancellation Shares under the Scheme; or (b) the same nominal amount of Loan Notes per Powergen Share as was received by a holder of Transfer Shares under the Scheme (subject to and on the terms of the Loan Note Alternative and the Loan Note Instrument) provided that (i) the conditions for making the Loan Note Alternative available under the terms of the Scheme have been satisfied; (ii) all of the outstanding Loan Notes issued pursuant to the Scheme have not been repaid, redeemed or purchased; and (iii) on or before the date which is six months after the Scheme Effective Date, a valid election is made to receive Loan Notes in accordance with the terms of the Loan Note Alternative and the Loan Note Instrument. This will avoid any person (other than a member of the E.ON Group) being left with Powergen Shares after dealings in such shares have ceased on the London Stock Exchange (which will occur at the close of business on the Business Day before the Scheme Effective Date). The proposed changes to the articles of association are set out in the notice of the Extraordinary General Meeting set out at the end of this document.

## 7. Action to be taken

### (a) Court Meeting and Extraordinary General Meeting

You will find enclosed with this document:

- a blue Form of Proxy for use in respect of the Court Meeting;
- a white Form of Proxy for use in respect of the Extraordinary General Meeting;
- (if you are a holder of Powergen Shares through the Computershare Nominee Service) a Nominee Form of Instruction; and
- (if you are a holder of Powergen ADSs) a Voting Instruction Card.

If you are a holder of Powergen Shares, whether or not you intend to attend these meetings, please complete both Forms of Proxy in accordance with the instructions printed thereon and return them either by post or by hand to Powergen's Registrars, Computershare Investor Services PLC, P.O. Box 478, The Pavilions, Bridgwater Road, Bristol BS99 7JP, so as to be received as soon as possible and in any event at least 48 hours before the time fixed for the relevant meeting. A reply paid envelope (for use in the UK only) is enclosed for this purpose. Alternatively, you may return the Forms of Proxy electronically by logging onto the website [www.powergenplc.com](http://www.powergenplc.com). Full details of the procedure to be followed if you wish to return your Forms of Proxy electronically are given on the website. Please note that an electronic communication that is found to contain a computer virus will not be accepted.

If the blue Form of Proxy relating to the Court Meeting is not lodged by the relevant time, it may be handed to the Chairman of the Court Meeting at the Court Meeting. However, in the case of the Extraordinary General Meeting, unless the white Form of Proxy is lodged so as to be received by the time mentioned above and in accordance with the instructions on that Form of Proxy, it will be invalid.

The completion and return of a Form of Proxy will not prevent you from attending and voting in person at the Court Meeting or Extraordinary General Meeting, or any adjournment thereof, if you so wish.

Please note that in relation to the white Form of Proxy for the Extraordinary General Meeting, if you do not give a specific voting instruction on the resolution to be considered at the Extraordinary General Meeting by placing a mark in the appropriate box, your proxy will be free to vote or abstain in relation to the resolution as he or she thinks fit. Unless you specifically instruct otherwise, your proxy may also vote or abstain as he or she thinks fit on any other business (including any amendments to the resolution to be proposed at the Extraordinary General Meeting) which may properly come before the Extraordinary General Meeting. In relation to the blue Form of Proxy for the Court Meeting, a proxy appointed to vote in favour of the Scheme may vote or abstain as he or she thinks fit on any modifications to the Scheme.

The use by Powergen Shareholders of the Registrars' electronic proxy service (the "Electronic Proxy Service") in connection with the Court Meeting and the Extraordinary General Meeting is governed by the Registrars' conditions of use of such service (the "Conditions of Use"). The Conditions of Use are legally binding.

When clicking on the icon "I Agree", you will be deemed to confirm that you:

- (a) are a Powergen Shareholder or are otherwise duly authorised to submit the Form of Proxy through the Electronic Proxy Service on behalf of such shareholder;
- (b) if the shareholding is a joint holding, are the first named shareholder and have obtained the consent of all other joint holders to participate in the Electronic Proxy Service;
- (c) have read and understood the Conditions of Use and agree to be bound by them; and

- (d) are either resident in, or a citizen of, the United Kingdom or have otherwise complied with all applicable legal requirements in any other jurisdiction necessary to lawfully make use of the Electronic Proxy Service.

A summary of the Conditions of Use is set out in section 10 of Part VI of this document. The Conditions of Use are set out in full on the Registrars' website, which may be accessed by logging onto Powergen's website, [www.powergenplc.com](http://www.powergenplc.com), and clicking on 'Electronic Communications'. Powergen Shareholders will have to enter their 10-digit Shareholder Reference Number and 4-digit PIN number printed on the Forms of Proxy.

If you hold your Powergen Shares through the Computershare Nominee Service, please complete and sign the enclosed Nominee Form of Instruction in accordance with the instructions printed thereon and return it either by post or by hand to Powergen's Registrars, Computershare Investor Services PLC, P.O. Box 478, The Pavilions, Bridgwater Road, Bristol BS99 7JP, so as to be received as soon as possible and in any event by no later than 9.30 a.m. on 17 April 2002. A reply paid envelope (for use in the UK only) is enclosed for this purpose.

If you are a holder of Powergen ADSs, you may only vote in person at the Court Meeting and/or the Extraordinary General Meeting if you become a registered holder of Powergen Shares by arranging for the surrender of your Powergen ADSs in accordance with the terms and conditions of the Deposit Agreement. Please contact the Depositary on telephone number (001) (646) 885 3288 for further information on surrendering your Powergen ADSs. Alternatively, you may instruct The Bank of New York, as Depositary, how to vote the Powergen Shares underlying your Powergen ADSs at the Court Meeting and/or Extraordinary General Meeting. A Voting Instruction Card is enclosed for this purpose and must be completed, signed and returned to the Depositary so that the Depositary receives it no later than 5.00 p.m. (New York time) on 17 April 2002. If you hold your Powergen ADSs indirectly, you must rely on the procedures of your bank, broker or financial institution through which you hold your Powergen ADSs.

Powergen Shareholders who wish to revoke or replace their Forms of Proxy or their Nominee Forms of Instruction should contact the shareholder helpline on freephone 0800 953 0078 (or +44 (0)870 703 0083 outside the UK).

It is particularly important that as many votes as possible are cast at the Court Meeting so that the Court may be satisfied that there is a fair representation of Powergen Shareholder opinion. You are therefore strongly urged to return your Forms of Proxy or, as the case may be, Nominee Forms of Instruction or Voting Instruction Card as soon as possible.

- (b) Elections for the Loan Note Alternative

Holders of Scheme Shares (other than Restricted Overseas Persons (including US Persons)) wishing to elect for the Loan Note Alternative in respect of some or all of their Powergen Shares should complete and return the Form of Election enclosed with this document. The procedure for making the election is set out in the Form of Election. Holders of Scheme Shares wishing to receive only cash in respect of all their Powergen Shares and Restricted Overseas Persons (including US Persons) will not need to complete the Form of Election.

Further details of the Loan Notes are set out in Part V of this document.

## **8. Powergen Share Schemes**

The implications of the Scheme for the Powergen Share Schemes are summarised in section 7 of Part VI of this document. Participants in each of the Powergen Share Schemes will be notified separately of the impact of the Scheme on their holdings, including tax consequences.

Following the Scheme becoming effective, no further grants will be made under the Powergen Share Schemes.

## **9. The Powergen Directors and the effect of the Scheme on their interests**

The effect of the Scheme on the interests of the Powergen Directors does not differ from its effect on the like interests of any other person.

Powergen Shares held by Powergen Directors will be subject to the Scheme. Certain Powergen Directors, in common with the other participants in the Powergen Share Schemes, will also be offered proposals (which will be subject to the Scheme becoming effective) in respect of their options and awards under such plans (see section 7 of Part VI of this document).

E.ON has proposed that the Board of Powergen will comprise: Ulrich Hartmann, Chairman; Edmund Wallis, Deputy Chairman and Chief Executive; Dr. Paul Golby, Executive Director (UK operations); Victor Staffieri, Executive Director (US operations); Michael Soehlke, Executive Director (Chief Financial Officer); and Dr Hans Michael Gaul, Dr Hans Dieter Harig and Professor Rainer Elsaesser.

There will, in addition, be two UK-based independent directors who may be appointed from the existing non-executive directors of Powergen.

Edmund Wallis will also be appointed Chairman and Chief Executive of E.ON US Verwaltungs GmbH (a company through which E.ON intends to develop its presence in the US through acquisition) and will join the E.ON Energie Supervisory Board.

No terms have been agreed with Edmund Wallis, Dr. Paul Golby and Victor Staffieri regarding any of the above appointments.

Nick Baldwin and Peter Hickson will leave the Board of Powergen once the Acquisition has been completed. E.ON has confirmed that the terms of their contracts, details of which are set out in section 8(a)(iii) of Part VI of this document and which include provisions for the payment of compensation upon a change in control, will be met in full.

The terms of the service contracts or letters of appointment (as appropriate) of the Powergen Directors will not be varied automatically as a consequence of the Acquisition.

Details of the interests of the Powergen Directors in the share capital of Powergen are set out in section 6 of Part VI of this document.

Particulars of the service contracts and letters of appointment of the Powergen Directors are set out in section 8 of Part VI of this document.

## **10. Inducement fees**

Powergen has agreed with E.ON in a letter agreement dated 8 April 2001 (the "Letter Agreement") that Powergen will, in certain circumstances, pay to E.ON an inducement fee of £50 million. A summary of the terms of the Letter Agreement, including the circumstances in which the inducement fee will be payable by Powergen, is set out in section 9 of Part VI of this document.

## **11. Settlement, share certificates and delisting**

Subject to the Scheme becoming effective, settlement of the consideration to which any Scheme Shareholder is entitled thereunder (including the payment of any dividend in accordance with the terms of the Scheme) will be effected within fourteen days of the Scheme Effective Date as set out below.

Except with the consent of the Panel, settlement of cash consideration to which any Powergen Shareholder is entitled under the Scheme will be implemented in full in accordance with the terms of the Scheme without regard to any lien, right of set-off, counterclaim or other analogous right

to which E.ON UK may otherwise be, or claim to be, entitled against such Powergen Shareholder.

All documents and remittances sent through the post will be sent at the risk of the person(s) entitled thereto.

Application will be made to the UK Listing Authority for the listing of the Powergen Shares to be cancelled and to the London Stock Exchange for them to cease to be admitted to trading on the London Stock Exchange's market for listed securities. It is expected that this will take place at the close of business (London time) on the Business Day prior to the Scheme Effective Date.

(a) Scheme Shares held in uncertificated form (that is, in CREST)

On the Scheme Effective Date, entitlements to Scheme Shares held within the CREST system which are to be cancelled will be cancelled. Powergen Shareholders who hold their Scheme Shares in uncertificated form will have the cash consideration to which they are entitled paid by means of CREST by E.ON UK procuring the creation of an assured payment obligation in favour of the Powergen Shareholder's payment bank in respect of the cash consideration due to such Powergen Shareholder, in accordance with CREST assured payment arrangements.

E.ON UK reserves the right to settle all or any part of the cash consideration referred to above, for all or any Powergen Shareholders, in the manner described in paragraph (b) below, if, for any reason, it wishes to do so.

(b) Scheme Shares in certificated form

Cheques for cash entitlements due under the Scheme in respect of Scheme Shares held in certificated form are expected to be despatched to holders of Scheme Shares by first class post to the address appearing in the register of members of Powergen on the Scheme Record Date or, in the case of joint holders, to the holder whose name stands first in such register in respect of the joint holdings concerned or in accordance with any special instructions regarding communications.

On the Scheme Effective Date, share certificates for Scheme Shares held in certificated form which are to be cancelled will cease to be valid and should be destroyed.

(c) Powergen ADSs

After the Scheme becomes effective, it is expected that the Depositary, at the direction of Powergen, will terminate the Deposit Agreement by sending notice of such termination to the registered holders of ADSs then outstanding at least thirty (30) days prior to the date fixed in such notice for such termination.

The Depositary (as the registered holder of the Scheme Shares) will receive an amount in pounds sterling equal to the total amount payable in respect of all of the Scheme Shares held by the Depositary in accordance with the terms of the Scheme. Such amount will be converted into US dollars by the Depositary pursuant to the terms and conditions of the Deposit Agreement. It is expected that once the Depositary has received the funds, holders will receive their pro rata portion of the US dollars from the Depositary upon surrender of their ADSs in accordance with the terms of the Deposit Agreement.

It is expected that the ADSs will cease trading on the New York Stock Exchange on the close of business (New York time) on the Business Day prior to the Scheme Effective Date and an application will be made to the New York Stock Exchange for the delisting of the ADSs.

(d) Loan Notes

Powergen Shareholders who hold their Scheme Shares in certificated form and wish to elect for the Loan Note Alternative must send their share certificates and/or other documents of title for those Scheme Shares in respect of which they wish to elect to receive Loan Notes either by post or by hand to Powergen's Registrars, Computershare Investor Services PLC, P.O. Box 478, The Pavilions, Bridgwater Road, Bristol BS99 7JP, with the completed Form of Election. A reply paid envelope (for use in the UK only) is enclosed for this purpose.

Powergen Shareholders who hold their Scheme Shares in uncertificated form and wish to elect for the Loan Note Alternative must transfer such Scheme Shares to an escrow balance, using a TTE instruction. Detailed instructions on the action to be taken are set out in the Form of Election.

Save as provided in paragraph (e) below, elections for the Loan Note Alternative shall be irrevocable. Powergen Shareholders who have made valid elections for the Loan Note Alternative may be restricted in their ability to deal in their Powergen Shares.

Whether Scheme Shares are held in certificated or uncertificated form, if a holder of Scheme Shares elects and is entitled to receive Loan Notes under the Loan Note Alternative, definitive certificates for the Loan Notes will be despatched by first class post (or by such other method as may be approved by the Panel) following the Scheme Effective Date. Such certificates will be sent at the risk of the holder of such Scheme Shares. No certificates for the Loan Notes will be sent to an address in the United States, Canada, Australia, Japan, New Zealand, South Africa, Belgium, France, Germany, The Netherlands, Singapore, Malaysia or Spain.

(e) Procedure if elections for the Loan Note Alternative are cancelled

Powergen may, in its sole discretion, at any time prior to the Scheme Effective Date, cancel any election made for the Loan Note Alternative at the request of any Powergen Shareholder who has validly elected for the Loan Note Alternative. Consequently, if any elections for the Loan Note Alternative are so cancelled, Powergen's Registrars, Computershare Investor Services PLC, PO Box 478, The Pavilions, Bridgwater Road, Bristol BS99 7JP, will (in relation to the Scheme Shares in respect of which such elections have been made) immediately after the date on which Powergen notifies the relevant Powergen Shareholders that their elections for the Loan Note Alternative have been cancelled (or within such longer period as the Panel may approve, not exceeding 14 days from the date on which such notification is made) (i) return share certificates and/or other documents of title relating to such Scheme Shares by post (or such other method as may be approved by the Panel); and (ii) give TFE Instructions to CRESTCo to transfer all such Scheme Shares which are held in escrow balances and in relation to which it is the escrow agent for the purposes of the Scheme to the original stock accounts of the holders of Scheme Shares concerned. All documents sent to holders of Scheme Shares or their appointed agents in these circumstances will be sent at their own risk.

(f) Procedure if the Scheme does not become effective

If the Scheme does not become effective after elections for the Loan Note Alternative have been made, Powergen's Registrars, Computershare Investor Services PLC, P.O. Box 478, The Pavilions, Bridgwater Road, Bristol BS99 7JP, will (in relation to the Scheme Shares in respect of which such elections have been made) immediately after the date on which any condition to the Acquisition becomes incapable of being satisfied (or within such longer period as the Panel may approve, not exceeding 14 days from the date on which any condition becomes incapable of being satisfied) (i) return share certificates and/or other documents of title relating to such Scheme Shares by post (or such other method as may be

approved by the Panel); and (ii) give TFE Instructions to CRESTCo to transfer all such Scheme Shares which are held in escrow balances and in relation to which it is the escrow agent for the purposes of the Scheme to the original stock accounts of the holders of Scheme Shares concerned. All documents sent to holders of Scheme Shares or their appointed agents in these circumstances will be sent at their own risk.

## 12. United Kingdom taxation

The comments set out below summarise certain limited aspects of the UK taxation treatment of the Acquisition. They are based on existing law and on what is understood to be current Inland Revenue practice. They are intended as a general guide only and apply to shareholders resident for tax purposes in the UK (save where express reference is made to persons resident outside the UK) who hold Powergen Shares as an investment and who are the absolute beneficial owners thereof. The comments below may not apply to certain classes of persons such as dealers, persons holding Powergen Shares in a Personal Equity Plan or Individual Savings Account, or trustees of certain trusts. Shareholders who are in any doubt about their taxation position, or who are resident or otherwise subject to taxation in a jurisdiction outside the UK, should consult their own professional advisers immediately.

### (a) Dividends

The UK tax treatment of any dividend paid in respect of any period prior to the Scheme Effective Date will not be affected by the Scheme.

### (b) Taxation of chargeable gains

Liability to UK taxation on chargeable gains will depend on the individual circumstances of each Powergen Shareholder and on the form of consideration received.

#### (i) Cash consideration

For holders of Scheme Shares, the cancellation of their existing Scheme Shares in consideration for a cash payment from E.ON UK will be treated as a disposal of those shares for the purposes of UK taxation of chargeable gains. This may, depending on personal circumstances (including the availability of exemptions and allowable losses), give rise to a chargeable gain or allowable loss.

#### (ii) Loan Note Alternative

A holder of Scheme Shares who, together with persons connected with him/her, does not hold more than 5 per cent. of, or of any class of, shares in or debentures of Powergen will not be treated as having made a disposal of Scheme Shares for the purposes of UK taxation of chargeable gains to the extent that he/she receives Loan Notes in exchange for his/her Scheme Shares under the Loan Note Alternative following a valid election for the Loan Note Alternative and will be treated in the manner described in paragraphs (iii) and (iv) below.

Any holder of Scheme Shares who, together with persons connected with him/her holds more than 5 per cent. of, or of any class of, shares in or debentures of Powergen will be treated in the manner described in paragraphs (iii) and (iv) below, provided that the exchange of Scheme Shares for Loan Notes is effected for bona fide commercial reasons and does not form part of a scheme of arrangement of which the main purpose, or one of the main purposes, is avoidance of liability to capital gains tax or corporation tax.

(iii) Non-corporate noteholders

To the extent that an individual holder of Scheme Shares receives Loan Notes, any gain or loss which would otherwise have arisen on a disposal of those of his/her Scheme Shares which are exchanged for Loan Notes should be "rolled over" into the Loan Notes, and the Loan Notes should be treated as the same asset as those Scheme Shares acquired at the same time and for the same consideration as those shares.

A subsequent disposal (including redemption) of all or any of the Loan Notes may, depending on individual circumstances, give rise to a liability to UK taxation on chargeable gains.

Any chargeable gain or allowable loss on a disposal of Loan Notes should be calculated taking into account the allowable original cost to the holder of acquiring his/her Scheme Shares, and (when calculating a chargeable gain but not an allowable loss) indexation allowance on that cost. For individual shareholders, the indexation allowance will be applied until April 1998 with taper relief applying thereafter until disposal, depending on the number of complete years for which the Scheme Shares/ Loan Notes have been held since April 1998.

(iv) Corporate noteholders

For corporate holders of Loan Notes within the charge to UK corporation tax, the Loan Notes will be qualifying corporate bonds. Accordingly, any gain or loss which would have arisen on a disposal of Scheme Shares for a consideration equal to the market value of the Loan Notes received at the time of the exchange of Scheme Shares for Loan Notes will be "held over" and deemed to accrue on a subsequent disposal (including redemption) of the Loan Notes. Any chargeable gain or loss then arising should be calculated taking into account the allowable original cost to the holder of acquiring its Scheme Shares, and (when calculating a chargeable gain but not an allowable loss) indexation allowance on that original cost accrued up to the time of the exchange of Scheme Shares for Loan Notes.

A corporate holder of Loan Notes within the charge to UK corporation tax in respect of the Loan Notes will generally be charged to (or, as the case may be, obtain relief from) UK corporation tax on income in respect of all profits, gains and losses (other than the "held over" gain which will be dealt with as referred to above) arising from its holding or disposal of Loan Notes, broadly in accordance with its authorised accounting method.

Additional tax consequences may arise where E.ON UK elects to have Loan Notes redeemed in US dollars at the maturity date, as provided for under the terms of the Loan Note Instrument.

(c) Taxation of interest on Loan Notes

(i) Withholding tax

Interest on the Loan Notes will be paid after deduction of UK income tax at the lower rate (currently 20 per cent.), unless:

- (aa) E.ON UK has been directed by the Inland Revenue, in respect of a particular holding of Loan Notes, to make the payment free (or subject to a reduced rate) of such deduction by virtue of relief under the provisions of an applicable double taxation treaty. Such a direction will only be made following an application in the appropriate manner to the relevant tax authorities by the holder of the Loan Notes; or

- (bb) except where the Inland Revenue directs otherwise, E.ON UK reasonably believes that the person beneficially entitled to such interest is (a) a company resident in the UK, (b) a partnership each member of which is a company resident in the UK or (c) a non-resident company that carries on a trade in the UK through a branch or agency and that is liable to UK corporation tax on such interest.

E.ON UK will not gross up payments of interest on the Loan Notes to compensate for any tax which it is required to deduct at source. A holder of Loan Notes who can prove to the satisfaction of E.ON UK that the person beneficially entitled to such interest fulfils such criteria should request a Section 349A application form from E.ON UK's Registrars, Computershare Services PLC, P.O. Box 478, The Pavilions, Bridgwater Road, Bristol BS99 7JP, which will set out the declarations, undertakings and indemnities required of the holder before interest can be paid free of deduction.

(ii) Individual holders of Loan Notes

The gross amount of the interest on the Loan Notes will form part of the recipient's income for the purposes of UK income tax, credit being allowed for any tax withheld. Individuals who are not taxable at the higher rate of income tax will have no further tax to pay in respect of the interest. Individuals who are taxable at the higher rate of income tax will have to pay further tax in respect of the interest. In certain cases holders of Loan Notes may be able to recover an amount in respect of the tax withheld at source.

On a transfer of Loan Notes by an individual, a charge to income tax may arise under the "accrued income scheme" in respect of the interest on the Loan Notes which has accrued since the preceding interest payment date.

(iii) Corporate holders of Loan Notes

A holder of Loan Notes within the charge to UK corporation tax in respect of the Loan Notes will generally be charged to UK corporation tax in respect of interest on the Loan Notes which relates to that holder's relevant accounting period (with credit allowed for any tax withheld) broadly in accordance with the holder's authorised accounting method.

(d) Stamp duty and stamp duty reserve tax ("SDRT")

No stamp duty or SDRT will be payable by holders of Scheme Shares as a result of the Scheme.

No stamp duty or SDRT will be payable on a transfer on sale of, or on an agreement to transfer, Loan Notes.

(e) Other tax matters relating to the Acquisition

No clearance has been sought or is to be sought by Powergen in respect of the Acquisition under section 707 of the Income and Corporation Taxes Act 1988 or under section 138 of the Taxation of Chargeable Gains Act 1992.

Special tax provisions may apply to Powergen Shareholders who have acquired or acquire their Scheme Shares by exercising options under the Powergen Share Schemes, including provisions imposing a charge to income tax.

### 13. Certain US federal income tax consequences of the Acquisition

The following summary is a general discussion of certain United States federal income tax consequences applicable under current law to the receipt of cash pursuant to the Acquisition in exchange for Scheme Shares or Powergen ADSs by a "U.S. holder" (which, for purposes of this discussion, means a beneficial owner of Scheme Shares or Powergen ADSs that is for United States federal income tax purposes (a) a citizen or resident of the United States, (b) a domestic corporation, (c) an estate the income of which is subject to United States federal income taxation regardless of its source, or (d) a trust if a United States court can exercise primary supervision over the trust's administration and one or more United States persons are authorized to control all substantial decisions of the trust).

Citizens of the United States who are not residents of the United States for United States federal income tax purposes and who elect to receive Loan Notes instead of cash in the Acquisition should consult their own tax advisors. This summary is based on the Internal Revenue Code of 1986, as amended (the "Code"), its legislative history, existing and proposed regulations, published rulings and court decisions as of the date hereof, all of which are subject to change or different interpretations at any time with possible retroactive effect. The discussion does not deal with tax consequences for special classes of beneficial owners of Scheme Shares or Powergen ADSs, such as dealers in Scheme Shares or Powergen ADSs or currencies, traders in Scheme Shares or Powergen ADSs that elect to mark to market, banks, financial institutions, insurance companies, tax-exempt organizations, holders of interests in Powergen Shares or Powergen ADSs in any employee benefit plan, beneficial owners of Scheme Shares or Powergen ADSs that are not U.S. holders, persons holding Scheme Shares or Powergen ADSs as a hedge or who have otherwise hedged the risk of holding Powergen Shares or Powergen ADSs, persons holding Scheme Shares or Powergen ADSs as part of a straddle or in connection with a conversion transaction or persons having a functional currency other than the United States dollar. In addition, the discussion does not describe any tax consequences arising out of the laws of any state or local or foreign jurisdiction. This discussion assumes that the Scheme Shares or Powergen ADSs are held as "capital assets" for tax purposes. No ruling has been sought from the Internal Revenue Service (the "IRS") with respect to the statements made and the conclusions reached in this discussion, and there can be no assurance that the IRS will agree with such statements and conclusions.

- (a) Exchanges of Scheme Shares or Powergen ADSs pursuant to the Acquisition by U.S. holders will be taxable transactions for United States federal income tax purposes. A U.S. holder exchanging Scheme Shares or Powergen ADSs pursuant to the Acquisition will recognize capital gain or loss in an amount equal to the difference between the amount of cash received by the U.S. holder, excluding any amount paid as a dividend on the Scheme Shares or Powergen ADSs which will generally be taxed as ordinary income to the extent of Powergen's current or accumulated earnings and profits as determined for United States federal income tax purposes, and the U.S. holder's adjusted tax basis in the Scheme Shares or Powergen ADSs exchanged. A U.S. holder's adjusted tax basis in Scheme Shares or Powergen ADSs generally will equal the cost of the Scheme Shares or Powergen ADSs to such U.S. holder. Capital gain of a non-corporate U.S. holder is generally subject to a maximum tax rate of 20 per cent. in respect of property held for more than one year and 18 per cent. in respect of property held for more than five years. The deductibility of capital losses is limited.
- (b) Exchanges of Scheme Shares or Powergen ADSs pursuant to the Acquisition by non-corporate U.S. holders generally will be subject to information reporting requirements. In addition, a U.S. holder may be subject to backup withholding with respect to payments the U.S. holder receives pursuant to the Acquisition unless the U.S. holder (a) is a corporation or comes within certain other exempt categories and, when required, demonstrates this fact or (b) provides a correct taxpayer identification number, certifies as to no loss of exemption from backup withholding and otherwise complies with applicable requirements of the

backup withholding rules. Backup withholding is not an additional federal income tax. Rather, the federal income tax liability of persons subject to backup withholding will be offset by the amount of tax withheld. If backup withholding results in an overpayment of federal income taxes, a refund may be obtained from the IRS provided the required information is furnished.

All holders of Scheme Shares or Powergen ADSs are urged to consult their own tax advisors to determine the tax consequences of the Acquisition in their particular circumstances, including the application of federal, state, local and foreign tax laws.

#### **14. Overseas shareholders**

The implications of the Acquisition for persons resident in, or citizens of, jurisdictions outside England (“Overseas Shareholders”) may be affected by the laws of the relevant jurisdiction. Such Overseas Shareholders should inform themselves about and observe any applicable legal requirements. It is the responsibility of each Overseas Shareholder to satisfy himself as to the full observance of the laws of the relevant jurisdiction in connection therewith, including the obtaining of any governmental, exchange control or other consents which may be required, or the compliance with other necessary formalities which are required to be observed and the payment of any issue, transfer or other taxes due in such jurisdiction.

Restricted Overseas Persons (including US Persons) will not be entitled to receive Loan Notes and will be entitled to receive only cash consideration.

The Loan Notes to be issued in connection with the Acquisition may not be offered, sold or delivered, directly or indirectly, in or into Canada, Australia, Japan, New Zealand, South Africa, Belgium, France, Germany, The Netherlands, Singapore, Malaysia or Spain (except in transactions exempt from or not subject to the relevant securities laws of those jurisdictions).

If the issue of Loan Notes to any holder of Scheme Shares would or may infringe the laws of any jurisdiction outside England or would or may require E.ON UK to observe any governmental or other consent or any registration, filing or other formality which E.ON UK regards as unduly onerous, the Scheme provides that E.ON UK may determine that the Loan Note Alternative will not be available to such holder and any Form of Election completed and returned by such holder will be invalid.

This document has been prepared for the purposes of complying with English law and the Code and the information disclosed may not be the same as that which would have been disclosed if this document had been prepared in accordance with the laws of jurisdictions outside England.

Powergen is currently subject to the informational requirements of the U.S. Securities Exchange Act of 1934, as amended (the “Exchange Act”), and in accordance therewith files reports and other information with the SEC. Reports and other information filed by Powergen with the SEC may be inspected and copied at the public reference facilities maintained by the SEC at Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549, and at the SEC’s Regional Offices located at 500 West Madison Street, Suite 1400, Chicago, Illinois 60661-2511 and 233 Broadway, New York, New York 10279. Copies of such material may also be obtained by mail from the Public Reference Section of the SEC at Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549 at prescribed rates. In addition, such material may be inspected and copied at the offices of the New York Stock Exchange, 20 Broad Street, New York, New York 10005, on which certain of Powergen’s securities are listed. Following the Acquisition, an application will be made for the Powergen ADSs to be delisted from the New York Stock Exchange and Powergen’s reporting obligations will be terminated.

## **15. Further information**

The terms of the Scheme are set out in full in Part VIII of this document. Further information regarding Powergen, E.ON and E.ON UK is set out in Parts IV and VI of this document. Documents available for inspection are listed in section 15 of Part VI of this document.

Yours faithfully  
For and on behalf of **Dresdner Kleinwort Wasserstein**

Jim Hamilton,  
Managing Director,  
Investment Banking

Jeremy Miller,  
Managing Director,  
Investment Banking

**PART III**  
**CONDITIONS TO THE IMPLEMENTATION OF THE SCHEME AND THE ACQUISITION**

The Scheme will not become effective and the Acquisition will not be completed unless (i) the conditions relating to PUHCA have been satisfied or, if permitted, waived by the close of business (London time) on 9 July 2002, or such later date as Powergen and E.ON may agree; and (ii) all the other conditions of the Acquisition have been satisfied or, if permitted, waived by the close of business (London time) on 9 October 2002, or such later date as Powergen and E.ON may agree and the Court may approve.

1. The Scheme is conditional on:
  - (a) The approval by a majority in number of the holders of Powergen Shares present and voting at the Court Meeting, either in person or by proxy, representing not less than three-fourths in value of the Powergen Shares held by such holders;
  - (b) The resolution required to approve and implement the Scheme and set out in the notice of Extraordinary General Meeting of the Powergen Shareholders being passed by the requisite majority at such Extraordinary General Meeting; and
  - (c) The sanction of the Scheme and confirmation of the reduction of capital involved therein by the Court (in both cases with or without modifications, on terms reasonably acceptable to E.ON) and an office copy of the Order of the Court sanctioning the Scheme and confirming the cancellation of share capital which forms part of it being delivered for registration to the Registrar of Companies in England and Wales and being registered by him.
2. Subject as stated in paragraph 3 below, the Acquisition is also conditional upon and, accordingly, the necessary action to make the Scheme effective will not be taken unless the following conditions are satisfied or waived, as referred to below:
  - (a) The SEC having granted prior approval to E.ON for the Acquisition of Powergen by E.ON UK under sections 9 and 10 of PUHCA on terms satisfactory to E.ON acting reasonably;
  - (b) Any conditions imposed by the SEC in relation to the operation of E.ON and E.ON UK as registered public utility holding companies under PUHCA being on terms satisfactory to E.ON acting reasonably;
  - (c) In each case to the extent material in the context of the Acquisition:
    - (i) all necessary notifications and filings having been made, all necessary waiting and other time periods (including extensions thereof) under any applicable legislation or regulation of any relevant jurisdiction having expired, lapsed or been terminated and all relevant statutory or regulatory obligations in any relevant jurisdiction having been complied with, in each case in connection with the Acquisition or the acquisition of control (directly or indirectly) of any member of the Wider Powergen Group by E.ON UK;
    - (ii) all necessary authorisations, orders, grants, recognitions, confirmations, consents, clearances, certificates, permissions and approvals ("Authorisations") in any relevant jurisdiction for or in respect of the Acquisition or the acquisition of control (directly or indirectly) of any member of the Wider Powergen Group by E.ON UK, having been obtained in terms and in a form reasonably satisfactory to E.ON UK from all appropriate governments, government departments or governmental, quasi-governmental, supranational, statutory, regulatory, environmental, administrative or investigative bodies, authorities, trade agencies, courts, professional associations, institutions, associations or any other similar bodies or persons in any relevant jurisdiction (each a "Third Party");

- (iii) all such Authorisations necessary to carry on the business of any member of the Wider Powergen Group in any jurisdiction having been obtained in a form reasonably satisfactory to E.ON UK from all appropriate Third Parties and from any persons, or bodies with whom any member of the Wider Powergen Group has entered into contractual arrangements and all such Authorisations remaining in full force and effect at the time at which the Scheme becomes effective and there being no notice or intimation of any intention to revoke, suspend, restrict, modify or not to renew such Authorisations;
- (d) No Third Party having notified a decision to take, institute, implement or threaten any action, proceeding, suit, investigation, enquiry or reference, or having required any action to be taken or having enacted or made or proposed any statute, regulation, decision or order or having taken any measures or other steps, and there not continuing to be outstanding any statute, regulation, decision or order, which would or might reasonably be expected to, in any case, to an extent which is material in the context of the Wider E.ON Group or Wider Powergen Group, as the case may be, taken as a whole:
  - (i) make the Acquisition or the acquisition of any or all Powergen ADSs or other securities (or the equivalent) in, or control of, Powergen by E.ON UK void, unenforceable, illegal and/or prohibited in or under the laws of any relevant jurisdiction or otherwise directly or indirectly restrict, restrain, prohibit, delay or otherwise interfere with the implementation of, or impose additional conditions or obligations with respect to, or require amendment of, or otherwise challenge or interfere with the Acquisition or the acquisition of any or all Powergen ADSs or control of Powergen by E.ON UK;
  - (ii) require, prevent or delay the divestiture by any member of the Wider E.ON Group as a consequence of the Acquisition or the Wider Powergen Group of all or any part of any of their respective businesses, assets or property or impose any limitation on the ability of any of them to conduct any of their respective businesses (or any of them) or to own any of their respective assets or properties or any part thereof in the case of the Wider E.ON Group as a consequence of the Acquisition;
  - (iii) impose any limitation on, or result in a delay in, the ability of any member of the Wider E.ON Group directly or indirectly to acquire or hold or to exercise effectively all or any rights of ownership in respect of shares or loans or securities convertible into shares or any other securities (or the equivalent) in any member of the Wider Powergen Group or the Wider E.ON Group or to exercise management control over any such member;
  - (iv) require any member of the Wider E.ON Group, or the Wider Powergen Group to acquire or offer to acquire any shares or other securities (or the equivalent) or any interest in any member of the Wider Powergen Group or the Wider Powergen Group owned by any third party;
  - (v) require a divestiture by any member of the Wider E.ON Group or the Wider Powergen Group of any shares or other securities (or the equivalent) in, or any asset of any member of, the Wider Powergen Group as a consequence of the Acquisition;
  - (vi) otherwise materially and adversely affect the business, assets or profits of any member of the Wider Powergen Group or, as a consequence of the Acquisition, any member of the Wider E.ON Group; or
  - (vii) impose any limitation on the ability of any member of the Wider Powergen Group to co-ordinate its business, or any part of it, with the businesses of any other members,

and all applicable waiting and other time periods during which any such Third Party could decide to take, institute, implement or threaten any such action, proceeding, suit,

investigation, enquiry or reference or otherwise intervene under the laws or regulations of any relevant jurisdiction in respect of the Acquisition having expired, lapsed or been terminated;

- (e) There being no provision of any arrangement, agreement, licence, permit, lease or other instrument to which any member of the Wider Powergen Group is a party or by or to which any such member or any of their respective assets is or may be bound, entitled or subject which, as a consequence of the Acquisition or any matter arising directly therefrom or because of a change in the control or management of any member of the Wider Powergen Group would or could reasonably be expected to result in, in any case, to an extent which is material in the context of the Wider Powergen Group taken as a whole:
- (i) any monies borrowed by, or any other indebtedness (actual or contingent) of, or grant available to or received by, any member of the Wider Powergen Group being repayable, or capable of being declared repayable, immediately or prior to its or their stated maturity date or repayment date or the ability of any such member to borrow moneys or incur any indebtedness being withdrawn or inhibited or being capable of being withdrawn or inhibited;
  - (ii) any such agreement, arrangement, licence, permit, lease or instrument or the rights, liabilities, obligations, interests or business of any member of the Wider Powergen Group under any such arrangement, agreement, licence, permit, lease or instrument being terminated, or adversely modified or affected or any onerous obligation or liability arising or any adverse action being taken thereunder;
  - (iii) any assets or interests of any member of the Wider Powergen Group being or falling to be disposed of or charged or any right arising under which any such asset or interest could be required to be disposed of or charged or ceasing to be available to any member of the Wider Powergen Group, in each case, otherwise than in the ordinary course of business;
  - (iv) the creation or enforcement of any mortgage, charge or other security interest over the whole or any part of the business, property or assets of any member of the Wider Powergen Group or any such security interest being enforced;
  - (v) the rights, liabilities, obligations or interests of any member of the Wider Powergen Group in, or the business of any such member with, any person, firm or body (or any arrangement or arrangements relating to any such interest or business) being terminated, adversely modified or affected;
  - (vi) the financial or trading position of any member of the Wider Powergen Group being adversely affected;
  - (vii) any member of the Powergen Group ceasing to be able to carry on business under any name under which it presently does so; or
  - (viii) the creation of any liability (actual or contingent) by any member of the Wider Powergen Group,

and no event having occurred which, under any provision of any agreement, arrangement, licence, permit or other instrument to which any member of the Wider Powergen Group is a party or by or to which any such member or any of its assets may be bound, entitled or subject, could result in any of the events or circumstances as are referred to in subparagraphs (i) to (viii) of this condition 2(e) in any case, to an extent which is, or could reasonably be expected to be, material in the context of the Wider Powergen Group taken as a whole;

- (f) No member of the Wider Powergen Group having since 31 December 2000:
- (i) issued or agreed to issue or authorised or proposed the issue of additional shares or securities of any class, or securities convertible into, or exchangeable for, or rights, warrants or options to subscribe for or acquire, any such shares, equity securities or securities convertible into shares (save as between Powergen and wholly-owned subsidiaries of Powergen or between wholly-owned subsidiaries of Powergen and save for the issue of Powergen Shares on the exercise of options granted before the Announcement or in accordance with past practice) in each case, except to the extent the same is not material in the context of the Acquisition or in accordance with the Powergen Share Option Schemes;
  - (ii) recommended, declared, paid or made or proposed to recommend, declare, pay or make any bonus, dividend or other distribution whether payable in cash or otherwise, other than to Powergen or one of its wholly-owned subsidiaries, excluding any other dividend or distribution to be recommended, declared, paid or made by Powergen which is specifically referred to as such in the Announcement or any dividends payable on the LG&E Preferred Shares;
  - (iii) save for the acquisition of LG&E and the disposals of Rye House, Turbogas and various international businesses (India, Australia, Indonesia and Thailand) to China Light & Power International and intra-Powergen Group transactions, merged with or demerged or acquired or disposed of any body corporate, partnership interest or business, or acquired or disposed of, transferred, mortgaged or charged or created any security interest over, any assets or any right, title or interest in any asset (including shares and trade investments) (in each case, other than in the ordinary course of business or to the extent the same is not material in the context of the Wider Powergen Group taken as a whole);
  - (iv) save for intra-Powergen Group transactions, made, committed to make, or authorised any change in its loan capital except (in the case of members of the Wider Powergen Group other than Powergen) to the extent the same is not material in the context of the Wider Powergen Group taken as a whole;
  - (v) save as between Powergen and its wholly-owned subsidiaries or in the ordinary course issued or authorised any debentures or incurred or increased any indebtedness or become subject to any contingent liability which, in any case, is material in the context of the Wider Powergen Group taken as a whole;
  - (vi) other than in the ordinary course of business entered into or varied or authorised any contract, transaction, arrangement or commitment (whether in respect of capital expenditure or otherwise) which is of a long term, onerous or unusual nature or magnitude or which is materially restrictive on the businesses of any member of the Wider Powergen Group or the Wider E.ON Group and, in each case, which has a material adverse effect on the Wider Powergen Group taken as a whole;
  - (vii) save for normal annual salary and other related increases in accordance with past remuneration policies entered into or materially varied or made any offer to enter into or materially vary the terms of any agreement, contract, commitment or arrangement to an extent which is material with any director of Powergen or LG&E;
  - (viii) implemented, effected or authorised any reconstruction, amalgamation, scheme, commitment or other transaction or arrangement otherwise than in the ordinary course of business which, in any case, is material in the context of the Wider Powergen Group taken as a whole;

- (ix) save as between Powergen and its wholly-owned subsidiaries, purchased, redeemed or repaid any of its own shares except to an extent which is not material in the context of the Wider Powergen Group taken as a whole;
  - (x) in the case of Powergen, or any member of the Wider Powergen Group that is not a wholly-owned subsidiary of Powergen, made any alteration to its memorandum or articles of association that is material in the context of the Acquisition or the Wider Powergen Group taken as a whole;
  - (xi) (other than in respect of a member of the Wider Powergen Group which is dormant and was solvent at the relevant time) taken any corporate action or had any legal proceedings instituted or threatened against it for its winding-up (voluntary or otherwise), dissolution, reorganisation or for the appointment of any administrator, administrative receiver, receiver, trustee or similar officer of all or any part of its assets or revenues or any analogous proceedings in any jurisdiction or had any analogous person appointed in any jurisdiction and which, in any case, is material in the context of the Wider Powergen Group taken as a whole;
  - (xii) been unable, or admitted in writing that it is unable to pay its debts or having stopped or suspended (or threatened to stop or suspend) payment of its debts generally or ceased or threatened to cease carrying on all or a substantial part of its business and which, in any case, is material in the context of the Wider Powergen Group taken as a whole;
  - (xiii) waived or compromised any claim otherwise than in the ordinary course of business and which, in any case, is material in the context of the Wider Powergen Group taken as a whole; or
  - (xiv) entered into any contract, commitment, agreement or arrangement or passed any resolution or made or announced any offer (which remains open for acceptance) or announced any intention or proposal to effect any of the transactions, matters or events referred to in this condition;
- (g) Since 31 December 2000:
- (i) there having been no material adverse change in the assets, business, financial or trading position or profits of the Wider Powergen Group taken as a whole;
  - (ii) no litigation, arbitration proceedings, prosecution or other legal proceedings or inquiry or investigation having been threatened, announced or instituted by or against or remaining outstanding against any member of the Wider Powergen Group which, in any such case, might be expected adversely to affect any member of the Wider Powergen Group to an extent which is material in the context of the Wider Powergen Group taken as a whole;
  - (iii) no contingent or other liability having arisen which would adversely affect, or could reasonably be expected adversely to affect, any member of the Wider Powergen Group to an extent which is material in the context of the Wider Powergen Group taken as a whole; and
  - (iv) no steps having been taken which are likely to result in the withdrawal, cancellation, termination or modification of any licence held by any member of the Wider Powergen Group which is necessary for the proper carrying on of its business to an extent which is material in the context of the Wider Powergen Group taken as a whole;
- (h) E.ON UK not having discovered that:
- (i) any financial, business or other information concerning Powergen or the Wider Powergen Group publicly disclosed or disclosed to E.ON by or on behalf of any

member of the Wider Powergen Group prior to the Announcement was misleading, contained a misrepresentation of fact or omitted to state a fact necessary to make that information not misleading to an extent which, in any case, is material and adverse in the context of the Wider Powergen Group taken as a whole; or

- (ii) any member of the Wider Powergen Group is subject to any liability, contingent or otherwise, which is material in the context of the Wider Powergen Group taken as a whole; and
- (i) E.ON UK not having discovered that:
- (i) any past or present member of the Wider Powergen Group has not complied with any and/or all applicable legislation or regulation of any relevant jurisdiction in which it carries on business with regard to the disposal, discharge, spillage, release, leak or emission of any waste or hazardous substance or any substance which would be likely to impair the environment or harm human health or animal health, or otherwise relating to environmental matters, or that there has otherwise been any such disposal, spillage, release, discharge, leak or emission (whether or not the same constituted a non-compliance by any person with any such legislation or regulations, and wherever the same may have taken place) any of which non-compliance, disposal, spillage, release, discharge, leak or emission would be likely to give rise to any liability (whether actual or contingent) on the part of any member of the Wider Powergen Group in each case to an extent which, in any case, is material and adverse in the context of the Wider Powergen Group taken as a whole;
  - (ii) there is any material liability (actual or contingent) of any past or present member of the Wider Powergen Group which is material in the context of the Wider Powergen Group taken as a whole to make good, repair, reinstate or clean up any property or any controlled waters now or previously owned, occupied, operated or made use of or controlled by any such past or present member of the Wider Powergen Group, under any environmental legislation, regulation, notice, circular or order of any government, governmental, quasi-governmental, state or local government, supranational, statutory or other regulatory body, agency, court, association or any other person or body in any relevant jurisdiction; or
  - (iii) a person, persons or class or classes of person could reasonably be expected to have any claim or claims in respect of any product or process of manufacture or materials used therein now or previously manufactured, sold or carried out by any past or present member of the Wider Powergen Group which claim or claims would materially and adversely affect the Wider Powergen Group taken as a whole.
3. Subject to the requirements of the Panel, E.ON UK reserves the right (but shall be under no obligation) to waive, in whole or in part, all or any of the conditions contained in paragraph 2 of this Part III.

The Acquisition is governed by English law and will be subject to the jurisdiction of the Courts of England. The Rules of the Code, so far as they are appropriate, apply to the Acquisition.

**PART IV**  
**FINANCIAL INFORMATION RELATING TO POWERGEN**

**Section A: Three Year Financial Information for Powergen**

**1. Nature of financial information**

The financial information contained in this Section A of Part IV relating to Powergen and its subsidiary undertakings as at 31 December 2000 (together in this Part IV, the "Powergen Group" or "the Group") does not constitute statutory accounts within the meaning of section 240 of the Act and has been extracted without material adjustment from the full audited consolidated accounts of the Powergen group for the year ended 31 December 2000, the year ended 2 January 2000 and the nine month period ended 3 January 1999.

Copies of the accounts for the year ended 31 December 2000, the year ended 2 January 2000 and the nine month period ended 3 January 1999 have been delivered to the Registrar of Companies in England and Wales. The auditors of the Powergen Group, PricewaterhouseCoopers, Chartered Accountants and Registered Auditors, have made reports under section 235 of the Act in respect of each such set of accounts which reports did not contain a statement under section 237 (2) or (3) of the Act. The audit reports contained in the accounts for the year ended 31 December 2000, the year ended 2 January 2000 and the nine month period ended 3 January 1999 were unqualified.

## 2. Consolidated Profit and Loss Account

for the financial years ended 31 December 2000 and 2 January 2000 and the nine months ended 3 January 1999.

	Note	Year ended 31 December 2000			Year ended 2 January 2000			Nine months ended 3 January 1999
		Before exceptional items £m	Exceptional items (note 6(d)) £m	Total £m	Before exceptional items £m	Exceptional items (note 6(d)) £m	Total £m	Total £m
Turnover		4,485	—	4,485	3,989	—	3,989	2,489
Group's share of associates' and joint ventures' turnover		(294)	—	(294)	(243)	—	(243)	(145)
<b>Group turnover</b>	6(b)	<b>4,191</b>	<b>—</b>	<b>4,191</b>	<b>3,746</b>	<b>—</b>	<b>3,746</b>	<b>2,344</b>
— continuing activities		4,075	—	4,075	3,746	—	3,746	2,344
— acquisitions		116	—	116	—	—	—	—
Operating costs	6(c), 6(d)	(3,793)	(97)	(3,890)	(3,297)	(293)	(3,590)	(2,597)
Other operating income	6(c)	182	—	182	191	—	191	100
<b>Group operating profit/(loss)</b>	6(c)	<b>580</b>	<b>(97)</b>	<b>483</b>	<b>640</b>	<b>(293)</b>	<b>347</b>	<b>(153)</b>
— continuing activities		579	(79)	500	640	(293)	347	(153)
— acquisitions		1	(18)	(17)	—	—	—	—
Group's share of associates' and joint ventures' operating profit		73	—	73	83	—	83	44
Profit on disposal of fixed assets	6(d)	—	337	337	—	543	543	(2)
Provision for loss on sale	6(d)	—	(133)	(133)	—	—	—	—
Net interest payable								
— Group	6(g)	(151)	(81)	(232)	(156)	—	(156)	(104)
— Associates and joint ventures		(60)	—	(60)	(55)	—	(55)	(30)
<b>Profit/(Loss) on ordinary activities before taxation</b>	6(h)	<b>442</b>	<b>26</b>	<b>468</b>	<b>512</b>	<b>250</b>	<b>762</b>	<b>(245)</b>
Tax on profit on ordinary activities	6(i)	(71)	44	(27)	(99)	49	(50)	89
<b>Profit/(Loss) on ordinary activities after taxation</b>		<b>371</b>	<b>70</b>	<b>441</b>	<b>413</b>	<b>299</b>	<b>712</b>	<b>(156)</b>
Minority interest		(12)	—	(12)	(4)	—	(4)	—
<b>Profit/(Loss) attributable to shareholders</b>		<b>359</b>	<b>70</b>	<b>429</b>	<b>409</b>	<b>299</b>	<b>708</b>	<b>(156)</b>
Dividends	6(j)			(236)			(226)	(157)
<b>Retained Profit/(Loss) for the year</b>				<b>193</b>			<b>482</b>	<b>(313)</b>
<b>Earnings/(Loss) per ordinary share</b>	6(k)			<b>65.9p</b>			<b>109.0p</b>	<b>(24.1)p</b>
<b>Earnings per ordinary share (excluding goodwill amortisation and exceptional items)</b>	6(k)			<b>66.7p</b>			<b>73.4p</b>	<b>38.8p</b>
<b>Diluted Earnings/(Loss) per ordinary share</b>	6(k)			<b>65.3p</b>			<b>108.5p</b>	<b>(24.1)p</b>
<b>Dividends per ordinary share</b>	6(j)			<b>36.2p</b>			<b>34.8p</b>	<b>24.1p</b>

### 3. Statement of Total Recognised Gains and Losses

for the financial years ended 31 December 2000 and 2 January 2000 and the nine months ended 3 January 1999.

	<i>Year ended</i> <i>31 December</i> <i>2000</i> <i>£m</i>	<i>Year ended</i> <i>2 January</i> <i>2000</i> <i>£m</i>	<i>Nine months</i> <i>ended</i> <i>3 January</i> <i>1999</i> <i>£m</i>
Profit/(Loss) attributable to shareholders	429	708	(156)
Revaluation reserve arising on acquisition	—	25	—
Currency translation differences on foreign currency net investments	(32)	63	(28)
<b>Total recognised gains/(losses) for the year</b>	<b>397</b>	<b>796</b>	<b>(184)</b>
Prior year adjustment	—	—	96
<b>Total recognised gains/(losses)</b>	<b>397</b>	<b>796</b>	<b>(88)</b>

#### 4. Consolidated Balance Sheet

	31 December 2000
	£m
	Note
<b>Fixed assets</b>	
Goodwill	6(m) 2,627
Tangible fixed assets	6(n) 5,964
Investments	6(o) 600
	<hr/> 9,191 <hr/>
<b>Current assets</b>	
Stocks	6(p) 258
Debtors: amounts falling due after more than one year	6(q) 125
Debtors: amounts falling due within one year	1,061
Less: securitisation of trade debtors	(152)
Net debtors falling due within one year	6(r) 909
Cash and short-term deposits	609
	<hr/> 1,901 <hr/>
<b>Creditors: amounts falling due within one year</b>	
Loans and overdrafts	6(s) (2,303)
Trade and other creditors	6(t) (1,574)
	<hr/> (3,877) <hr/>
<b>Net current liabilities</b>	<hr/> (1,976) <hr/>
<b>Total assets less current liabilities</b>	7,215
<b>Creditors: amounts falling due after more than one year</b>	
Long-term loans	6(u) (3,628)
Other creditors	6(v) (477)
Provisions for liabilities and charges	6(x) (731)
Deferred tax	6(y) (93)
	<hr/> 2,286 <hr/>
<b>Net assets</b>	2,286
<b>Capital and reserves</b>	
Called-up share capital	6(z) 326
Share premium account	6(aa) 9
Other reserves	6(aa) 656
Revaluation reserve	6(aa) 23
Profit and loss account	6(aa) 1,072
	<hr/> 2,086 <hr/>
<b>Shareholders' funds (including non-equity shareholders' funds)</b>	2,086
<b>Minority interests (including non-equity)</b>	6(bb) 200
	<hr/> 2,286 <hr/> <hr/>

## 5. Consolidated Cash Flow Statement

for the financial years ended 31 December 2000 and 2 January 2000 and the nine months ended 3 January 1999.

		Year ended 31 December	Year ended 2 January	Nine months ended 3 January
	Note	2000	2000	1999
		£m	£m	£m
Cash flow from operating activities	6(dd)(i)	847	(27)	456
Dividends from associated undertakings		2	1	—
Returns on investments and servicing of finance				
Interest received		59	56	7
Exceptional interest paid		(107)	—	—
Interest paid		(188)	(210)	(83)
		(236)	(154)	(76)
Taxation		10	26	(176)
Capital expenditure and financial investment				
Purchase of tangible fixed assets		(286)	(329)	(175)
Purchase of fixed asset investments		(32)	(53)	(39)
Repayment of/(New) loans to associated undertakings		12	(5)	(4)
Sale of fixed asset investments		55	203	11
Sale of tangible fixed assets		39	18	53
Net receipts from disposal of power stations		398	1,282	—
		186	1,116	(154)
Acquisitions and disposals				
Purchase of subsidiary undertakings		(2,253)	(261)	(866)
Net cash acquired with subsidiary undertakings		13	—	1
Purchase of associates and joint ventures		(39)	—	—
Purchase of increased stake in subsidiary undertakings		(34)	—	—
Receipts from sale of subsidiary undertakings		—	5	253
Net cash disposed with subsidiary undertakings		—	—	(29)
		(2,313)	(256)	(641)
Equity dividends paid		(227)	(162)	(172)
Net cash (outflow)/inflow before use of liquid resources		(1,731)	544	(763)
Management of liquid resources				
Cash withdrawn from/(paid for) short-term deposits		146	(493)	31

	<i>Year ended</i> <i>31 December</i>	<i>Year ended</i> <i>2 January</i>	<i>Nine months</i> <i>ended</i> <i>3 January</i>
<i>Note</i>	<i>2000</i> <i>£m</i>	<i>2000</i> <i>£m</i>	<i>1999</i> <i>£m</i>
<b>Financing</b>			
Issue of ordinary share capital	6	4	6
Debt due within one year:			
Use of US Dollar term facility	1,173	—	—
Use of Sterling term facility	535	—	—
Issue of commercial paper	34	—	—
Other movement in short-term loans	(345)	(76)	76
Debt due beyond one year:			
Redemption of bonds	(427)	—	—
Repayment of term loans	—	—	(200)
Use of US Dollar term facility	1,038	—	—
Movement in Sterling term facility	(300)	(600)	895
Issue of Eurobonds	—	570	—
Movement in Sterling equivalent long-term loans	14	41	(38)
	<u>1,728</u>	<u>(61)</u>	<u>739</u>
<b>Increase/(Decrease) in cash in the year</b>	<b>6(dd)(ii) 143</b>	<b>(10)</b>	<b>7</b>

## **6. Notes to the financial information**

### **(a) Principal Accounting Policies**

#### **Nature of operations**

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

#### **Basis of preparation of accounts**

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

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

On 9 December 1998, under a Scheme of Arrangement between the Company and its Shareholders, a new holding company was created for the Powergen Group, Powergen 1998 PLC (then renamed Powergen plc). A simultaneous capital reorganisation of Powergen UK plc (formerly Powergen plc) was accounted for as a Group reconstruction and merger accounting principles were applied.

#### **Basis of consolidation**

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

#### **Associated undertakings and joint ventures**

The Group's share of profits less losses of associated undertakings and joint ventures is included in the consolidated profit and loss account. These amounts are taken from the latest audited financial statements of the relevant undertakings, except where the accounting reference date of the undertaking is not coterminous with the parent company, where management accounts are used. The accounting reference dates of associated undertakings and joint ventures are set out in note 6(o). Where the accounting policies of associated undertakings and joint ventures do not conform to those of the Group, adjustments are made on consolidation where the amounts involved are material to the Group.

### **Turnover**

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

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

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

### **Restructuring costs**

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

### **Depreciation**

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

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

<i>Asset</i>	<i>Life in years</i>
Generating assets	20-60
Distribution and transmission networks	30-65
Other assets	3-40

### **Overhaul of generation plant**

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

### **Decommissioning**

A fixed asset and related provision is recognised in respect of the estimated total discounted cost of decommissioning generating assets. The resulting fixed asset is depreciated on a straight-line

basis, and the discount on the provision is amortised, over the useful life of the associated power stations.

### **Foreign exchange**

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

Transactions denominated in foreign currencies are translated to Sterling at the exchange rate ruling on the date payment takes place unless related or matching forward foreign exchange contracts have been entered into when the rate specified in the contract is used. Differences on exchange arising from the re-translation of the opening net investment in and results of subsidiaries, associated undertakings and joint ventures are taken to reserves and, where the net investments are hedged, are matched with differences arising on the translation of related foreign currency borrowings. Any differences arising are reported in the statement of total recognised gains and losses. All other foreign exchange differences are taken to the profit and loss account in the year in which they arise.

### **Deferred income**

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

### **Financial instruments**

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

### **Debt instruments**

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

### **Interest rate swaps**

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

### **Forward currency contracts**

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

### **Currency swaps**

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

### **Goodwill**

Goodwill arising on consolidation represents the excess or shortfall of the fair value of the consideration given compared to the fair value of the identifiable assets and liabilities acquired. Purchased goodwill is capitalised in the balance sheet and amortised on a straight-line basis over its estimated minimum useful economic life.

Negative goodwill is recognised in the profit and loss account on a straight-line basis over the life of the related fixed assets. Prior to the adoption of Financial Reporting Standard 10 'Goodwill and Intangible Assets' from 30 March 1998, goodwill arising was written off on acquisition against retained earnings. On disposal of trading entities, the goodwill previously written off to reserves is charged to the profit and loss account and matched by an equal credit to reserves. Goodwill arising on overseas acquisitions is regarded as a currency asset and is re-translated at each period end at the closing rate of exchange.

### **Tangible fixed assets**

Tangible fixed assets are stated at original cost, net of customer contributions, less accumulated depreciation and any provision for impairment. Impairment losses are recognised in the period in which they are identified. In the case of assets constructed by the Company and its subsidiaries, directly related overheads and commissioning costs are included in cost.

Major assets in the course of construction are included in tangible fixed assets on the basis of expenditure incurred at the balance sheet date. Where borrowings are specifically financing the construction of a major capital project with a long period of development, interest payable, not exceeding the actual amount incurred during the relevant period of construction, is capitalised as part of the cost of the asset and written off over the operational life of the asset.

### **Operating leases**

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

### **Fixed asset investments**

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

### **Fuel stocks and stores**

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

### **US regulatory assets and liabilities**

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

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

### **Cash and short-term deposits**

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

### **Deferred taxation**

Deferred taxation arises in respect of items where there is a timing difference between their treatment for accounting purposes and their treatment for taxation purposes. 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 and post-retirement benefits**

The Group provides pension benefits through both defined benefit and defined contribution schemes. Pension costs are charged to the profit and loss account so as to spread the cost of pensions over employees' remaining working lives. The regular cost, and any variation from regular cost which is identified as a result of actuarial valuations, is amortised over the average expected remaining service lives of members. Differences between the amounts funded and the amounts charged to the profit and loss account are treated as either creditors or debtors in the balance sheet. Payments to defined contribution schemes are charged against profits as incurred. Certain additional post-retirement benefits, principally health care benefits, are provided to eligible retirees within the Group's US Operations. The estimated cost of providing such benefits is charged against profits on a systematic basis over the average expected service lives of employees.

**(b) Turnover**

Turnover is analysed as follows:

	<i>Year ended 31 December 2000 £m</i>	<i>Year ended 2 January 2000 £m</i>	<i>Nine months ended 3 January 1999 £m</i>
<b>UK Operations</b>			
Electricity and gas – wholesale and trading	1,893	1,685	1,155
Electricity – distribution	307	376	157
Electricity and gas – retail	1,726	1,751	1,001
Cogeneration and renewables	115	95	54
Other energy and hydrocarbon sales	—	—	89
Internal charges from distribution to retail	(191)	(245)	(119)
	<hr/>	<hr/>	<hr/>
	3,850	3,662	2,337
<b>US Operations*</b>	116	—	—
<b>International Operations</b>	225	84	7
	<hr/>	<hr/>	<hr/>
	4,191	3,746	2,344
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

\* from 11 December 2000

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

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

**(c) Operating profit**

Operating costs were as follows:

	Year ended 31 December 2000 Total £m	Year ended 31 December 2000 Continuing activities £m	Year ended 31 December 2000 Acquisitions* £m	Year ended 2 January 2000 £m	Nine months ended 3 January 1999 £m
Fuel costs	707	678	29	840	1,102
— burnt in power stations	707	678	29	643	567
— gas buy-outs	—	—	—	197	535
Pool purchases and other costs of sales	2,202	2,156	46	1,722	940
Staff costs (note 6(e))	213	203	10	235	139
Depreciation, including exceptional charges	292	284	8	263	157
Goodwill amortisation	75	71	4	68	28
Other operating charges, including restructuring costs	401	365	36	462	231
<b>Operating costs, after exceptional items</b>	<b>3,890</b>	<b>3,757</b>	<b>133</b>	<b>3,590</b>	<b>2,597</b>
Operating costs, before exceptional items	3,793	3,678	115	3,297	2,062
Exceptional depreciation charge (note 6(d))	79	79	—	—	—
Exceptional operating charges (note 6(d))	18	—	18	293	535

\* US Operations from 11 December 2000

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

The depreciation charge for the year ended 31 December 2000 includes a net £1 million charge as the result of an impairment review of the Group's UK power station portfolio. This comprises a £21 million charge for an impairment in the current year and a £20 million credit for the reversal of an impairment recognised in a previous period (year ended 2 January 2000 £45 million charge, nine months ended 3 January 1999 £nil). The cashflows used in this impairment review were discounted at Powergen's cost of capital for UK Operations.

Other than foreign exchange gains disclosed in note 6(d), £14 million of foreign exchange losses were recognised in the profit and loss account.

*Operating costs also include:*

	<i>Year ended</i> <b>31 December</b> 2000 <i>£m</i>	<i>Year ended</i> 2 January 2000 <i>£m</i>	<i>Nine months</i> <i>ended</i> 3 January 1999 <i>£m</i>
Repairs and maintenance costs	88	99	72
Research and development costs	4	5	5
Operating leases	11	6	17
(Profit)/Loss on disposal of fixed assets	(21)	1	(33)
Auditors' remuneration for audit of which £0.6 million paid to PricewaterhouseCoopers in the year ended 31 December 2000. In previous periods all audit fees were payable to PricewaterhouseCoopers	0.7	0.5	0.4
Auditors' remuneration for Company £nil in all periods	—	—	—
Auditors' remuneration for non-audit services (of which £0.8 million paid to Coopers & Lybrand in the nine months ended 3 January 1999)	2.6	4.7	4.9

Fees for non-audit services comprise due diligence, accounting advisory, tax advisory services and other general consultancy, and include £1.7 million (£1.4 million in year ended 31 December 2000) in respect of the acquisition of LG&E Energy Corp. (LG&E) capitalised as part of the cost of acquisition (see note 6(l)).

Other operating income includes £60 million (year ended 2 January 2000 £84 million, nine months ended 3 January 1999 £68 million) of income from operating leases. It also includes the recognition of £99 million (year ended 2 January 2000 £60 million) of deferred income in respect of the provision of services under warranty arrangements associated with the disposal of Fiddler's Ferry and Ferrybridge C power stations to Edison Mission Energy during 1999 (see note 6(d)). This figure represents £100 million of deferred income recognised less £1 million of associated costs incurred during the period.

**(d) Exceptional items**

*Exceptional items comprise:*

	<i>Year ended 31 December 2000 £m</i>	<i>Year ended 2 January 2000 £m</i>	<i>Nine months ended 3 January 1999 £m</i>
Asset impairment – UK Operations	(79)	—	—
US acquisition related costs	(18)	—	—
Re-negotiation of gas contract portfolio	—	(197)	(535)
Reorganisation and restructuring costs	—	(96)	—
<b>Charged against operating profit</b>	<b>(97)</b>	<b>(293)</b>	<b>(535)</b>
Bond buy-backs	(66)	—	—
US financing costs	(15)	—	—
<b>Charged against interest costs</b>	<b>(81)</b>	<b>—</b>	<b>—</b>
<b>Profit on disposal of fixed assets – UK Operations</b>	<b>337</b>	<b>543</b>	<b>(2)</b>
Asset impairment	(107)	—	—
Closure costs	(26)	—	—
<b>Provision for loss on sale – International Operations</b>	<b>(133)</b>	<b>—</b>	<b>—</b>
	<b>26</b>	<b>250</b>	<b>(537)</b>

**Charged against operating profit**

An impairment provision of £79 million has been made in respect of the Group's CHP plant portfolio in the light of changes in wholesale electricity and gas prices. The cash flows used in this impairment review were discounted at Powergen's cost of capital for CHP Operations.

As a consequence of the acquisition of LG&E, the Group has incurred costs totalling £18 million reflecting agreed payments to certain senior executives of LG&E.

On 19 October 1999, the Group agreed to pay £197 million to Liverpool Bay owners BHP Petroleum, LASMO and Monument Oil and Gas in exchange for modifications to their existing long-term gas supply contracts to Connah's Quay power station. This amount was paid in November 1999. During the nine months ended 3 January 1999, the Group agreed to pay £535 million to the same parties for amendments to their existing long-term gas supply contracts. This amount was also settled during 1999.

Reorganisation, restructuring and closure costs in UK Operations during 1999 represented the costs of restructuring and integrating the UK business consequent upon the acquisition of Powergen Energy in July 1998. The amount included committed severance payments and reorganisation costs.

In the year ended 31 December 2000, tax credits on the exceptional items charged against operating profits totalled £5 million (year ended 2 January 2000 £89 million, nine months ended 3 January 1999 £158 million).

### **Charged against interest costs**

On 28 December 2000, Powergen repaid three Sterling Eurobonds originally issued by East Midlands Electricity plc (now Powergen Energy plc). The repayment of these bonds will facilitate the financial separation of its distribution and supply business, as required by the Utilities Act, which will come into force during 2001. The consideration paid to bond holders and the unwinding of hedging costs totalled £493 million. At 28 December 2000 the carrying value of these bonds was £427 million, giving a premium payable to buy out the bonds of £66 million.

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

In the year ended 31 December 2000, tax credits on the exceptional amounts charged against interest costs totalled £38 million (year ended 2 January 2000 £nil, nine months ended 3 January 1999 £nil).

### **Profit on disposal of fixed assets - UK Operations**

On 31 December 2000, Powergen completed the sale of Cottam power station to Societe C2, a subsidiary company of London Electricity Group plc, for £398 million in cash. At the same time Powergen entered into arrangements to supply coal to the station for a 27 month period on terms consistent with Powergen's overall coal commitments.

Net assets disposed of, together with disposal costs, totalled £61 million, giving rise to an exceptional profit on disposal of £337 million. A £3 million tax charge arises on this disposal.

On 19 July 1999, Powergen completed the sale of Fiddler's Ferry and Ferrybridge C power stations to Edison Mission Energy, and entered into arrangements to supply coal to the stations for a four year period on terms consistent with Powergen's overall coal commitments.

Powergen also agreed to provide services associated with a major parts warranty in respect of the future operations, capability and availability of each station. Under the terms of the warranty, Powergen will have to repay up to £100 million per annum (£50 million per station) during each of the five years following the disposal should the plant be unavailable during the specified periods. The total consideration received from Edison Mission amounted to £1,296 million. £500 million of this amount was received in advance in respect of the provision of services under warranty arrangements and taken to deferred income. During 2000, £99 million of deferred income has been recognised within 'Other operating income' under these warranty arrangements.

Net assets disposed of, together with disposal costs, totalled £253 million, giving rise to an exceptional profit on disposal of £543 million, net of deferred income in respect of services under the warranty arrangements. A tax charge of £40 million arose on this disposal.

On 26 November 1998, Powergen North Sea Limited (PGNS) was sold to Centrica plc for consideration of £248 million in cash on a debt-free basis. Excluding inter-company debt, the net assets of PGNS on disposal were £252 million. On 31 December 1998, the Group sold a 50 per cent share in Powergen Renewables Limited (PGR) to Abbott plc for consideration of £5 million. The net assets of PGR disposed of totalled £3 million. The disposal of these two investments gave rise to a net £2 million loss.

### Provision for loss on sale - International Operations

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

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

#### (e) Employee information

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

	<i>Year ended</i> <i>31 December</i> <i>2000</i>	<i>Year ended</i> <i>2 January</i> <i>2000</i>	<i>Nine months</i> <i>ended</i> <i>3 January</i> <i>1999</i>
UK Operations	5,903	7,130	5,560
US Operations*	301	—	—
International Operations	830	746	656
	<u>7,034</u>	<u>7,876</u>	<u>6,216</u>

\* from 11 December 2000

At 31 December 2000, US Operations had 5,343 employees.

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

	<i>Year ended</i> <i>31 December</i> <i>2000</i> <i>£m</i>	<i>Year ended</i> <i>2 January</i> <i>2000</i> <i>£m</i>	<i>Nine months</i> <i>ended</i> <i>3 January</i> <i>1999</i> <i>£m</i>
Wages and salaries	197	224	131
Social security costs	17	19	10
Other pension costs (note 6(w))	15	16	11
	<u>229</u>	<u>259</u>	<u>152</u>
Capitalised in fixed assets	(16)	(24)	(13)
	<u>213</u>	<u>235</u>	<u>139</u>

**(f) Summary of directors' emoluments**

Year ended 31 December 2000

	Salaries/fees £000	Benefits £000	Performance Related Bonuses £000	Other payments £000	Total £000	Total accrued pension p.a. at 31.12.2000 £000	Pension p.a. accruing in year ended 31.12.2000 £000	Transfer Value of Increases at 31.12.2000 £000
<b>Chairman</b>								
Edmund Wallis	503	33	220	27	783	347	13	224
<b>Executive directors</b>								
Nick Baldwin	285	12	140	—	437	143	24	304
Roger Hale*	32	7	545	—	584	501	—	—
Peter Hickson**	295	11	192	—	498	44	10	173
<b>Non-executive directors</b>								
Sir Frederick Crawford	25	—	—	—	25			
Sydney Gillibrand CBE	30	—	—	—	30			
Anthony Habgood	25	—	—	—	25			
Dr David Li	25	—	—	—	25			
Paul Myners	55	—	—	—	55			
Roberto Quarta	25	—	—	1	26			

\* The figures for Roger Hale relate to the period from 11 December 2000, the date of his appointment.

In addition to the above emoluments, Roger Hale received payments of £9,538,464 to which he became entitled as a director of LG&E under change of control arrangements in his contract with LG&E and as a shareholder of LG&E.

\*\* Peter Hickson also received 1,989 additional matching shares under the terms of the Annual Bonus Scheme.

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.

Performance-related bonuses have been calculated as the aggregate value of:

- 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
- payments earned in previous years which have ceased to be dependent on future performance and/or forfeiture during the year.

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.

Year ended 2 January 2000

	Salaries/fees £000	Benefits £000	Performance Related Bonuses £000	Other payments £000	Total £000	Total accrued pension p.a. at 02.01.2000 £000	Pension p.a. accruing in year ended 02.01.2000 £000	Transfer Value of Increases at 02.01.2000 £000
<b>Chairman</b>								
Edmund Wallis	470	25	402**	—	897	312	35	633
<b>Executive directors</b>								
Nick Baldwin	245	12	156	—	413	107	31	427
Peter Hickson	283	16	156	—	455	32	11	192
<b>Non-executive directors</b>								
Sir Frederick Crawford	23	—	—	—	23			
Sydney Gillibrand*	18	—	—	—	18			
Anthony Habgood	23	—	—	—	23			
Dr David Li	28	—	—	—	28			
Paul Myners*	32	—	—	—	32			
Roberto Quarta	23	—	—	—	23			
Colin Short*	18	—	—	—	18			
Sir Alan Thomas*	8	—	—	—	8			

\* The figures for Sydney Gillibrand relate to the period from 31 May 1999, the date of his appointment.

The figures for Paul Myners relate to the period from 31 May 1999, the date of his appointment.

The figures for Colin Short relate to the period to 11 May 1999 when he left the Company.

The figures for Sir Alan Thomas relate to the period to 31 May 1999 when he left the Company.

\*\* The figure includes an amount representing the vesting of shares under the Medium Term Bonus Scheme and an ex-gratia award of bonus of 10 per cent of salary in respect of the nine months ended 3 January 1999.

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.

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.

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.

Nine months ended 3 January 1999

	Salaries/fees £000	Benefits £000	Performance Related Bonuses £000	Other payments £000	Total £000	Total accrued pension p.a. at 03.01.1999 £000	Pension p.a. accruing in year ended 03.01.1999 £000	Transfer Value of Increases at 03.01.1999 £000
<b>Chairman</b>								
Edmund Wallis	317	13	159	—	489	272	25	473
<b>Executive directors</b>								
Nick Baldwin	143	8	52	—	203	76	19	200
Peter Hickson	197	7	63	—	267	21	7	106
Deryk King*	134	7	—	913	1,054	110	4	242
<b>Non-executive directors</b>								
Sir Frederick Crawford	15	—	—	—	15			
Anthony Habgood	15	—	—	—	15			
Michael Hoffman**	1	—	—	—	1			
Dr David Li	15	—	—	—	15			
Roberto Quarta	15	—	—	—	15			
Colin Short	38	—	—	—	38			
Sir Alan Thomas	15	—	—	—	15			

\* The figures for Deryk King relate to the period to 29 June 1998 when he left the Company. 'Other payments' represents agreed severance payments including £346,558 paid into his pension plan and augmentation of his pension benefits the cost of which was £129,006.

\*\* The figures for Michael Hoffman relate to the period to 17 April 1998 the date of his death.

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 period and the transfer value of relevant increases in accrued benefit during the period, except for Deryk King, 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 period, 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 period.

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. 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 a 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. Under these arrangements, Peter Hickson received all his performance-related bonuses in the form of shares, 9,192 shares.

(g) Net interest payable

	<i>Year ended 31 December 2000 £m</i>	<i>Year ended 2 January 2000 £m</i>	<i>Nine months ended 3 January 1999 £m</i>
Investment income	1	7	8
Interest receivable from associates and joint ventures	7	9	6
Interest receivable and similar income	35	40	9
	<hr/>	<hr/>	<hr/>
	43	56	23
Interest payable:			
Bank loans and overdrafts	(44)	(55)	(48)
Other loans	(146)	(153)	(75)
	<hr/>	<hr/>	<hr/>
	(190)	(208)	(123)
Net interest payable before unwinding of discount	(147)	(152)	(100)
Unwinding of discount in provisions	(4)	(4)	(4)
	<hr/>	<hr/>	<hr/>
	(151)	(156)	(104)
Exceptional interest costs (note 6 (d))	(81)	—	—
	<hr/>	<hr/>	<hr/>
	(232)	(156)	(104)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

(h) Profit/(Loss) on ordinary activities before taxation

	<i>Year ended 31 December 2000 £m</i>	<i>Year ended 2 January 2000 £m</i>	<i>Nine months ended 3 January 1999 £m</i>
UK Operations			
Electricity and gas – wholesale and trading	288	448	264
Electricity – distribution	116	154	70
Electricity and gas – retail	42	3	17
Cogeneration and renewables	18	14	6
Other energy and hydrocarbon sales	—	—	9
Lease and other income	182	146	100
	<hr/>	<hr/>	<hr/>
	646	765	466
US Operations*	8	—	—
International Operations	121	79	27
Corporate costs	(47)	(53)	(39)
Net interest payable:			
Group	(151)	(156)	(104)
Associates and joint ventures	(60)	(55)	(30)
	<hr/>	<hr/>	<hr/>
<b>Profit before goodwill amortisation and exceptional items</b>	517	580	320
Goodwill amortisation	(75)	(68)	(28)
Exceptional items (note 6 (d))	26	250	(537)
	<hr/>	<hr/>	<hr/>
	468	762	(245)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

\* from 11 December 2000

Other energy and hydrocarbon sales represent the results of PGNS, a subsidiary company which was disposed of in November 1998.

The net assets of the Group are analysed as follows:

	<i>At 31 December 2000 £m</i>
UK Operations	3,007
US Operations	2,799
International Operations	571
Unallocated net liabilities	(4,091)
	<hr/>
	2,286
	<hr/> <hr/>

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

(i) Tax on profit on ordinary activities

	<i>Year ended</i> <i>31 December</i> <i>2000</i> <i>£m</i>	<i>Year ended</i> <i>2 January</i> <i>2000</i> <i>£m</i>	<i>Nine months</i> <i>ended</i> <i>3 January</i> <i>1999</i> <i>£m</i>
United Kingdom corporation tax at 30% (year ended 2 January 2000 30.25% and nine months ended 3 January 1999 31%)			
Current year	5	113	(97)
Prior year	9	(52)	(12)
	<hr/>	<hr/>	<hr/>
	14	61	(109)
Overseas taxation	(5)	—	—
Deferred (note 6(y))			
Accelerated capital allowances	72	19	—
Other timing differences	(61)	(17)	14
	<hr/>	<hr/>	<hr/>
	20	63	(95)
Associates and joint ventures	7	(13)	6
	<hr/>	<hr/>	<hr/>
	27	50	(89)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

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

	<i>Year ended</i> <i>31 December</i> <i>2000</i> <i>%</i>	<i>Year ended</i> <i>2 January</i> <i>2000</i> <i>%</i>	<i>Nine months</i> <i>ended</i> <i>3 January</i> <i>1999</i> <i>%</i>
United Kingdom corporation tax rate	30	30	31
Accelerated capital allowances	14	11	(1)
Other timing differences	(15)	(6)	2
Plant divestment	(9)	(6)	(6)
Prior year items	2	(9)	(4)
Net effect of different rates of tax in overseas businesses	(4)	—	—
Other	(4)	(3)	—
	<hr/>	<hr/>	<hr/>
Effective tax rate on profit before exceptional items and goodwill amortisation	14	17	22
Exceptional items	(8)	(10)	14
	<hr/>	<hr/>	<hr/>
Effective tax rate	6	7	36
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The tax impact of exceptional items is given in note 6 (d).

(j) **Dividends**

	<i>Year ended 31 December 2000 £m</i>	<i>Year ended 2 January 2000 £m</i>	<i>Nine months ended 3 January 1999 £m</i>	
Net dividend per ordinary share:				
Interim paid	10.8p (year ended 2 January 2000 10.8p, period ended 3 January 1999 10.0p)	70	70	65
Second interim proposed	25.4p (year ended 2 January 2000 24.0p, period ended 3 January 1999 nil)	166	156	—
Final proposed	£nil (year ended 2 January 2000 £nil, period ended 3 January 1999 14.1p)	—	—	92
	<u>236</u>	<u>226</u>	<u>157</u>	

(k) **Earnings per ordinary share**

Earnings per ordinary share has been calculated by dividing the profit attributable to shareholders for the financial year of £429 million (year ended 2 January 2000 £708 million profit, nine months ended 3 January 1999 £156 million loss) by 650,976,860 ordinary shares (year ended 2 January 2000 649,552,248 ordinary shares, nine months ended 3 January 1999 646,681,662 ordinary shares), being the weighted average number of ordinary shares in issue during the year.

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

	<i>Year ended 31 December 2000 £m</i>	<i>Year ended 2 January 2000 £m</i>	<i>Nine months ended 3 January 1999 £m</i>
Profit/(Loss) attributable to shareholders	429	708	(156)
Goodwill amortisation	75	68	28
Exceptional items (net of tax)	(70)	(299)	379
Adjusted earnings	<u>434</u>	<u>477</u>	<u>251</u>
Earnings per share (before goodwill amortisation and exceptional items)	<u>66.7p</u>	<u>73.4p</u>	<u>38.8p</u>

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

Diluted earnings per share is calculated as follows. The proceeds of the assumed exercise of dilutive Executive and ShareSave options is calculated as if the shares had been issued at fair value. The difference between the number of shares issued and the number of shares that would have been issued at fair value is treated as an issue of ordinary shares for no consideration. The number of shares used in the calculation of diluted earnings per share is shown in the summary of differences between UK and US Generally Accepted Accounting Principles section (table q).

## (I) Acquisitions

On 11 December 2000, the Group acquired the whole of the issued share capital of LG&E Energy Corp. (LG&E), a vertically integrated electricity and gas utility based in Louisville, Kentucky in the United States. The consideration payable totalled £2,258 million comprising £2,229 million in cash for shares together with capitalised acquisition costs totalling £29 million. The fair value of assets acquired was £760 million, leading to goodwill arising of £1,498 million. The transaction has been acquisition accounted.

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

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

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

The provisional calculation of goodwill arising on these acquisitions is shown below. In view of the proximity of the acquisition of LG&E to the year end, further adjustments may arise.

	Book value £m	Accounting policy adjustments <sup>(1)</sup> £m	Revaluation <sup>(2)</sup> £m	Other fair value adjustments £m	Fair value to the Powergen Group £m
Net assets acquired:					
LG&E Energy Corp.					
Tangible fixed assets	2,724	193	(5)	—	2,912
Investments	222	(15)	(27)	—	180
Stocks	145	9	—	—	154
Taxation payable and deferred taxation	(406)	318	10	(5)	(83)
Other working capital	(408)	305	20	(2)	(85)
Net short-term borrowings	(851)	—	—	—	(851)
Long-term borrowings	(754)	(74)	14	—	(814)
Provisions	—	(484)	—	—	(484)
Minority interest	(169)	—	—	—	(169)
	503	252	12	(7)	760
Net assets acquired:					
GPEC					40
CPL					50
TCS					1
Goodwill					1,485
Consideration, including costs of acquisition					2,336

(1) The accounting policy adjustments made resulted from differences between Powergen's accounting policies under UK GAAP and US GAAP as followed by LG&E, including re-classification adjustments. The principal adjustments are as follows:

- Deferred taxation, provided for on a full liability basis under US GAAP, has been restated at the amount expected to crystallise in the foreseeable future. An adjustment of £199 million has been made to reverse that part of LG&E's deferred tax provision which is not required under UK GAAP.
- Decommissioning costs, where for regulated industries under US GAAP tangible fixed assets are depreciated to a negative amount equal to anticipated decommissioning costs. Under UK GAAP the present value of anticipated decommissioning costs is included in provisions, added to tangible fixed assets and depreciated on a straight-line basis. Tangible fixed assets and provisions have been increased by £110 million and £75 million respectively.
- Regulatory assets and liabilities where, as explained in the principal accounting policies above, there are specific rules in the US for accounting by utilities subject to rate regulation. There are no similar rules under UK GAAP and the criteria for recognition of assets and liabilities are different. Accordingly an adjustment has been made to reverse £28 million and £48 million of regulatory assets and liabilities respectively.
- Re-classification of assets and liabilities associated with US GAAP discontinued energy trading operations, presented in a single caption in the US GAAP balance sheet as a £301 million liability, to present each item under the relevant heading.

Other adjustments have been made to conform accounting policies on overhauls and software costs.

(2) Valuation adjustments have been made to the assets and liabilities of LG&E, principally to: write down the value of non-utility tangible fixed assets and investments to their recoverable amount (£27 million); reflect the fair value of the LG&E pension arrangements (£26 million liability); and, mark to market long-term debt based on interest rates at the date of acquisition (£14 million asset).

### Pre-acquisition results - LG&E Energy Corp.

The unaudited results of LG&E and its subsidiaries prior to acquisition, prepared on the basis of its pre-acquisition accounting policies under US GAAP and excluding fair value adjustments are summarised below:

	<i>Period to 10 December 2000 \$m</i>	<i>Year to 31 December 1999 \$m</i>
Turnover	2,418	2,707
Operating profit	367	514
Net interest payable	(132)	(125)
	<hr/>	<hr/>
Profit on ordinary activities before taxation	235	389
Tax on profit on ordinary activities	(81)	(134)
	<hr/>	<hr/>
Profit on ordinary activities after taxation	154	255
Loss on disposal of discontinued operations net of tax benefit	(364)	(174)
Minority interest	(13)	(12)
	<hr/>	<hr/>
(Loss)/Profit for the financial period	(223)	69
Preference dividends	(7)	(7)
	<hr/>	<hr/>
(Loss)/Profit attributable to shareholders	(230)	62

There were no recognised gains and losses other than the (loss)/profit attributable to shareholders.

### Post-acquisition results - LG&E Energy Corp.

The turnover and operating profit relating to LG&E and its subsidiaries (after goodwill amortisation) for the 21 days to 31 December 2000 under UK GAAP amounted to £116 million and £4 million (including £3 million of associates' and joint ventures' operating profit) respectively. The impact on Group cash flow for the same period was a £41 million contribution to net cash inflow from operating activities, interest payments of £6 million, taxation payments of £1 million, dividend payments of £22 million and payments of £27 million in respect of capital expenditure and financial investment.

**(m) Goodwill**

	<i>£m</i>
<b>Cost</b>	
At 2 January 2000	1,405
Acquisitions (note 6(l))	1,492
Disposals	(3)
Foreign exchange movements	(48)
	<hr/>
At 31 December 2000	2,846
	<hr/>
<b>Amortisation</b>	
At 2 January 2000	96
Charge for the year	75
Amounts written off	48
	<hr/>
At 31 December 2000	219
	<hr/>
Net book value at 31 December 2000	2,627
	<hr/>
Net book value at 2 January 2000	1,309
	<hr/>

Amortisation of goodwill for the 21 days to 31 December 2000 in respect of LG&E totalled £4 million, and is being amortised over its estimated useful economic life of 20 years.

Amounts written off goodwill relate to the sale of GPEC (see note 6(d)).

(n) **Tangible fixed assets**

	<i>Generating assets £m</i>	<i>Distribution and transmission networks £m</i>	<i>Other operating and short- term assets £m</i>	<i>Total £m</i>
<b>Cost</b>				
At 2 January 2000	3,816	1,499	619	5,934
Foreign exchange movements	(55)	(58)	(18)	(131)
Acquired during the year	2,483	1,797	441	4,721
Additions	71	106	100	277
Transfers	40	(15)	(25)	—
Disposals	(271)	(2)	(45)	(318)
<b>At 31 December 2000</b>	<b>6,084</b>	<b>3,327</b>	<b>1,072</b>	<b>10,483</b>
<b>Depreciation</b>				
At 2 January 2000	1,985	524	193	2,702
Foreign exchange movements	(8)	(23)	(2)	(33)
Acquired during the year	976	727	106	1,809
Charge for the year	131	39	43	213
Transfers	4	(15)	11	—
Disposals	(221)	(2)	(39)	(262)
Exceptional write downs	11	—	79	90
<b>At 31 December 2000</b>	<b>2,878</b>	<b>1,250</b>	<b>391</b>	<b>4,519</b>
<b>Net book value at 31 December 2000</b>	<b>3,206</b>	<b>2,077</b>	<b>681</b>	<b>5,964</b>
Net book value at 2 January 2000	1,831	975	426	3,232

Group assets include freehold land and buildings with a net book value of £402 million and assets in the course of construction at a cost of £539 million. Group assets also include assets held for use under operating leases with a cost of £132 million and accumulated depreciation of £132 million.

£7 million of interest was capitalised during the year (year ended 2 January 2000 £4 million and nine months ended 3 January 1999 £nil). Accumulated interest capitalised, gross of tax relief, included in the total cost for the Group amounts to £72 million.

Assets held under finance leases are included in assets in the course of construction at a cost of £80 million.

(o) Fixed asset investments

	<i>Net assets and goodwill</i>		<i>Loans</i>			<i>Total £m</i>
	<i>Joint ventures £m</i>	<i>Associates £m</i>	<i>Joint ventures £m</i>	<i>Associates £m</i>	<i>Other investments £m</i>	
At 2 January 2000						
— net assets	7	329	38	26	70	470
— goodwill	—	—	—	—	—	—
Acquisition						
— net assets	102	120	—	—	9	231
— goodwill	(7)	—	—	—	—	(7)
Additions	—	13	1	23	19	56
Disposals	(2)	(37)	(7)	(29)	(18)	(93)
Exceptional write down	—	(48)	—	—	—	(48)
Retained profits	4	—	—	—	—	4
Currency translation differences	(2)	(11)	—	—	—	(13)
At 31 December 2000						
— net assets	109	366	32	20	80	607
— goodwill	(7)	—	—	—	—	(7)
	<u>102</u>	<u>366</u>	<u>32</u>	<u>20</u>	<u>80</u>	<u>600</u>

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

Goodwill arising on the acquisition of joint ventures includes £9 million of positive goodwill in respect of TCS, which is being amortised over ten years, and £16 million of negative goodwill in respect of CPL which is being amortised over 17 years. Aggregate amortisation of goodwill of associates and joint ventures as at 31 December 2000 was £nil, therefore the net book value of that goodwill at 31 December 2000 was equal to its cost.

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

These Sterling investments can be analysed under US GAAP as follows:

	<i>At 31 December 2000</i>	
	<i>Carrying value £m</i>	<i>Fair value £m</i>
Equity investments	26	26
Debt investments	43	46
Total	<u>69</u>	<u>72</u>

Proceeds from the sale of investments classified as 'available for sale' under US GAAP amounted to £112 million for the year ended 31 December 2000. On these sales gross realised profits and losses amounted to £2 million and £2 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 31 December 2000 was as follows:

	<i>£m</i>
Within one year	12
1-5 years	10
5-10 years	15
After 10 years	6
	<hr/>
Total	43
	<hr/> <hr/>

## Interests in Group subsidiary undertakings

Details of the Group's principal investments in subsidiary undertakings as at 31 December 2000 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.

	<i>Proportion of nominal value of issued equity shares held by the Group or the Company %</i>	<i>Country of incorporation or registration</i>	<i>Principal business activities</i>
Powergen Group Holdings*	100	England and Wales	Holding company for UK based activities
Powergen US Holdings Limited*	100	England and Wales	Holding and financing company for US based activities
Powergen UK plc†	100	England and Wales	Generation and sale of electricity
LG&E Energy Corp. (LG&E)†	100	United States	Holding company for US based activities
Louisville Gas and Electric Company (LGEC)†	100	United States	Generation and distribution of electricity and supply of electricity and gas
Kentucky Utilities Company (KU)†	100	United States	Generation, distribution and supply of electricity
LG&E Capital Corp.†	100	United States	Holding company for US based non-utility activities
Powergen Energy plc†	100	England and Wales	Distribution and supply of electricity
Powergen International Limited†	100	England and Wales	Holding company for international activities
Ergon Insurance Limited†	100	Isle of Man	Captive insurance company
Powergen CHP Limited†	100	England and Wales	Sale of energy services involving the construction of combined heat and power (CHP) plant
Powergen Cogeneration Limited†	100	England and Wales	Sale of energy services involving the construction of combined heat and power (CHP) plant
Powergen Gas Limited†	100	England and Wales	Transportation and marketing of gas in the UK
Powergen Retail Gas Limited†	100	England and Wales	Supply, trading and shipping of gas in the UK
Csepele Aramtermelo Rt†	100	Hungary	Generation and sale of electricity
Csepele Power Company†	100	Hungary	Generation and sale of electricity
Gujarat Powergen Energy Corporation Limited (GPEC)†	88	India	Generation and sale of electricity

\* direct interest

† indirect interest

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

#### Associated undertakings and joint ventures

Details of the Group's principal investments in associated undertakings and joint ventures as at 31 December 2000 are as follows:

	<i>Accounting reference date</i>	<i>Country of incorporation or registration</i>	<i>Shares held</i>	<i>Percentage of capital held directly by the Group</i>
Saale Energie GmbH	31 December	Germany	Deutschmark ordinary capital	50%
MIBRAG BV	31 December	Netherlands	Dutch guilders ordinary capital	33.33%
MIBRAG GmbH	31 December	Germany	Deutschmark ordinary capital	33.33%
Turbogas Produtora Energetica SA	31 December	Portugal	Escudos ordinary shares	49.99%
PT Jawa Power	31 December	Indonesia	Indonesian rupees ordinary shares	35%
Yallourn Energy Pty Limited	30 June	Australia	Australian dollar ordinary shares	49.95%
Distribuidora de Gas Cuyana	30 November	Argentina	Argentinian peso ordinary shares	14.4%
Gas Natural BAN SA	30 September	Argentina	Argentinian peso ordinary shares	19.5%
LG&E Power Gregory*	30 November	United States	Partner	50%
Corby Power Limited*	30 September	England and Wales	Ordinary Shares	50%
Cottam Development Centre Limited*	31 December	England and Wales	Ordinary shares	50%
TeleCentric Solutions Limited*	31 December	England and Wales	Ordinary shares	50%

\* treated as joint ventures in the Group's accounts

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

- |                                   |                                                                                                                     |
|-----------------------------------|---------------------------------------------------------------------------------------------------------------------|
| Saale Energie GmbH                | — Holding and management company for the Group's interest in Schkopau power station                                 |
| MIBRAG BV                         | — Holding company for the Group's interest in MIBRAG GmbH                                                           |
| MIBRAG GmbH                       | — Mining, refinement and sale of brown coal and generation and sale of electricity                                  |
| Turbogas Produtora Energetica SA  | — Generation and sale of electricity from gas-fired power station                                                   |
| PT Jawa Power                     | — Generation and sale of electricity from coal-fired power station                                                  |
| Yallourn Energy Pty Limited       | — Mining of brown coal and production and sale of electricity from coal-fired power station                         |
| Distribuidora de Gas Cuyana       | — Sale and distribution of gas                                                                                      |
| Gas Natural BAN SA                | — Sale and distribution of gas                                                                                      |
| LG&E Power Gregory                | — Owns and operates gas-fired power station                                                                         |
| Corby Power Limited               | — Generation and sale of electricity from gas-fired power station                                                   |
| Cottam Development Centre Limited | — Construction and operation of gas-fired power station plant and operation of a generator turbine testing facility |
| TeleCentric Solutions Limited     | — Retail of telecommunications services and development of multi-utility billing system                             |

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

*At 31 December 2000*

	<i>Joint ventures £m</i>	<i>Associates £m</i>
Share of assets:		
Share of fixed assets	316	1,601
Share of current assets	127	176
	<u>443</u>	<u>1,777</u>
Share of liabilities:		
Amounts falling due within one year	(46)	(143)
Amounts falling due after more than one year	(295)	(1,268)
	<u>(341)</u>	<u>(1,411)</u>
Share of net assets	<u>102</u>	<u>366</u>
Turnover	<u>49</u>	<u>245</u>
Operating profit	<u>10</u>	<u>63</u>

**(p) Stocks**

	<i>At 31 December 2000 £m</i>
Fuel stocks	129
Stores	129
	<u>258</u>

**(q) Debtors: amounts falling due after more than one year**

	<i>At 31 December 2000 £m</i>
Other debtors	125
	<u>125</u>

Other debtors include £4 million in respect of pensions and £51 million in respect of income under operating leases.

(r) Debtors: amounts falling due within one year

	<i>At</i> <i>31 December</i> <i>2000</i> <i>£m</i>
Trade debtors	838
Less: securitisation	(152)
Net trade debtors	686
Other debtors	178
Prepayments and accrued income	45
	<hr/>
	909
	<hr/> <hr/>

Other debtors include £31 million in respect of income under operating leases.

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

At 31 December 2000, amounts advanced by the trust to the Group totalled £300 million, of which £152 million was backed by billed and unbilled trade debtor balances. These trade debtors were accounted for as a sale under US GAAP Statement of Financial Accounting Standard 125 'Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities'. US GAAP would therefore present the trade debtors figures on a net basis. Powergen retains the responsibility for servicing these trade debtors. The remaining £148 million advanced by the trust is included in loans and overdrafts within creditors due within one year.

(s) Loans and overdrafts

	Weighted average interest rate	
	<i>Year ended</i> <i>31 December</i> 2000 %	<i>At</i> <i>31 December</i> 2000 £m
UK:		
Bank overdrafts	—	3
Other short-term loans	8.0	1,839
Commercial paper	6.6	33
	<hr/>	<hr/>
	8.0	1,875
US:		
Short-term loans	7.1*	428
	<hr/>	<hr/>
	7.9	2,303
	<hr/>	<hr/>

\* from 11 December 2000

UK short-term loans shown above include £1,131 million of debt relating to the acquisition of LG&E drawn down under a US \$4,000 million facility (see note 6(u)).

The Group has two commercial paper programmes, as follows:

	<i>Euro</i> <i>programme</i>	<i>US Dollar</i> <i>programme</i>
Maximum amount permitted	US \$500 million	US \$3,000 million
Repayment periods	7 – 364 days	1 – 270 days
Amount outstanding:		
31 December 2000	—	£33m
2 January 2000	—	N/A
Basis of interest rate	Currency of Issue LIBOR	US LIBOR

The US \$3,000 million programme was signed on 18 December 2000.

**(t) Trade and other creditors falling due within one year**

	<i>At 31 December 2000 £m</i>
Trade creditors	705
Corporation tax	144
Other taxation and social security	70
Accruals and other creditors	389
Deferred income	100
Proposed dividend	166
	<hr/>
	1,574
	<hr/> <hr/>

Accruals and other creditors include accruals for capital work performed but not yet paid for and rationalisation and restructuring costs of the Group.

**(u) Long-term loans**

	<i>At 31 December 2000 £m</i>
UK:	
7.1% US Dollar Yankee Bond 2002	252
8.875% Sterling Bond 2003	250
US Dollar term facility expiring 2005	1,004
8.5% Sterling Bond 2006	250
7.45% US Dollar Yankee Bond 2007	260
Loan notes 2007	4
5% Euro Eurobond 2009	326
6.25% Sterling Eurobond 2024	244
US:	
6.205% Medium term US Dollar notes 2004	96
6.46% Medium term US Dollar notes 2008	91
First mortgage bonds 2003 – 2027 (secured)	184
Pollution control bonds 2010 – 2027 (secured)	340
Finance lease obligations	80
Other:	
Bank loans in other overseas subsidiaries	247
	<hr/>
	3,628
	<hr/> <hr/>

The Sterling term facility expiring in 2003 bears interest at variable rates, fixed in advance for periods up to six months, by reference to Sterling LIBOR. The US Dollar term facility was signed on 27 February 2000 and expires on 27 February 2005. It bears interest at variable rates fixed in advance for periods up to six months, by reference to US LIBOR.

All finance lease obligations fall due on 31 December 2004. The obligation of £80 million above includes £3 million of interest.

None of the bonds outstanding at 31 December 2000 has any financial covenants except for dividend restrictions on the first mortgage and pollution control bonds. Substantially all of LGEC's and KU's utility plants are pledged as security for its first mortgage bonds.

On 28 December 2000, Powergen redeemed the 8.375% Sterling Eurobond 2006, the 12% Sterling Eurobond 2016 and the 8.125% Sterling Eurobond 2007 at a cost of £493 million funded from a combination of cash and existing bank facilities. These three Sterling Eurobonds were inherited with the acquisition of East Midlands Electricity plc in July 1998. The premium paid of £66 million has been treated as an exceptional cost in these accounts (see note 6(d)).

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

	<i>At 31 December 2000 £m</i>
In one year or less, or on demand	2,303
In more than one year but not more than two years	277
In more than two years but not more than five years	1,573
In more than five years	1,778
	<hr/> 5,931 <hr/> <hr/>

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

	<i>At 31 December 2000 £m</i>
Expiring in one year or less	286
Expiring in more than two years but not more than five years	1,300
	<hr/> 1,586 <hr/> <hr/>

These facilities comprise:

<i>Facility</i>	<i>Amount undrawn at 31 December 2000 £m</i>	<i>Expiry date</i>	<i>Fees</i>	<i>Covenants</i>
US \$4,000 million facility:				
- 364 day extendable loan	542	27 February 2005	20 bps	£7,250 million cap on total group borrowings, maximum net debt to EBITDA ratio of 5.5 times, minimum EBITDA to interest ratio of 2.1 times
- 5 year revolving credit facility	—	27 February 2005	55 bps	
- 5 year term loan	—	27 February 2005	55 bps	
Syndicated Sterling loan facility:				
- 5 year revolving credit facility	465	26 June 2003	20 bps	UK plc consolidated sub-group £3,500 million cap on total borrowings, maximum net debt to EBITDA ratio of 4.25 times, minimum PBIT to interest ratio of 2.25 times
LG&E Capital Corp. lines of credit	121	August 2001	10 bps	Tangible net worth at least US \$25 million
LG&E Capital Corp. lines of credit	293	September 2002	7.5 bps	Adjusted capitalisation ratio not to exceed 70%
Louisville Gas and Electric Company line of credit	134	November 2001	7.5 bps	—
UK committed bi-lateral facility	25	Expired 18 January 2001	—	—
Committed facilities in overseas subsidiaries	6	Expired 2 February 2001	—	—
	<u>1,586</u>			

**(v) Other creditors falling due after more than one year**

	<i>At 31 December 2000 £m</i>
Accruals and other creditors	237
Deferred income	240
	<u>477</u>

Accruals and other creditors shown above include £106 million in respect of pensions.

**(w) Pension scheme arrangements and other post-retirement benefits**

**(i) Pension scheme arrangements**

At 31 December 2000, Powergen had both statutorily approved defined benefit pension schemes and several smaller statutorily approved defined contribution plans. Details of the LG&E arrangements are included following the acquisition of that company and its subsidiaries on 11 December 2000. The pension charge in respect of LG&E included in the Group's results is for the period 11 December 2000 to 31 December 2000 only.

## UK GAAP

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

The latest published actuarial valuation of the ESPS was at 31 March 1998. The 1998 valuation revealed a surplus of £89 million in respect of the Powergen fund and £32 million in respect of the East Midlands Electricity fund.

	<i>At 31 March 1998</i>	
	<i>Powergen UK fund</i>	<i>East Midlands Electricity fund</i>
Market value of assets	£1,631m	£881m
Extent to which actuarial value covered benefits accruing to members	108%	105%
Rate of return on investments:		
– compared with annual increase in salaries	2.5% higher	2.5% higher
– compared with annual increase in pensions	4.0% higher	4.0% higher
Method of valuation used	Projected unit	Attained age

Following the acquisition of LG&E on 11 December 2000, the associated US pension arrangements are included in these accounts. LG&E sponsors a number of qualified and non-qualified pension plans, the majority of which are funded schemes of the defined benefit type. An actuarial valuation of the plans is carried out annually by an independent, professionally qualified, actuary. Current year values have been based on the valuation at 31 December 1999 and have been adjusted for any known movements during the year. There are no plan assets in the non-qualified plans.

	<i>At 31 December 2000</i>
	<i>LG&amp;E funds</i>
Market value of assets	£395m
Extent to which actuarial value covered benefits accruing to members	101%
Rate of return on investments:	
– compared with annual increase in salaries	5.5% higher
– compared with annual increase in pensions	—
Method of valuation used	Projected unit

## Pension costs for the Group

In the financial year ended 31 December 2000, the normal pension cost for the Group amounted to £20 million (year ended 2 January 2000 £21 million, nine months ended 3 January 1999 £13 million). A net credit of £5 million (year ended 2 January 2000 £5 million, nine months ended 3 January 1999 £2 million) is required to the pension charge in the accounts in respect of the experience surplus on the pension schemes, which is being recognised over 13 years, the

average remaining service lives of members. The accounts include a prepayment of £23 million representing the excess of the amounts funded over the pension cost for the year.

Amounts set aside in other creditors for the Group's rationalisation and restructuring programme in the UK 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 below:

The pension cost determined under SFAS 87 requirements for the three periods ended 31 December 2000 and the projected benefit obligation as at 31 December 2000 were calculated using the following assumptions:

	<i>Projected benefit obligation</i>			<i>Pension cost</i>		
	<i>At 31 December 2000 Powergen Group excluding LG&amp;E %</i>	<i>At 31 December 2000 LG&amp;E %</i>	<i>Year ended 31 December 2000 %</i>	<i>Year ended 2 January 2000 %</i>	<i>Nine months ended 3 January 1999 %</i>	<i>Five months ended 3 January 1999 %</i>
Discount rate	5.0	7.5	5.0	4.5	6.75	6.0
Rate of future salary increases	4.0	4.0	4.0	4.0	5.5	5.0
Rate of expected return on plan assets	6.5	9.5	6.5	6.5	8.0	7.5

The figures for the five months ended 3 January 1999 were used to reflect the inclusion of Powergen Energy plc in the Group's pension disclosures from the date of acquisition.

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

### Change in benefit obligations

	<i>Year ended 31 December 2000 £m</i>	<i>Year ended 2 January 2000 £m</i>	<i>Nine months ended 3 January 1999 £m</i>
Benefit obligation at start of year	2,162	2,304	1,285
Powergen Energy on acquisition	—	—	781
LG&E on acquisition	404	—	—
Service cost	17	31	13
Interest cost	136	105	85
Plan participants' contributions	9	11	5
SFAS 88 events	38	9	10
Actuarial (gain)/loss	—	(179)	196
Benefits paid	(129)	(119)	(71)
Disposal of business	(9)	—	—
Foreign exchange	(13)	—	—
<b>Benefit obligation at end of year</b>	<b>2,615</b>	<b>2,162</b>	<b>2,304</b>

### Change in plan assets

	<i>Year ended</i> <i>31 December</i> 2000 <i>£m</i>	<i>Year ended</i> <i>2 January</i> 2000 <i>£m</i>	<i>Nine months</i> <i>ended</i> <i>3 January</i> 1999 <i>£m</i>
Market value of plan assets at start of year	2,876	2,522	1,631
Powergen Energy on acquisition	—	—	843
LG&E on acquisition	412	—	—
Actual return on plan assets	25	455	93
Employer contributions	36	7	21
Plan participants' contributions	9	11	5
Total payments	(129)	(119)	(71)
Disposal of business	(8)	—	—
Foreign exchange	(13)	—	—
	<u>3,208</u>	<u>2,876</u>	<u>2,522</u>

### Components of net periodic pension cost

	<i>Year ended</i> <i>31 December</i> 2000 <i>£m</i>	<i>Year ended</i> <i>2 January</i> 2000 <i>£m</i>	<i>Nine months</i> <i>ended</i> <i>3 January</i> 1999 <i>£m</i>
Cost of benefits earned during the year	17	31	13
Interest cost on projected benefit obligation	111	105	85
Expected return on assets	(188)	(165)	(124)
Net amortisation	(21)	2	(10)
	<u>(81)</u>	<u>(27)</u>	<u>(36)</u>

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

	<i>Year ended</i> <i>31 December</i> 2000 <i>£m</i>	<i>Year ended</i> <i>2 January</i> 2000 <i>£m</i>	<i>Nine months</i> <i>ended</i> <i>3 January</i> 1999 <i>£m</i>
Cost of termination benefits	38	9	10

The information required to be disclosed in accordance with SFAS 87 concerning the funded status of the Powergen UK and East Midlands Electricity funds of the ESPS, and the various LG&E funds, at 31 December 2000 was as follows:

	<i>At 31 December 2000 £m</i>
Projected benefit obligations	2,615
Plan assets at market value	3,208
	<hr/>
Projected benefit obligation less plan assets	(593)
Reconciliation of plans' status:	
Unrecognised net gain	402
Unrecognised prior service cost	(23)
	<hr/>
Net accrued pension credit under US GAAP	(214)
	<hr/> <hr/>

**(ii) Other post-retirement benefits**

LG&E provides healthcare and other benefits through various plans for eligible retirees on a basis substantially similar to those who are active employees. The cost of post-retirement benefits is accrued over the active service lives of employees.

In the financial year ended 31 December 2000, the cost in respect of post-retirement healthcare amounted to £1 million. This amount was only in respect of the LG&E group for the 21 days ended 31 December 2000. There was a creditor of £41 million in respect of post-retirement healthcare arrangements.

The net periodic post-retirement benefit cost and significant assumptions in respect of the period from the date of acquisition, 11 December 2000, to 31 December 2000 are summarised as follows:

	<i>Period ended 31 December 2000 %</i>
Discount rate	8.0
Initial healthcare cost trend rate – under 65	8.0
Initial healthcare cost trend rate – over 65	8.0
Ultimate healthcare cost trend rate	5.0
	<hr/>

The majority of the plans are funded schemes of the defined benefit type. An actuarial valuation of the plans is carried out annually by an independent, professionally qualified, actuary, on a projected unit basis. Current year values have been based on the valuation at 31 December 1999 and have been adjusted for any known movements during the year.

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

**Change in accumulated post-retirement benefit obligation**

	<i>Period ended 31 December 2000 £m</i>
Accumulated post-retirement benefit obligation on acquisition	85
Foreign exchange	(2)
	<hr/>
Accumulated post-retirement benefit obligation at end of year	83
	<hr/> <hr/>

The plan assets were valued at £21 million at both 11 December 2000 and 31 December 2000, giving a funding level of 25%.

Post-retirement benefit plans in the US are not usually funded. In US regulated industries such as LG&E's however, this funding level of 25% is typical.

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

	<i>Period ended 31 December 2000 £m</i>
Funded status of plan	(62)
LG&E unrecognised net gain	21
	<hr/>
Accrued post-retirement benefit cost	(41)
	<hr/> <hr/>

The assumed healthcare cost trend rate gradually decreases over five years and remains level thereafter. The healthcare cost trend rate assumption has a significant effect on the amounts reported. Increasing the assumed healthcare cost trend rate by one percentage point would have increased the accumulated post-retirement benefit obligation (APBO) as at 31 December 2000 by £7 million, and the net periodic post-retirement benefit costs by £1 million. Decreasing the assumed healthcare cost trend rate by one percentage point would have reduced the APBO as at 31 December 2000 by £6 million, and the net periodic post-retirement benefit costs by £1 million.

**(x) Provisions for liabilities and charges**

Movements on provisions comprise:

	2 January 2000 £m	Acquired during the year £m	Charged to profit and loss account £m	Amortisation of discount £m	Provisions utilised £m	Provisions released or disposed £m	Exchange movements £m	31 December 2000 £m
US contract provisions	—	409	—	—	(8)	—	(13)	388
UK contract provisions	150	—	—	—	(13)	—	—	137
Liability and damage claims	71	—	8	—	(12)	(7)	—	60
Decommissioning	74	75	2	4	(1)	(5)	(3)	146
	<u>295</u>	<u>484</u>	<u>10</u>	<u>4</u>	<u>(34)</u>	<u>(12)</u>	<u>(16)</u>	<u>731</u>

US contract provisions relate to out of money fixed price energy marketing contracts entered into in 1996 and 1997 by LG&E. These contracts were acquired by Powergen on the purchase of LG&E on 11 December 2000. The provisions will be utilised over the period to 2008. UK contract provisions, which relate to out of money electricity purchase contracts, were acquired on the purchase of Powergen Energy plc and will be utilised over the period to 2008, when the contract terminates. The liability and damage claims provision includes reserves in respect of future claims for industrial related diseases and gradual pollution. Given the inherent uncertainty surrounding the timing of any potential claims, it is not possible to estimate when these amounts will crystallise. Decommissioning provisions comprise amounts set aside for the estimated costs of terminating power station grid connections, decommissioning power stations and subsequent site restoration costs at UK and US power stations which will be utilised as each power station closes.

**(y) Deferred tax**

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

	31 December 2000		
	Full potential liability £m	Amounts unprovided £m	Liability/ (Asset) recognised £m
Accelerated capital allowances	933	(801)	132
Other timing differences	(266)	227	(39)
	<u>667</u>	<u>(574)</u>	<u>93</u>

Where there is an intention that profits retained by overseas subsidiaries will be remitted, provision is made for any taxation liability that 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 that are expected to crystallise in the foreseeable future. The liability in respect of accelerated capital allowances and other timing differences is calculated at 30% in both periods.

**(z) Share capital**

The share capital of Powergen comprises:

	<i>31 December</i>
	<i>2000</i>
	<i>£m</i>
<b>Authorised</b>	
1,050,000,000 ordinary shares of 50p each	525
49,998 redeemable preference shares of £1	—
Special rights redeemable preference share of £1	—
	<hr/>
	525
	<hr/>
<b>Allotted, called-up and fully paid</b>	
651,494,671 ordinary shares of 50p each	326
49,998 redeemable preference shares of £1	—
Special rights redeemable preference share of £1	—
	<hr/>
	326
	<hr/> <hr/>

During the year 478,582 ordinary shares of 50p each were issued under the Powergen ShareSave Scheme realising £1,878,120. An amount of £1,638,829 has been credited to share premium account. A further 9,256 shares held by a Qualifying Employee Share Trust (Quest) were also exercised during the year. The number of shares held by the Quest at 31 December 2000 was 258, on which dividends had been waived.

During the year 212,250 ordinary shares of 50p each were issued under the Powergen Executive Share Option Scheme realising £980,382. An amount of £874,257 has been credited to share premium account.

During the year 1,077,337 ordinary shares of 50p each were issued under the Powergen Profit Sharing Share Scheme realising £3,856,866. An amount of £3,318,198 has been credited to share premium account.

The special rights redeemable preference share held by the Secretary of State or another person acting on behalf of HM Government since privatisation, was redeemed for consideration of £1 on 22 December 2000.

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

**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 Group employees, and the Powergen Executive Share Option Scheme, which is available to executive directors and other senior executives and managers selected by the Remuneration Committee.

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

Under the Powergen Executive Share Option Scheme, which the Company regards as an important incentive in attracting and retaining key employees, the share options are generally

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

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

Options granted, exercised and lapsed under these share option schemes during the year ended 31 December 2000 were as follows:

	<i>Powergen ShareSave Scheme</i>		<i>Powergen Executive Share Option Scheme</i>	
	<i>Number of shares</i>	<i>Weighted average exercise price</i>	<i>Number of shares</i>	<i>Weighted average exercise price</i>
Outstanding at 2 January 2000	7,137,037	£5.11	2,662,900	£6.34
Acquisition	—	—	4,915,060	£5.67
Granted	7,007,440	£2.95	2,901,000	£4.00
Exercised	(487,838)	£3.92	(212,250)	£4.62
Lapsed	(5,007,230)	£5.37	(500)	£3.87
<b>Outstanding at 31 December 2000</b>	<b>8,649,409</b>	<b>£3.28</b>	<b>10,266,210</b>	<b>£5.39</b>

Options outstanding at 31 December 2000, together with their exercise prices and dates of exercise, are as follows:

<i>Date of grant</i>	<i>Price per share £</i>	<i>Normal dates of exercise</i>	<i>Number of ordinary shares</i> <i>31 December 2000</i>
<b>Powergen ShareSave Scheme:</b>			
24 July 1996	3.77	1999 & 2001	1,556,907
25 July 1997	5.81	2000 & 2002	165,979
1 June 1999	6.02	2002	345,772
1 June 2000	2.95	2003	6,580,751
<b>Powergen Executive Share Option Scheme:</b>			
6 December 1991	2.21	1994-2001	16,500
1 December 1992	2.78	1995-2002	92,000
1 July 1993	3.87	1996-2003	59,500
22 November 1994	5.57	1997-2004	223,450
5 July 1995	4.86	1998-2005	23,800
5 July and 29 November 1995	5.32	1998-2005	244,600
29 November 1995	5.59	1998-2005	15,500
26 June 1996	4.705	1999-2006	90,300
26 June 1996	5.32	1999-2006	246,500
26 June 1996	5.34	1999-2006	11,000
26 June 1996	5.59	1999-2006	16,500
11 December 1996	5.72	2001-2006	78,500
2 July 1997	7.35	2000-2007	457,500
25 September 1998	8.88	2001-2008	403,000
12 March 1999	7.10	2002-2009	471,500
10 April 2000	3.995	2003-2010	2,901,000
11 December 2000	5.672	2000-2010	4,915,060

The Company had options exercisable totalling 1,101,478 and shares available for the grant of options totalling 215,461,825 at 31 December 2000. No options expired during the year ended 31 December 2000.

#### **US GAAP - Fair value of options**

The weighted average fair value of options granted at a discount during the year to 31 December 2000 was £1.02. The weighted average fair value of options granted at a premium during the year to 31 December 2000 was £0.82. The weighted average fair value of options granted at market price during the year to 31 December 2000 was £0.99.

The weighted average remaining contractual life of options outstanding at 31 December 2000 was 2.4 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 the year to 31 December 2000: expected volatility – 37%; interest rates – 5.5% (based upon UK Gilts on the date of grant with a maturity equal to the expected term); expected dividend yield – 6.5% and expected term – 3 years for the ShareSave Scheme and 4 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 that standard had been adopted, Powergen's net income and earnings per share under US GAAP would be as the pro-forma amounts indicated below:

		<i>31 December 2000</i>
Net income	- as reported	£430m
	- pro-forma	£426m
Earnings per share	- as reported	66.1p
	- pro-forma	65.4p

The determination of stock option compensation under US GAAP is measured in accordance with Accounting Principles Board (APB) Opinion 25 'Accounting for Stock Issued to Employees'.

**(aa) Reserves**

	<i>Share premium account £m</i>	<i>Other reserves £m</i>	<i>Revaluation reserve £m</i>	<i>Profit and loss account £m</i>
At 2 January 2000	4	656	25	909
Premium on shares issued	5	—	—	—
Currency translation differences on foreign currency net investments	—	—	—	(32)
Transfers	—	—	(2)	2
Retained profit for the year	—	—	—	193
<b>At 31 December 2000</b>	<b>9</b>	<b>656</b>	<b>23</b>	<b>1,072</b>

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

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

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

**(bb) Minority interests**

31 December 2000

	<i>Equity</i>	<i>Non-</i>	<i>Total</i>
	<i>£m</i>	<i>equity</i>	<i>£m</i>
		<i>£m</i>	
Opening minority interests	65	—	65
Acquisitions	76	93	169
Increased stake in subsidiaries	(40)	—	(40)
Exchange movements	(3)	(3)	(6)
Profit and loss account	12	—	12
Closing minority interests	110	90	200

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

**(cc) Reconciliation of movements in shareholders' funds**

31 December 2000

	<i>£m</i>
Profit for the financial period	429
Shares issued	6
Dividends	(236)
Currency translation differences on foreign currency net investments	(32)
Net increase in shareholders' funds for the period	167
Opening shareholders' funds	1,919
Closing shareholders' funds	2,086

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

**(dd) Cash flow**

(i) Reconciliation of operating results to cash flow from operating activities:

	<i>Year ended</i> 31 December 2000 £m	<i>Year ended</i> 2 January 2000 £m	<i>Nine months</i> ended 3 January 1999 £m
Operating profit/(loss)	483	347	(153)
Depreciation (including exceptional items)	292	263	157
(Profit)/Loss on sale of tangible fixed assets	(21)	1	(33)
(Profit)/Loss on sale of investments	(2)	4	—
Goodwill amortisation	75	68	28
Decrease/(Increase) in stocks	5	(6)	13
(Increase)/Decrease in debtors	(3)	34	(124)
Increase/(Decrease) in creditors	62	(725)	528
(Decrease)/Increase in provisions	(44)	(13)	40
	<u>847</u>	<u>(27)</u>	<u>456</u>

The movement in creditors and provisions for the year ended 31 December 2000 includes cash outflows of £246 million (2 January 2000 £553 million, 3 January 1999 £12 million) relating to exceptional charges arising in previous years.

(ii) Analysis of changes in net debt in the year:

	<i>31</i> December 2000 £m	<i>Non-cash</i> <i>changes</i> £m	<i>Cash flow</i> <i>change</i> £m	<i>Acquisitions</i> <i>(excluding</i> <i>cash and</i> <i>overdrafts)</i> £m	<i>Exchange</i> <i>adjustments</i> £m	<i>2 January</i> 2000 £m
Cash at bank and in hand	137	—	109	—	—	28
Overdrafts	(3)	—	34	—	—	(37)
	<u>134</u>	<u>—</u>	<u>143</u>	<u>—</u>	<u>—</u>	<u>(9)</u>
Debt due after one year	(3,628)	33	(325)	(814)	50	(2,572)
Debt due within one year:						
Short-term loans	(2,300)	(27)	(1,397)	(864)	49	(61)
Short-term deposits	472	—	(146)	—	—	618
	<u>(5,322)</u>	<u>6</u>	<u>(1,725)</u>	<u>(1,678)</u>	<u>99</u>	<u>(2,024)</u>

**(ee) Financial instruments**

**Financial instruments and risk management**

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

As the Powergen Group has developed, treasury management has become more complex and diversified. In particular, the increase in debt in the Group's balance sheet as a result of the acquisition of LG&E in December 2000 has highlighted the importance of effective treasury management, and has increased Powergen's exposure to interest costs and the US Dollar/Sterling exchange rate.

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

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

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

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

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

As part of its operating activities, Powergen engages in asset based energy marketing in the gas and electricity markets to assist in the commercial risk management and optimisation of both UK electricity and gas assets and to manage the price and volume risks associated with its UK retail business. The Group's portfolio is strictly monitored and controlled through delegated authorities and procedures, including transaction limits and credit risk management, which ensure that changing levels of exposure are appropriately managed. To achieve this portfolio optimisation Powergen uses fixed price bilateral contracts, futures and option contracts traded on commodity exchanges and swaps and options traded in over the counter financial markets.

There has been no change since the year end to the major financial risks faced by Powergen, or to its approach to the management of these risks. The year end position as described above is

representative of the Group's current position in terms of its objectives, policies and strategies, which continue to evolve as the Group's business develops.

The Group may be exposed to credit related loss in the event of non-performance by counter parties under these instruments. However, the Group does not anticipate any non-performance given the high credit rating of the established banks and financial institutions that form these counter parties. The Group controls this credit risk through credit approvals, strict exposure limits, monitoring procedures and specific controls depending on the size of individual transactions. There are no significant concentrations of credit risk. The Group does not usually require collateral or other security to support financial instruments with credit risks.

#### **Foreign exchange contracts and options**

Powergen enters into foreign exchange contracts and options in accordance with its hedging policies.

#### **Foreign exchange risk management**

During 2000, the majority of Powergen's income and expenditure was settled in Sterling. Following the acquisition of LG&E, a significant proportion of the enlarged Group's income and expenditure flows will be denominated in US Dollars. The Group also has some exposure to other foreign currencies including Euros and Australian dollars, but this exposure is likely to diminish with the disposal of the International business.

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

Powergen's policy towards translation exposures is to hedge these exposures where practicable, with the intention of protecting the Sterling net asset value. These hedges are normally achieved through a combination of borrowing in local currency, forward currency contracts or foreign currency swaps. The value of the LG&E acquisition has been hedged in this way.

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

The net Sterling amounts of each foreign currency Powergen has contracted to purchase (or sell), and has options to purchase are as follows:

	<i>Foreign exchange contracts</i>	<i>Foreign exchange options</i>
	<i>31 December 2000</i>	<i>31 December 2000</i>
	<i>Notional amount</i>	<i>Notional amount</i>
	<i>£m</i>	<i>£m</i>
US Dollars	119	—
Portuguese escudos	—	—
Deutschmarks	—	—
Euros	(139)	—
Australian dollars	(52)	(11)
	<hr/>	<hr/>
	(72)	(11)
	<hr/> <hr/>	<hr/> <hr/>

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

The Sterling equivalent amounts are as follows:

	<i>31 December 2000 Notional amount £m</i>
Korean won	(1)
Euros	(84)
Indian rupees	(35)
	<hr/>
	(120)
	<hr/> <hr/>

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

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

	<i>31 December 2000 Notional amount £m</i>
Foreign currency swaps	826
	<hr/> <hr/>

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

#### **Interest rate risk management**

Powergen has a portfolio of fixed and floating interest rate debt and, in order to mitigate interest rate risk, arranges interest rate hedges to achieve a desired mix of fixed and floating interest rates, with a range of different maturities.

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

The instruments used can be summarised as follows:

	<i>31 December 2000 Notional amount £m</i>
Interest rate swap contracts	<u>1,023</u>

The weighted average time to maturity of interest rate swap contracts is 6.6 years (year ended 2 January 2000, 3.1 years).

In addition, there are interest rate swaptions with a notional principal amount of £1,674 million and fair value of £nil. These swaptions cap the interest payable on part of the US Dollar term facility (see note 6 (d)).

**Interest rate risk profile of financial assets and liabilities**

<i>At 31 December 2000</i>	<i>Fixed rate financial liabilities</i>				
	<i>Total £m</i>	<i>Floating rate financial liabilities £m</i>	<i>£m</i>	<i>Weighted average interest rate %</i>	<i>Weighted average period for which rate is fixed Years</i>
Sterling	2,269	1,468	801	8.6	10.8
US Dollar	3,443	2,946	497	7.1	9.8
Deutschmark	190	190	—	—	—
Indian rupee	29	29	—	—	—
	<u>5,931</u>	<u>4,633</u>	<u>1,298</u>	<u>8.1</u>	<u>10.4</u>

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

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

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

In addition to the above, the Group's provisions include £525 million for contract provisions (see note 6(x)) which meet the definition of financial liabilities. These financial liabilities are considered to be floating rate liabilities as, in establishing the provisions, the cash flows have been discounted. The discount rate is re-appraised at each reporting date to ensure that it reflects current market assessments of the time value of money and the risks specific to the liability.

At 31 December 2000, the Group held £442 million of financial assets in the form of Sterling bank deposits, £128 million in the form of US Dollar deposits, and £39 million in other currencies. These deposits earn interest at floating rates, fixed in advance for periods up to three months, by reference to Sterling LIBID and the 'iMoney Net Government Institutional Average' for the Sterling and US Dollar deposits respectively.

#### Fair value

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

	<i>31 December 2000 Fair value £m</i>
Foreign currency contracts	(12)
Foreign currency swaps	13
Interest rate swaps	3

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

	<i>31 December 2000</i>		
	<i>Note</i>	<i>Carrying amount £m</i>	<i>Fair value £m</i>
<b>Assets:</b>			
Cash and short-term deposits	1	609	609
Investments	2	80	83
<b>Liabilities:</b>			
Short-term debt	3	(2,303)	(2,303)
Long-term debt	4	(3,628)	(3,580)

1. The fair value of short-term deposits approximates to carrying value due to the short maturity of instruments held.
2. The fair value of investments listed on a recognised stock exchange is estimated at quoted market price. Others are valued at cost.
3. The fair value of short-term debt approximates to the carrying value as the balance represents short-term loans and bank overdrafts.
4. The fair value of the long-term debt at the reporting date has been estimated at quoted market rates.

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

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

	<i>Gains</i> £m	<i>Losses</i> £m	<i>Total net</i> <i>(losses)/gains</i> £m
Unrecognised gains/(losses) on hedges at 2 January 2000	10	(78)	(68)
(Gains)/Losses on hedges arising in previous periods that were recognised during the year	(6)	8	2
Gains/(Losses) on hedges arising before 2 January 2000 that were not recognised during the year	4	(70)	(66)
Gains/(Losses) on hedges arising during 2000 that were not recognised during the year	50	20	70
<b>Unrecognised gains/(losses) on hedges at 31 December 2000</b>	<b>54</b>	<b>(50)</b>	<b>4</b>
Of which:			
Gains/(Losses) expected to be recognised in 2001	6	(18)	(12)
Gains/(Losses) expected to be recognised in 2002 or later	48	(32)	16

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

#### **Contracts for differences**

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

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

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

Any estimate of the fair value of the Cfds outstanding at the balance sheet date must necessarily be based on assumptions of a number of complex factors, including the level of long-term UK power prices, availability, bidding behaviour of others within the marketplace and the appropriate market discount rates. Based on management's estimates of future electricity prices, modelled under various scenarios, the fair value of the Cfd portfolio at 31 December 2000 is £22 million favourable.

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

**(ff) Commitments and contingent liabilities**

- (i) At 31 December 2000, the Group had commitments of £108 million for capital expenditure, of which £5 million related to expenditure to be incurred after one year.
- (ii) The Group is aware of claims in respect of current and former employees, including former employees of the Central Electricity Generating Board, and contractors in respect of industrial illness and injury and other potential claims which involve or may involve legal proceedings against the Group.

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

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

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

- (iv) In the normal course of business the Group gives certain other indemnities and guarantees which are not considered to be material in the context of these financial statements and on which no losses are anticipated to arise.
- (v) The Group has operating lease commitments for generating and other assets. The future minimum annual lease payments under these agreements are analysed as follows:

	At 31 December 2000 £m
2001	21
2002	21
2003	21
2004	21
2005	21
In more than five years	373
	478
	478

**(gg) Related party transactions**

As part of its international activities the Group has contracted on an arms length basis to provide power station construction management and operation and maintenance services to certain associated companies. Total revenues during the year ended 31 December 2000 amounted to

£12 million (year ended 2 January 2000 £13 million, nine months to 3 January 1999 £7 million). There were no outstanding balances at 31 December 2000.

Prior to, and following, the net acquisition of 50% of CPL on 29 September 2000, Powergen had a contract to purchase electricity output from CPL under a Cfd. The net difference payment for the nine months to September 2000 was £11 million to CPL, and that for the year ended 31 December 2000 was £24 million (year ended 2 January 2000 £20 million). The balance outstanding at 31 December 2000 was a £5 million creditor.

LG&E's Independent Power Operations division provides management, operation and accounting services to certain associated companies. Total revenues earned from providing these services amounted to £1 million for the 21 days ending 31 December 2000. The balance outstanding at 31 December 2000 was a £2 million debtor.

#### **(hh) Post balance sheet events**

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

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

### **SUMMARY OF DIFFERENCES BETWEEN UK AND US GENERALLY ACCEPTED ACCOUNTING PRINCIPLES**

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

- (c) **Capitalisation of interest** Under UK GAAP, Powergen capitalises interest payable where borrowings are specifically financing the construction of a major capital project with a long period of development. US GAAP requires that finance costs, which could theoretically have been avoided during construction of major capital projects, be included in tangible fixed assets and depreciated over the lives of the related assets. The amount of interest capitalised is determined by reference to average interest rates on outstanding long-term borrowings.
- (d) **Start-up costs** Under UK GAAP, start-up costs are expensed to the profit and loss account. Under US GAAP, prior to the effective date of US Statement of Position (SOP) 98-5 'Reporting on the Costs of Start-Up Activities', it was acceptable to capitalise certain start-up costs on power station and similar energy projects. SOP 98-5 is effective for financial years commencing on or after 1 January 1999.
- (e) **Software** Under UK GAAP, capitalisation of the costs associated with internally developed software is not allowed. SOP 98-1 'Accounting for the Costs of Computer Software Developed or Obtained for Internal Use' requires capitalisation of the costs of internally developed software. These capitalised development costs are then depreciated over the useful life of the software.
- (f) **US regulatory assets and liabilities** Under US GAAP, SFAS 71 'Accounting for the Effects of Certain Types of Regulation' sets out the appropriate accounting treatment for US utilities whose regulators have the power to approve or regulate charges to customers. As long as through the regulatory process, the utility is substantially assured of recovering its allowable costs from, or is obligated to refund amounts to, customers, any costs/revenues not yet recovered, or refunded, may be deferred as regulatory assets/liabilities. Due to the different regulatory environment, no equivalent policy applies in the UK.

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

- (g) **Overhaul** Under UK GAAP, the costs associated with a major overhaul are capitalised as part of tangible fixed assets and amortised over the period to the next overhaul. Under US GAAP, the costs associated with major overhauls are generally recognised as these costs are incurred.
- (h) **Goodwill** Under UK GAAP and US GAAP, goodwill is held as an intangible asset in the balance sheet and amortised over its useful life. Under UK GAAP, prior to the adoption of *Financial Reporting Standard (FRS) 10 'Goodwill and Intangible Assets'* from 30 March 1998, goodwill arising was written off on acquisition against reserves.
- (i) **Investments** Under UK GAAP, investments in securities are accounted for at purchase cost with provision made for any impairment in value. Under US GAAP, SFAS 115 'Accounting for Certain Investments in Debt and Equity Securities' requires that certain investments in debt securities and equity securities are accounted for at fair value.
- (j) **Employee share option schemes** Under US GAAP, a compensation cost is recognised for the amount by which the quoted market value of the share at the date of grant exceeds the option price for compensatory plans as defined in APB 25. The cost is accrued over the approximate periods in which employees provide service to Powergen in consideration of the grant of options. Under UK GAAP, SAYE employee share option schemes are specifically exempt from the requirement to recognise any such compensation cost. There is no compensation cost associated with other employee share option schemes.

- (k) **Ordinary dividends** Under UK GAAP, ordinary dividends are provided for in the financial year in respect of which they are recommended by the Board of Directors for approval by shareholders. Under US GAAP, such dividends and tax are not provided for until the dividends are formally declared by the Board of Directors.
- (l) **Fixed asset impairment** Under UK GAAP, where an impairment loss has been recognised, the loss is reversed if the recoverable amount of the asset increases. US GAAP does not allow the reinstatement of previous fixed asset impairments.
- (m) **Deferred income** As described in note 6(d) to the financial statements, on 19 July 1999 Powergen completed the sale of Fiddler's Ferry and Ferrybridge C power stations to Edison Mission. As part of this transaction, Powergen is providing services under a major parts warranty in respect of each station, whereby, Powergen will have to pay certain amounts during each of the five years following the sale should the plant be unavailable during specified periods.

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

- (n) **Decommissioning costs** Under UK GAAP, a fixed asset and related provision is recognised in respect of the estimated total discounted cost of decommissioning generating assets. The resulting fixed asset is depreciated on a straight-line basis, and the discount on the provision is amortised over the useful life of the associated power stations. US GAAP requires that a charge is made annually against profits to accrue for the estimated cost of decommissioning major power plant.
- (o) **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.
- (p) **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.
- (q) **Earnings per share** Earnings per share computed in accordance with US GAAP has been based upon the following number of shares:

	<i>31 December</i> <i>2000</i>	<i>2 January</i> <i>2000</i>	<i>3 January</i> <i>1999</i>
Weighted average shares in issue for UK and US GAAP basic earnings	650,976,860	649,552,248	646,681,662
Scrip dividends	—	—	1,474,315
Share options	6,462,017	3,281,183	3,732,182
	<hr/>	<hr/>	<hr/>
Weighted average shares in issue for UK and US GAAP diluted earnings	657,438,877	652,833,431	651,888,159
	<hr/>	<hr/>	<hr/>

- (r) **Extraordinary items** Under UK GAAP, income and expenses from non-recurring but significant transactions arising other than in the course of the Group's ordinary activities are recorded as exceptional items. Items classified as exceptional for purposes of UK GAAP generally do not meet the definition of 'extraordinary' under US GAAP and would be classified as *operating expenses under US GAAP*. However, costs and expenses resulting from debt extinguishments and exchanges of debt instruments with substantially different terms are classified as extraordinary under US GAAP.
- (s) **Comprehensive income** Under US GAAP, SFAS 130 'Reporting Comprehensive Income', requires disclosure of the components and total of comprehensive income for the period in which they are recognised in the financial statements. Comprehensive income is defined as the change in equity (net assets) of a business arising from transactions and other events and circumstances from non-owner sources. It includes all changes in shareholders' equity during the reporting period except those resulting from investments by owners and distributions to owners, including dividends. The disclosures required by SFAS 130 are substantially similar to those presented in the statement of total recognised gains and losses prepared under UK GAAP.
- (t) **US related costs** The GAAP difference for US related costs reflects the variation in timing of recognition of agreed payments made to senior executives as part of the acquisition of LG&E.

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

	<i>Year ended</i> 31 December 2000 £m	<i>Year ended</i> 2 January 2000 £m	<i>Nine months</i> <i>ended</i> 3 January 1999 £m
Net income/(loss) under UK GAAP	429	708	(156)
US GAAP adjustments:			
Pension costs	101	48	49
Severance costs	(7)	(3)	(28)
Capitalised interest, net of related depreciation	11	7	1
US related costs	13	—	—
Goodwill amortisation	(5)	(5)	(3)
Share option scheme*	(2)	(1)	(1)
Fixed asset impairment	—	30	(30)
Deferred income	(70)	308	—
Decommissioning costs	(1)	(2)	—
Taxation effects on the foregoing adjustments	(31)	(36)	(7)
Deferred taxation	(8)	71	(9)
Net income/(loss) under US GAAP after extraordinary items	430	1,125	(184)
Less extraordinary items (net of taxation):			
Repayment of bonds (see note 6(d))	32	—	—
Net income/(loss) under US GAAP before extraordinary items	462	1,125	(184)
	<i>pence</i>	<i>pence</i>	<i>pence</i>
Basic earnings/(loss) per share under US GAAP after extraordinary items	66.1	173.2	(28.5)
Less: extraordinary items	4.9	—	—
Basic earnings/(loss) per share under US GAAP before extraordinary items	71.0	173.2	(28.5)
Diluted earnings/(loss) per share under US GAAP	65.4	172.3	(28.5)

\* the movement on this adjustment is posted to reserves

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

	<i>31 December</i>
	<i>2000</i>
	<i>£m</i>
Equity shareholders' funds under UK GAAP	2,086
US GAAP adjustments:	
Pension costs	252
Severance costs	1
Capitalised interest, net of related depreciation	93
Start-up costs	3
Software costs	19
Regulatory assets and liabilities	27
Overhaul costs	(20)
US related costs	13
Goodwill	364
Investment*	3
Dividends	166
Deferred income	238
Decommissioning costs	(37)
Taxation effects on the foregoing adjustments	(83)
Deferred taxation	(617)
Equity shareholders' funds under US GAAP	<u>2,508</u>

\* the movement on this adjustment is posted to reserves

### 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.

	<i>Year ended 31 December 2000 £m</i>	<i>Year ended 2 January 2000 £m</i>	<i>Nine months ended 3 January 1999 £m</i>
Net cash provided by/(used in) operating activities	630	(150)	204
Net cash (used in)/provided by investing activities	(2,134)	901	(795)
Net cash provided by/(used in) financing activities	1,467	(186)	569
Net (decrease)/increase in cash and cash equivalents	(37)	565	(22)
Cash and cash equivalents under US GAAP at the beginning of the period	639	74	96
Cash and cash equivalents under US GAAP at the end of the period	602	639	74
Non-cash equivalent components of net debt under UK GAAP at the end of the period	7	7	19
Short-term debt at the end of the period	(2,303)	(98)	(88)
Long-term debt at the end of the period	(3,628)	(2,572)	(2,413)
Net debt under UK GAAP at the end of the period	(5,322)	(2,024)	(2,408)

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

### Cash and cash equivalents

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

## Section B: Unaudited Preliminary Results for Powergen

The text of Powergen's unaudited preliminary results statement for the twelve months to 31 December 2001, which was issued on 21 February 2002, is set out below.

### Powergen plc

#### Preliminary Unaudited Results for the 12 months ended 31 December 2001

- Profits of £464 million<sup>1</sup> and earnings of 62.8 pence<sup>2</sup> per share
- Fourth quarter dividend 9.2 pence per share (52.58 cents per ADR)
- E.ON acquisition to proceed via Scheme of Arrangement, on track to complete in Spring

<i>Financial Performance (Unaudited)</i>	<i>12 months to Dec 2001</i>	<i>12 months to Dec 2000</i>	<i>% Change</i>
Group turnover	£5,659m	£4,191m	+35.0
Profit before tax, exceptional items and goodwill amortisation	£464m	£517m	-10.3
Earnings per share, before exceptional items, goodwill amortisation and effect of FRS 19	62.8p	66.7p	-5.8
Full year dividend per share	36.8p	36.2p	+1.7
Q4 dividend per share	9.2p		

#### Chairman's Statement:

Powergen's overall operating performance was in line with market expectations. In the UK, plant disposals, coupled with continuing lower wholesale electricity prices and higher gas prices, have adversely affected profitability. Our integrated trading strategy has performed well under the New Electricity Trading Arrangements (NETA) and continues to deliver value from our flexible generation assets and quality customer portfolio. In the US regulated businesses, profits were broadly flat year on year due to unseasonably mild weather experienced in the fourth quarter. The unregulated businesses in the US were adversely affected by lower electricity prices and volumes, combined with higher fuel costs. Following our value delivery programme in Kentucky all of the staff who volunteered for redundancy have now left the company, resulting in a net reduction of around 1,000 employees. In December the Kentucky Public Services Commission (KPSC) approved the recovery of the costs associated with this value delivery programme over a period to March 2006.

Group turnover for the 12 months to December 2001 was £5,659 million, up 35.0% on last year, largely due to 12 months contribution from LG&E. Operating profits before exceptional items and goodwill amortisation totalled £886 million against £728 million in 2000. Interest was £422 million, £211 million higher than last year following the acquisition of LG&E. This interest figure was split £359 million within the group and £63 million in associates. Group interest for 2001 was made up of £103 million of acquisition debt financing, together with £94 million of interest costs in respect of the US operations, and £162 million in respect of the UK and International businesses. The resulting profit before tax, exceptional items and goodwill amortisation was £464 million compared with £517 million the previous year (down 10.3%). Earnings per share before exceptional items, goodwill amortisation and the effects of FRS 19 were 62.8 pence, compared to 66.7 pence last year.

1 Before tax, exceptional items and goodwill amortisation

2 Before exceptional items, goodwill amortisation and effect of Financial Reporting Standard (FRS) 19 'deferred tax' adopted on 1 January 2001

"The Board has declared a fourth quarter dividend for 2001 of 9.2 pence per share (52.58 cents per ADR). This dividend will be paid on 28 March to shareholders on the register at the close of business on 8 March.

"Exceptional charges totalled £270 million compared with an exceptional gain of £26 million for the previous year. Exceptional costs include restructuring costs in the US and the UK, write downs on the disposal of international assets, the impairment of CHP assets in the UK and WKE in the US and deal costs relating to the E.ON pre-conditional offer. These costs were offset by net exceptional profits from the sale of assets. Goodwill amortisation was £151 million, £68 million for the UK business and £83 million for LG&E.

"Net debt fell during the year from £5.32 billion to £5.16 billion. This was the result of a £745 million reduction from asset disposals offset by capital expenditure of £599 million, £191 million in the UK business, £366 million in the US and £42 million in International. Gearing, defined as debt as a proportion of total capital, was 71.8%, compared with 71.1% for the previous year.

"Powergen yesterday completed the sale of its 88% share in Gujarat Powergen Energy Corporation Limited (GPEC) to a joint venture 80% owned by CLP Power International. The disposal programme announced at the time of the LG&E acquisition is now substantially complete. This programme included the sale of assets in the UK, India, Australia, Germany, Portugal and Hungary and has realised total proceeds of £1.3 billion (including the reduction in consolidated debt). Since the year end, Powergen has also sold its Tiger Creek and Monroe generating assets in Georgia, USA on 15 February. As announced recently, the board has decided not to pursue the sale of its CHP assets.

"While it is early to comment on the prospects for 2002, the Company will continue to respond to the effects of lower electricity prices and higher fuel costs on both sides of the Atlantic. The regulated businesses in both the UK and the US are expected to continue to perform satisfactorily.

"On 9 April 2001 E.ON AG announced a recommended pre-conditional cash offer for Powergen plc of 765 pence per ordinary share. When complete, Powergen will become part of the world's largest publicly owned electricity and gas utility and will be far better positioned to achieve our shared ambitions in the US and UK. Seven US and European regulatory approvals have now been received with the final US approvals from the Securities and Exchange Commission (SEC) expected in the Spring. Powergen has agreed with E.ON that the proposed acquisition of Powergen plc will be implemented by way of a Scheme of Arrangement. The proposed acquisition will be completed when all its conditions have been satisfied or, if permitted, waived."

## REVIEW OF OPERATIONS

### THE UK BUSINESS

The operating performance of the UK business was satisfactory in all areas against the backdrop of lower electricity prices. Powergen had good plant availability, successfully transferred to new trading systems for the New Electricity Trading Arrangements (NETA) introduced in March 2001 and had profitable growth from its retail business. Despite this, pre-exceptional operating profit at £439 million, was £207 million lower than the previous year due to lower generation volumes following the plant disposals, lower wholesale electricity prices and lower Eastern lease income.

#### Energy Trading

During the year, operating profit for Electricity and Gas – Wholesale and Trading was £136 million, down 53% from last year. This was primarily due to the adverse volume impact from plant disposals of £91 million and lower prices of £69 million, offset by value delivered from NETA market opportunities.

Nine months after the introduction of NETA, Powergen continued to trade successfully and deliver value from the new markets. Powergen is satisfactorily hedged through 2002 for both gas and electricity. The combination of flexible and diverse plant and Powergen's active presence in traded energy markets has enabled successful fuel arbitrage. Also, in recognising the critical importance of control and governance, Powergen Trading Limited became one of the first companies to be authorised under the new Energy Markets Participant's regime of the new Financial Services and Markets Act.

#### Generation

Powergen generated 29.0 TWh during the year, down 14.2 TWh (33%) from last year following the sale of Cottam and Rye House power stations. Overall plant availability was 90% for the year. As a result of continuing high gas prices, Powergen announced in October its intention to bring a 485 MW coal generating unit at Kingsnorth into production and to close a 450 MW gas-fired unit at Killingholme.

Operating profit for the CHP businesses was £32 million and was in line with expectations, reflecting the contribution from new operational plant. Following the decision to retain the CHP business on 22 January, it will now be integrated into the Generation business. There are no current plans to initiate any new CHP development projects but those under construction will be completed. The Renewables business generated some 178 GWh from its wind energy farms, saving some 78,320 tonnes of CO<sub>2</sub> emissions during 2001. The wind farm capacity grew to 93 MW following completion of a 15 MW wind farm at Deucheran Hill in December 2001, with a further 39 MW under construction. Powergen is targeting a 10 fold increase in output from renewable sources by 2010.

#### Retail

The Retail business continued to deliver profitable growth and operating profits increased 17% to £49 million. Customer account numbers during the year increased by 14% to 3.5 million accounts at the year-end.

Customer accounts in the Residential sector increased 13% to 3.1 million reflecting a product penetration improvement from 1.19 to 1.36 products per electricity customer over the year. Powergen's "OneBill" convergent billing has helped improve cross selling whilst maintaining excellent customer service.

In the higher margin Small Medium Enterprise (SME) sector, accounts for the year grew 24% to 0.39 million. In the last two years, Powergen's activity in this area has almost doubled in size.

The Corporate sector annualised sales were 13 TWh electricity and 23.4 TWh gas. As announced in the first quarter, the business has been scaled back following the sale of generation capacity and is now focused on the lower volume, higher margin part of the business.

Powergen continues to focus on increasing the profitability of the Retail business pushing towards best in class cost to serve and improving its brand position to increase customer loyalty. Recent complaint statistics from Energywatch and Oftel showed Powergen's performance was among the best of the major energy suppliers. During the Autumn, Powergen built on its existing high brand awareness with the renewal of its TV weather sponsorship and new sponsorship of English cup rugby.

### **Distribution**

Operating profit for the year was £118 million and full year revenue and capital cash cost savings exceeded the target of £55 million compared to 1998. The business continues to perform to expectations and is on track to achieve its goal of £75 million cash cost savings by the end of 2002. Powergen continues to explore a number of options to exploit its asset management skills by combining Distribution with another similar business.

### **THE US BUSINESS - LG&E ENERGY**

LG&E's operating profit for 2001 was £355 million before exceptional costs, which related predominantly to the programme of business re-organisation and restructuring. Profit comprised £296 million from the regulated business and £59 million from the unregulated business.

The results benefited from earnings related to the Gregory IPP project, the gas rate increase approved by the KPSC in autumn 2000, and lower depreciation rates at the utilities, offset by rate reductions from Argentinean operations and a one-time settlement gain from the ROVA IPP project in 2000.

The value delivery programme continues to progress in line with expectations with the aim of achieving best in class operational performance throughout the utilities' operations. All the volunteers for redundancy have now left. Overall, there will be a net reduction of around 1,000 employees.

### **Generation**

There was a solid performance from the regulated utilities with plant generating 33.8 TWh during 2001, 2.1% below the previous year. During the year, LG&E completed 291 MW of new regulated peaking capacity plant needed to maintain LG&E's utilities businesses at an overall 12% reserve margin.

### **Energy Marketing**

LG&E trades surplus power from both regulated and unregulated operations into regional short term and spot power markets. Driven by lower pricing, the contribution from off-system sales was down 2.9% over last year.

### **Retail**

There has been a 2.3% increase in customer accounts due to normal customer growth in the retail sector. Electricity sales volumes for retail customers were 1.0% lower, primarily due to mild weather experienced in the fourth quarter.

## **Transmission**

LG&E is one of 23 members of the Midwest Independent Systems Operators (MISO). On 15 December 2001 the MISO became operational for security co-ordination purposes. On 1 February 2002 the MISO began functional operation with full operations expected by June 2002. The MISO plans to merge with the Southwest Powerpool Inc (SPP) during the first quarter of 2002 and on the 21 January MISO signed a letter of intent with the Pennsylvania Jersey Maryland Regional Transmission Organisation to administer a single wholesale power market across these regions.

## **Regulatory Update**

During the fourth quarter, LG&E reached a settlement with the KPSC related to several pending cases including the recovery of costs associated with the company's value delivery programme. Savings from this process, after implementation costs, will be shared 40% to customers and 60% to the company above the allowed return.

## **Unregulated Businesses**

Operating profits for the year in the unregulated businesses were £59 million.

WKE suffered from high coal prices during the year and a reduced contribution from off-system sales due to lower electricity prices. It is likely that results for 2002 will be affected by similar conditions.

In Argentina, LG&E's gas distribution business had a strong operational performance in 2001. However, the economic crisis in the later part of 2001 and the early weeks of 2002 caused the Argentinean government to renounce US dollar related obligations, including utility tariffs. These events are likely to lead to a devaluation loss during 2002. This could further lead to a write down of some or all of Powergen's investment in Argentina which, at 31 December 2001, amounted to £164 million. In addition, current economic conditions are likely to reduce substantially the profit contribution of the Argentinean business in 2002.

On 6 November 2001, LG&E reached an agreement to sell its Monroe and Tiger Creek facilities in Georgia to Progress Ventures, Inc. Under the terms of the agreement, LG&E will also manage the completion of the Tiger Creek plant, which is expected to be operational by June 2003. This sale was completed on 15 February, 2002. Separately, LG&E has agreed to purchase power from Progress Ventures to service obligations under the Oglethorpe contract.

## **INTERNATIONAL**

International operating profit for the year was £111 million compared to £121 million last year. Figures for 2001 reflect a full year's contribution from GPEC in India and Pairon in Indonesia, but only six months contribution from assets in Europe prior to disposal. The reduction of Powergen's interest in the GPEC plant in India was completed on 20 February 2002.

*Statements made in this document that state the Company's or management's intentions or expectations are forward looking statements. By their nature, forward looking statements involve uncertainty. The Company's actual results could differ materially from those projected in the forward looking statements, and there can be no assurance that estimates of future results will be achieved. You should read the discussion of forward looking statements in the Company's Annual Report Form 20F for more information on factors that could cause actual results to differ.*

## Consolidated Profit and Loss Account

for the three months ended 31 December 2001 (unaudited)

	Three months ended 31 December 2001			Three months ended 31 December 2000												
	Before exceptional items	Exceptional items (note 3)	Total	Before exceptional items	Exceptional items (note 3)	Total										
	£m	£m	£m	£m	£m	£m										
Turnover	1,553	—	1,553	1,372	—	1,372										
Group's share of associates' and joint ventures' turnover	(124)	—	(124)	(95)	—	(95)										
<b>Group turnover – continuing activities</b>	<b>1,429</b>	<b>—</b>	<b>1,429</b>	<b>1,277</b>	<b>—</b>	<b>1,277</b>										
Operating costs	(1,376)	(114)	(1,490)	(1,213)	(97)	(1,310)										
Other operating income	68	—	68	80	—	80										
<b>Group operating profit/(loss) – continuing activities</b>	<b>121</b>	<b>(114)</b>	<b>7</b>	<b>144</b>	<b>(97)</b>	<b>47</b>										
Group's share of associates' and joint ventures' operating profit	20	—	20	25	—	25										
Profits less losses on disposal of fixed assets and investments	—	—	—	—	33	33										
Profits less losses on disposal of businesses (including provisions)	—	(65)	(65)	—	(133)	(133)										
Net interest payable																
– Group	(85)	—	(85)	(49)	(48)	(97)										
– Associates and joint ventures	(12)	—	(12)	(23)	—	(23)										
<b>Profit/(Loss) on ordinary activities before taxation</b>	<b>44</b>	<b>(179)</b>	<b>(135)</b>	<b>97</b>	<b>59</b>	<b>156</b>										
Tax on profit/(loss) on ordinary activities	(11)	22	11	(19)	33	14										
<b>Profit/(Loss) on ordinary activities after taxation</b>	<b>33</b>	<b>(157)</b>	<b>(124)</b>	<b>78</b>	<b>92</b>	<b>170</b>										
Minority interest	(3)	6	3	(2)	—	(2)										
<b>Profit/(Loss) attributable to shareholders</b>	<b>30</b>	<b>(151)</b>	<b>(121)</b>	<b>76</b>	<b>92</b>	<b>168</b>										
Dividends			(60)			(166)										
<b>Retained (loss)/profit for the period</b>			<b>(181)</b>			<b>2</b>										
<b>(Loss)/Earnings per ordinary share</b>			<b>(18.5)p</b>			<b>25.8p</b>										
<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;">Earnings per ordinary share (excluding goodwill amortisation, exceptional items and effect of FRS 19)</td> <td style="width: 10%;"></td> <td style="width: 10%; text-align: right;">12.1p</td> <td style="width: 10%;"></td> <td style="width: 10%; text-align: right;">16.3p</td> </tr> <tr> <td>Effect of FRS 19 (note 6)</td> <td></td> <td style="text-align: right;">(0.6)p</td> <td></td> <td style="text-align: right;">(1.3)p</td> </tr> </table>							Earnings per ordinary share (excluding goodwill amortisation, exceptional items and effect of FRS 19)		12.1p		16.3p	Effect of FRS 19 (note 6)		(0.6)p		(1.3)p
Earnings per ordinary share (excluding goodwill amortisation, exceptional items and effect of FRS 19)		12.1p		16.3p												
Effect of FRS 19 (note 6)		(0.6)p		(1.3)p												
Earnings per ordinary share (excluding goodwill amortisation and exceptional items)		11.5p		15.0p												
Diluted (loss)/earnings per ordinary share		(18.5)p		25.5p												
Dividends per ordinary share		9.2p		25.4p												

## Consolidated Profit and Loss Account

for the year ended 31 December 2001 (unaudited)

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

## Statement of Total Recognised Gains and Losses

(unaudited)

	<i>Year ended</i>		<i>Three months ended</i>	
	<i>31 December 2001 £m</i>	<i>31 December 2000 £m</i>	<i>31 December 2001 £m</i>	<i>31 December 2000 £m</i>
Profit/(Loss) attributable to shareholders	50	392	(121)	168
Currency translation differences on foreign currency net investments	23	(32)	1	(37)
<b>Total recognised gains/(losses) for the period</b>	<b>73</b>	<b>360</b>	<b>(120)</b>	<b>131</b>
Prior year adjustment for the implementation of FRS 19 (note 1)	(121)			
<b>Total losses recognised since last annual report</b>	<b>(48)</b>			

## Consolidated Balance Sheet

as at 31 December 2001 (unaudited)

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

## Consolidated Cash Flow Statement

(unaudited)

	Year ended		Three months ended	
	31 December 2001 £m	31 December 2000 £m	31 December 2001 £m	31 December 2000 £m
Cash flow from operating activities	746	847	177	291
Dividends from associates and joint ventures	30	2	26	1
Returns on investments and servicing of finance				
Interest received	26	59	8	4
Exceptional interest paid	—	(107)	—	(75)
Interest paid	(366)	(188)	(70)	(55)
Non-equity dividends paid to preference shareholders	(5)	—	(2)	—
Dividends paid to minority shareholders	(12)	—	(12)	—
	(357)	(236)	(76)	(106)
Taxation	5	10	(6)	(10)
Capital expenditure and financial investment				
Purchase of tangible fixed assets	(535)	(286)	(138)	(100)
Purchase of fixed asset investments	(37)	(32)	—	(4)
New/Repayment of loans to associates and joint ventures	(18)	12	(3)	(2)
Sale of fixed asset investments	30	55	20	44
Sale of tangible fixed assets	19	39	—	9
Net receipts from disposals	252	398	(3)	398
	(289)	186	(124)	345
Acquisitions and disposals				
Purchase of subsidiary undertakings	—	(2,253)	—	(2,253)
Net cash acquired with subsidiary undertakings	—	13	—	13
Purchase of associates and joint ventures	(9)	(39)	—	—
Purchase of increased stake in subsidiary undertaking	—	(34)	—	(34)
Receipt from sale of subsidiary undertaking	78	—	(2)	—
Net cash disposed with subsidiary undertaking	(31)	—	—	—
Disposal of associates and joint ventures	264	—	(10)	—
Receipt of option fee for Indonesian assets	14	—	—	—
	316	(2,313)	(12)	(2,274)
Equity dividends paid	(346)	(227)	(60)	(71)
Net cash inflow/(outflow) before use of liquid resources	105	(1,731)	(75)	(1,824)
Management of liquid resources				
Cash withdrawn from/(paid for) short-term deposits	461	146	16	(136)
Financing				
Issue of ordinary share capital	13	6	2	—
Debt due within one year:				
Movement in US Dollar term facility	(1,169)	1,173	(79)	1,173
Movement in Sterling term facility	(535)	535	(25)	535
Issue/Redemption of commercial paper	785	34	(36)	34
Repayment of medium-term US Dollar notes 2001	(105)	—	—	—
Other movement in short-term loans	15	(345)	14	(290)
Debt due beyond one year:				
Redemption of bonds	—	(427)	—	(427)
Movement in US Dollar term facility	(603)	1,038	(603)	1,038
Issue of Global US Dollar 4.5% bond	809	—	809	—
Movement in Sterling term facility	—	(300)	—	—
Increase in capital elements of finance leases	98	—	10	—
Termination of cross-currency swaps	55	—	—	—
Movement in Sterling equivalent long-term loans	20	14	(11)	14
	(617)	1,728	81	2,077
(Decrease)/Increase in cash in the period	(51)	143	22	117

## 1 Basis of preparation

The financial information is unaudited and does not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985. The accounts for the year ended 31 December 2001, on which the auditors will report, will be laid before the members at the forthcoming Annual General Meeting. The financial information shown for the year ended 31 December 2000 has been extracted from the full statutory accounts for that year filed with the Registrar of Companies, as restated for the adoption of Financial Reporting Standard 19 (see below). The report of the auditors on those accounts was unqualified and did not contain a statement under either Section 237(2) or Section 237(3) of the Companies Act. The information shown in respect of the three months ended 31 December 2001 and 31 December 2000 is unaudited.

Financial Reporting Standard 19 (FRS 19) 'Deferred tax' has been adopted with effect from 1 January 2001. This standard requires full provision to be made for timing differences between the recognition of amounts under accounting standards and tax legislation. Powergen has chosen to discount the full provision required, as permitted by the standard. Previously, deferred tax was provided in respect of timing differences only to the extent that it was probable that a liability would crystallise in the foreseeable future. As a result of the adoption of this standard, prior year figures have been restated in the profit and loss account, balance sheet and notes to the accounts.

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

	<i>Three months ended 31 December 2000 £m</i>	<i>Year ended 31 December 2000 £m</i>
Retained profits as previously reported	11	193
Effect of implementation of FRS 19	(9)	(37)
Retained profits as restated	<u>2</u>	<u>156</u>
		<i>At 31 December 2000 £m</i>
Net assets as previously reported		2,286
Effect of implementation of FRS 19		(121)
Net assets as restated		<u>2,165</u>

As a result of this change in accounting policy, retained profits for the three months ended 31 December 2001 have been increased by £16 million and for the year ended 31 December 2001 have been increased by £15 million.

The relevant exchange rates applied in the preparation of these accounts were US\$1.4554/£ (closing rate at 31 December 2001) US\$1.4403/£ (average rate for the year ended 31 December 2001) US\$1.4420/£ (average rate for the three-month period to 31 December 2001) and US\$1.4938/£ (closing rate at 31 December 2000).

## 2 Turnover

Turnover is analysed as follows:

	<i>Year ended</i>		<i>Three months ended</i>	
	<i>31 December</i>	<i>31 December</i>	<i>31 December</i>	<i>31 December</i>
	<i>2001</i>	<i>2000</i>	<i>2001</i>	<i>2000</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
<b>UK Operations</b>				
Electricity and gas – wholesale and trading	1,839	1,893	476	547
Electricity – distribution	288	307	70	75
Electricity and gas – retail	1,738	1,726	482	491
Cogeneration	130	115	34	35
Internal charges from distribution to retail	(146)	(191)	(27)	(47)
	<u>3,849</u>	<u>3,850</u>	<u>1,035</u>	<u>1,101</u>
<b>US Operations</b>				
Regulated	1,247	95	292	95
Non-regulated	397	21	79	21
	<u>1,644</u>	<u>116</u>	<u>371</u>	<u>116</u>
<b>International Operations</b>	166	225	23	60
	<u>5,659</u>	<u>4,191</u>	<u>1,429</u>	<u>1,277</u>

## 3 Exceptional items

Exceptional items comprise:

	<i>Year ended</i>		<i>Three months ended</i>	
	<i>31 December</i>	<i>31 December</i>	<i>31 December</i>	<i>31 December</i>
	<i>2001</i>	<i>2000</i>	<i>2001</i>	<i>2000</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Charged against operating profit	(315)	(97)	(114)	(97)
Charged against interest costs	—	(81)	—	(48)
Profits less losses on disposal of fixed assets and investments	79	337	—	337
Profits less losses on disposal of businesses (including provisions)	(34)	(133)	(65)	(133)
	<u>(270)</u>	<u>26</u>	<u>(179)</u>	<u>59</u>

### Charged against operating profit

#### US Operations and UK Operations

The Group has undertaken a detailed review of its US Operations and established a business reorganisation and restructuring programme. £162 million has been charged in these accounts in respect of that programme, which primarily comprises committed severance and related payments to approximately 1,200 employees. A tax credit, which has been revised in the quarter

ended 31 December 2001 following the implementation of FRS 19, of £65 million arises in respect of this programme. In addition, during the fourth quarter of 2001, a business transformation and restructuring programme has been established within UK Operations. £22 million has been charged in these accounts in respect of that programme, which primarily comprises committed severance and related payments to approximately 240 employees. A tax credit of £6 million arises in respect of this programme.

In the year ended 31 December 2000, an impairment provision of £79 million was made in respect of the Group's UK CHP plant portfolio in the light of changes in wholesale electricity and gas prices. The cash flows used in this impairment review were discounted at Powergen's cost of capital for CHP Operations. A tax credit, which has now been restated following the implementation of FRS 19, of £17 million arose on this item. In the year ended 31 December 2001, a further review of the Group's UK CHP plant portfolio was made, on the same basis as the review in the previous year. A further impairment provision of £80 million has consequently been recorded in these accounts. A tax credit of £16 million arises in respect of this item.

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

### **Corporate**

On 9 April 2001, E.ON announced a pre-conditional cash offer for the whole of the share capital of Powergen plc. Powergen expects this acquisition of its shares to go ahead, and on that basis has provided for the anticipated total cost of advisors' and other fees associated with the successful completion of the transaction, of £31 million, in these accounts; £4 million of costs were charged in the quarter ended 31 December 2001. No tax credit arises on these costs.

As a consequence of the acquisition of LG&E Energy Corp. ("LG&E") on 11 December 2000, the Group incurred costs totalling £18 million reflecting agreed payments to certain senior executives of LG&E which were charged in the accounts for the year ended 31 December 2000. A tax credit of £5 million arose on these costs.

### **Charged against interest costs**

#### **UK Operations**

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

### **Corporate**

During the year ended 31 December 2000, Powergen incurred arrangement and commitment fees of £28 million in respect of the \$4,000 million term and revolving credit facility put in place to finance the acquisition of LG&E (of which £8 million was incurred in the three months ended 31 December 2000). Powergen also entered into an interest rate swaption arrangement to cap the interest rate payable under this facility at a cost of £13 million. As part of the financing arrangements for the acquisition, in early December 2000, the Group entered into certain US dollar denominated loan arrangements, which, on the acquisition date, crystallised foreign

exchange gains totalling £26 million. These items, with a net total cost of £15 million, were included within exceptional US financing costs in the accounts for the year ended 31 December 2000. A net tax credit of £4 million arose on these costs.

## **Profits less losses on disposal of fixed assets and investments**

### **UK Operations**

On 8 March 2001, Powergen's UK Operations completed the sale of Rye House power station and transfer of its associated gas contract to Scottish Power UK plc, for £217 million in cash. Net assets disposed of, together with disposal and other related costs, totalled £178 million giving rise to an exceptional profit of £39 million. A tax charge, which has been revised in the quarter ended 31 December 2001 following the implementation of FRS 19, of £7 million arises on this disposal.

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

### **US Operations**

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

### **International Operations**

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

On 27 April 2001, Powergen completed the sale of its German assets to NRG Energy, Inc. Sale proceeds totalled £50 million in cash. Net assets disposed of, together with related disposal costs, totalled £56 million, giving rise to an exceptional loss on disposal charged against profits in the three months ended 30 June 2001 of £6 million. At 31 March 2001, the value of the German assets had already been reduced by £56 million to reflect the value implicit in the sale of these assets giving rise to a total loss in the year ended 31 December 2001 of £62 million. No tax charge arises on this disposal.

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

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

### **Profits less losses on disposal of businesses (including provisions)**

#### **UK Operations**

On 20 February 2001, Powergen completed the sale of its East Midlands Electricity metering business to Siemens Metering Limited for £40 million in cash. Net assets disposed of, together with disposal costs and unamortised goodwill totalled £25 million leading to an exceptional profit on disposal of £15 million. A tax charge, which has been revised in the quarter ended 31 December 2001 following the implementation of FRS 19, of £6 million arises on this disposal. The sale excluded non half-hourly meters.

#### **International Operations**

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

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

On 21 December 2001, Powergen finalised the terms of the sale of its 88 per cent stake in GPEC to a joint venture company that is 80 per cent owned by CLP Power International and 20 per cent owned by Powergen. During 2002, Powergen will purchase the remaining 12 per cent stake in GPEC that it does not already own from the other minority shareholders, and both stakes will be sold on to the joint venture company. As a result of these transactions, the joint venture will hold 100 per cent of GPEC and Powergen will retain a 20 per cent stake in the company. The value of Powergen's investment in GPEC has been further reduced by £66 million to reflect the value implicit in this sale arrangement. No tax credit arises on this item. As described in note 11 'Post balance events', on 20 February 2002, Powergen completed the sale of its 88 per cent holding in GPEC.

During the year ended 31 December 2001, Powergen incurred £4 million of costs in connection with the disposal of its International Operations, including office closure costs. Tax credits totalling £1 million arise on these costs. During the year ended 31 December 2000, an amount of £26 million was charged against profits in respect of the closure of these International Operations, principally in respect of employee severance costs. £4 million of tax credits arose on this item.

#### 4 Profit on ordinary activities before taxation

	<i>Year ended</i>		<i>Three months ended</i>	
	<i>31 December 2001 £m</i>	<i>31 December 2000 £m</i>	<i>31 December 2001 £m</i>	<i>31 December 2000 £m</i>
<b>UK Operations</b>				
Electricity and gas – wholesale and trading	136	288	26	45
Electricity – distribution	118	116	28	28
Electricity and gas – retail	49	42	(9)	(8)
Cogeneration	32	18	11	7
Lease and other income and charges	104	182	54	80
	<u>439</u>	<u>646</u>	<u>110</u>	<u>152</u>
<b>US Operations</b>				
Regulated	296	13	62	13
Non-regulated	59	(5)	4	(5)
	<u>355</u>	<u>8</u>	<u>66</u>	<u>8</u>
<b>International Operations</b>	111	121	17	39
Corporate costs	(19)	(47)	(7)	(8)
	<u>886</u>	<u>728</u>	<u>186</u>	<u>191</u>
<b>Net interest payable:</b>				
Group	(359)	(151)	(85)	(49)
Associates and joint ventures	(63)	(60)	(12)	(23)
	<u>464</u>	<u>517</u>	<u>89</u>	<u>119</u>
<b>Profit before goodwill amortisation and exceptional items</b>				
Goodwill amortisation	(151)	(75)	(45)	(22)
Exceptional items (note 3)	(270)	26	(179)	59
	<u>43</u>	<u>468</u>	<u>(135)</u>	<u>156</u>

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

Goodwill amortisation can be analysed as follows:

	<i>Year ended</i>		<i>Three months ended</i>	
	<i>31 December 2001 £m</i>	<i>31 December 2000 £m</i>	<i>31 December 2001 £m</i>	<i>31 December 2000 £m</i>
UK Operations	68	68	18	17
US Operations	83	4	27	4
International Operations	—	3	—	1
	<u>151</u>	<u>75</u>	<u>45</u>	<u>22</u>

The net assets of the Group are analysed as follows:

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

Powergen has previously announced asset disposals in India that had not completed by 31 December 2001. These disposals include net assets of International Operations of £262 million.

## 5 Dividends

The fourth interim dividend for the quarter ended 31 December 2001, of 9.2 pence per ordinary share, is payable on 28 March to shareholders on the register on 8 March. This dividend, together with the interim dividends already paid for the three quarters ended 31 March 2001, 30 June 2001 and 30 September 2001, each of 9.2 pence per ordinary share, represents a total dividend payable of 36.8 pence per ordinary share for the financial year. Dividends paid in respect of 2000 totalled 36.2p.

## 6 Earnings per ordinary share

Earnings per ordinary share has been calculated by dividing the profit attributable to shareholders for the financial year of £50 million (year ended 31 December 2000 £392 million) and the three months ended 31 December 2001 a loss of £121 million (three months ended 31 December 2000 profit of £168 million), by 652,790,140 ordinary shares (year ended 31 December 2000 by 650,976,860 ordinary shares) and by 654,238,799 ordinary shares (three months ended 31 December 2000 by 651,375,733 ordinary shares) respectively, being the weighted average number of ordinary shares in issue during each respective period.

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

	<i>Year ended</i>		<i>Three months ended</i>	
	<i>31 December</i> <i>2001</i> <i>£m</i>	<i>31 December</i> <i>2000</i> <i>£m</i>	<i>31 December</i> <i>2001</i> <i>£m</i>	<i>31 December</i> <i>2000</i> <i>£m</i>
Profit/(Loss) attributable to shareholders	50	392	(121)	168
Goodwill amortisation	151	75	45	22
Exceptional items (net of tax)	188	(69)	151	(92)
Adjusted earnings	<u>389</u>	<u>398</u>	<u>75</u>	<u>98</u>
Earnings per share (before goodwill amortisation and exceptional items)	<u>59.6p</u>	<u>61.1p</u>	<u>11.5p</u>	<u>15.0p</u>

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

As a result of the implementation of FRS 19, earnings per share disclosures have been expanded to show the effect of the adoption of that accounting standard on earnings per share before exceptional items and goodwill amortisation. The increase in the deferred tax charge on pre-exceptional profits amounted to £21 million for the year ended 31 December 2001 and £36 million for the year ended 31 December 2000. The increase in the deferred tax charge on pre-exceptional profits amounted to £4 million for the three months ended 31 December 2001 and £8 million for the three months ended 31 December 2000.

## **7 Taxation**

The pre-exceptional tax charge of £58 million for the year ended 31 December 2001 reflects the effective rate for the year ended 31 December 2001 of 12.4% on the profit before goodwill amortisation and exceptional items of £464 million. The pre-exceptional tax charge of £107 million for the year ended 31 December 2000 was based on an effective rate on a similar basis of 20.7%.

## **8 Revision to provisional fair values**

### **LG&E Energy Corp.**

On 11 December 2000, the Group acquired the whole of the issued share capital of LG&E Energy Corp., a vertically integrated electricity and gas utility based in Louisville, Kentucky in the United States. The consideration payable totalled £2,258 million, comprising £2,229 million in cash for shares together with capitalised acquisition costs of £29 million. The fair value of assets acquired, as previously stated in the accounts for the year ended 31 December 2000, was £760 million, leading to goodwill arising of £1,498 million.

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

### **Other acquisitions**

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

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

	<i>Provisional fair values as previously stated £m</i>	<i>Prior year adjustment for FRS 19<sup>(1)</sup> £m</i>	<i>Provisional fair values as restated £m</i>	<i>Revisions to provisional fair values<sup>(2)</sup> £m</i>	<i>Final fair value to the Powergen Group £m</i>
Net assets acquired:					
LG&E Energy Corp.					
Fixed assets					
Tangible	2,912	—	2,912	(144)	2,768
Investments	180	—	180	6	186
Stocks	154	—	154	—	154
Taxation payable and deferred taxation	(83)	(60)	(143)	22	(121)
Other working capital	(85)	—	(85)	(36)	(121)
Net short-term borrowings	(851)	—	(851)	(7)	(858)
Long-term borrowings	(814)	—	(814)	—	(814)
Provisions	(484)	—	(484)	79	(405)
Minority interest	(169)	—	(169)	1	(168)
	<u>760</u>	<u>(60)</u>	<u>700</u>	<u>(79)</u>	<u>621</u>
Net assets acquired:					
Gujurat Powergen Energy Corporation	40	—	40	—	40
Corby Power Limited	50	—	50	(23) <sup>(3)</sup>	27
Telecentric Solutions Limited	1	—	1	—	1
Goodwill	1,485	60	1,545	102	1,647 <sup>(4)</sup>
	<u>1,485</u>	<u>60</u>	<u>1,545</u>	<u>102</u>	<u>1,647</u>
Consideration, including costs of acquisition	<u>2,336</u>	<u>—</u>	<u>2,336</u>	<u>—</u>	<u>2,336</u>

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

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

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

(4) Total goodwill of £1,647 million comprises £1,637 million in respect of LG&E and £10 million for other acquisitions.

## 9 Provisions for liabilities and charges

Movements on provisions comprise:

	31 December 2000	Charged to profit and loss account	Amortisation of discount	Provisions utilised	Provisions released or disposed	Revision to fair values	Exchange movements	31 December 2001
	£m	£m	£m	£m	£m	£m	£m	£m
US contract provisions	388	—	18	(89)	—	—	14	331
UK contract provisions	137	—	—	(15)	—	—	—	122
Liability and damage claims	60	5	—	(4)	—	—	—	61
Decommissioning	146	—	4	—	(23)	(79)	6	54
	<u>731</u>	<u>5</u>	<u>22</u>	<u>(108)</u>	<u>(23)</u>	<u>(79)</u>	<u>20</u>	<u>568</u>

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

## 10 Cash flow

a) Reconciliation of operating profit to net cash inflow from operating activities:

	Year ended		Three months ended	
	31 December 2001	31 December 2000	31 December 2001	31 December 2000
	£m	£m	£m	£m
Operating profit	319	483	7	47
Depreciation (including exceptional items)	426	292	176	141
Loss/(Profit) on sale of tangible fixed assets	14	(21)	16	(7)
Profit on sale of investments	—	(2)	—	(2)
Goodwill amortisation	151	75	45	22
(Increase)/Decrease in stocks	(24)	5	(15)	(2)
Decrease/(Increase) in debtors	133	(3)	(48)	(72)
(Decrease)/Increase in creditors	(146)	62	57	184
Decrease in provisions	(127)	(44)	(61)	(20)
	<u>746</u>	<u>847</u>	<u>177</u>	<u>291</u>

b) Changes in net debt during the year ended 31 December 2001 comprise:

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

Changes in net debt during the three months ended 31 December 2001 comprise:

	31 December 2001 £m	Non-cash changes £m	Cash flow change £m	Exchange adjustments £m	30 September 2001 £m
Cash at bank and in hand	103	—	29	—	74
Overdrafts	(17)	—	(7)	—	(10)
	86	—	22	—	64
Debt due after one year	(3,737)	(107)	(205)	(17)	(3,408)
Debt due within one year:					
Short-term loans	(1,524)	133	127	(20)	(1,764)
Short-term deposits	14	—	(16)	1	29
	(5,161)	26	(72)	(36)	(5,079)

## 11 Post balance sheet events

On 15 February 2002, Powergen completed the sale of its Monroe and Tiger Creek facilities in Georgia, USA to Progress Ventures Inc. for a total cash consideration of US \$345 million. Separately, LG&E has agreed to purchase power from Progress to service obligations under its out of money fixed price energy marketing contracts. The provision for US contract liabilities established at 31 December 2001 (see note 9) took account of the impact of this power purchase arrangement on contractual liabilities.

On 20 February 2002, Powergen completed the sale of its 88 per cent holding in Gujarat Powergen Energy Corporation (GPEC) to a joint venture company that is 80 per cent owned by CLP Power International and 20 per cent owned by Powergen.

## 12 Summary of differences between UK GAAP and US GAAP

### a) Effect on net income of differences between UK GAAP and US GAAP

	<i>Year ended</i>		<i>Three months ended</i>	
	<i>31 December</i> <i>2001</i> £m	<i>31 December</i> <i>2000</i> £m	<i>31 December</i> <i>2001</i> £m	<i>31 December</i> <i>2000</i> £m
Net income/(loss) under UK GAAP	50	392	(121)	168
US GAAP adjustments:				
Pension costs	82	101	23	31
Severance costs	17	(7)	18	(1)
Capitalised interest, net of related depreciation	(10)	11	(4)	3
Software costs	20	—	17	—
Regulatory assets and liabilities	118	—	122	—
Overhaul costs	(2)	—	(2)	—
US related costs	(4)	13	(5)	13
Goodwill amortisation	(9)	(5)	1	(2)
Fixed asset impairment	21	—	21	—
Deferred income	(70)	(70)	(42)	(42)
Decommissioning costs	8	(1)	8	—
Derivative instruments and hedging activities	(35)	—	(58)	—
Other	—	(2)	1	—
Taxation effects on the foregoing adjustments	(28)	(31)	(7)	(12)
Deferred taxation	(40)	29	(23)	23
Net income/(loss) under US GAAP before cumulative effect of change in accounting for derivatives and hedging activities	118	430	(51)	181
Cumulative effect of change in accounting for derivatives and hedging activities, net of taxation benefit of £5m	(17)			
Net income under US GAAP	101			
Earnings per share before cumulative effect of change in accounting for derivatives and hedging activities	Pence	Pence	Pence	Pence
Basic earnings/(loss) per share under US GAAP	18.1	66.1	(7.8)	27.8
Diluted earnings/(loss) per share under US GAAP	17.9	65.4	(7.8)	27.5

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

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

**PART V**  
**PARTICULARS OF THE LOAN NOTES AND FURTHER TERMS OF**  
**THE LOAN NOTE ALTERNATIVE**

**1. Particulars of the Loan Notes**

The Loan Notes to be issued in connection with the Scheme will be constituted by an instrument (the "Loan Note Instrument") to be executed by E.ON UK as issuer and E.ON as guarantor. If valid elections for the Loan Note Alternative do not require the issue of Loan Notes exceeding £25 million in nominal value, no Loan Notes will be issued (unless E.ON UK determines otherwise) and Powergen Shareholders who have elected for the Loan Note Alternative will receive cash in accordance with the basic terms of the Acquisition. The Loan Note Instrument will contain provisions, *inter alia*, to the effect set out below. The issue of Loan Notes will be conditional on the Scheme becoming effective. Restricted Overseas Persons (including US Persons) will not be entitled to receive Loan Notes and will be entitled to receive only cash consideration.

**2. Form and Status**

The Loan Notes will be issued by E.ON UK in denominations or multiples of £1 in nominal amount and will constitute unsecured unsubordinated obligations of E.ON UK which will rank *pari passu* with other unsecured and unsubordinated obligations of E.ON UK, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application. The Loan Note Instrument will not contain any restrictions on borrowing, disposals or charging of assets by E.ON UK. The payment of principal and interest on the Loan Notes by E.ON UK will be guaranteed by E.ON.

**3. Interest**

- (a) Interest on the Loan Notes will be calculated on the basis of a 365 day year (or, in the case of an interest payment date falling in a leap year, a 366 day year) and the actual number of days elapsed and will be payable (subject to any requirement to deduct amounts for or on account of tax therefrom) by twice yearly instalments in arrear on 30 April and 31 October (or, if such day is not a Business Day, the next succeeding Business Day) in each year ("Interest Payment Dates") in respect of the relevant Interest Periods (as defined below), at a rate calculated as provided in sub-paragraph (b) below. Interest will be payable only to holders of Loan Notes on the register of holders of Loan Notes at the close of business on the date 30 days prior to the relevant Interest Payment Date. The period from (and including) the date of the Scheme Effective Date to (but excluding) 31 October 2002 (or, if later, the first Interest Payment Date falling at least six months after the Scheme Effective Date) and the period from (and including) 31 October 2002 (or, if later, the first Interest Payment Date falling at least six months after the Scheme Effective Date) or any subsequent Interest Payment Date to (but excluding) the next following Interest Payment Date is herein called an "Interest Period".
- (b) The rate of interest on the Loan Notes for each Interest Period will be the rate which is 0.5 per cent. below the rate per annum of the offer quotation for six month deposits in sterling which appears on the Reuters Screen LIBOR01 Page at or about 11.00 am (London time) on the first day of the relevant Interest Period or, if any such day is not a Business Day, on the next succeeding Business Day (the "Calculation Day"). If no such offer quotation as at or about 11.00 am (London time) appears on Reuters Screen LIBOR01 Page at or before 3.00 p.m. (London time) on any Calculation Day, the rate of interest for the relevant Interest Period shall be the rate which is 0.5 per cent. below the arithmetic mean (rounded downward where necessary to the nearest whole multiple of one-sixteenth of one per cent.) of the offer quotations for sterling deposits for a period equal, or as nearly equal as possible, to the Interest Period which appear on Telerate Page 3750 at or about 11.00 am (London time) on such Calculation Day.
- (c) If a rate of interest cannot be established in accordance with the provisions of sub-paragraph 3(b) above for any Interest Period, then the rate of interest on the Loan Notes for such Interest Period shall be the rate which is 0.5 per cent. below a quotation obtained by E.ON UK for six month deposits of similar size and currency in the London inter-bank market or such other inter-bank markets as E.ON UK may select and, if a rate of interest cannot be established in accordance with the

above provisions of this sub-paragraph for any Interest Period, then the rate of interest on the Loan Notes for such Interest Period shall be the same as that applicable to the Loan Notes during the previous Interest Period.

- (d) Any calculation of the rate of interest and of each such interest amount by E.ON UK shall, in the absence of manifest error, be final and binding.

#### **4. Repayment and redemption of Loan Notes**

- (a) Each holder of a Loan Note (a "Noteholder") may at any time and from time to time, by written notice (which shall be irrevocable and in the form endorsed on the Loan Note certificate and shall be accompanied by the certificate(s) for all the Loan Notes to be repaid) sent to Computershare Investor Services PLC, P.O. Box 478, The Pavilions, Bridgwater Road, Bristol BS99 7JP (or to such other person or place within the United Kingdom as E.ON UK may from time to time have appointed for the purpose and have notified to the Noteholders) not later than 30 days prior to any Interest Payment Date falling at least six months after the Scheme Effective Date (each a "Redemption Date"), require E.ON UK to redeem on the relevant Redemption Date some (being a minimum of £1,000 in nominal amount or any integral multiple thereof) or all of the Loan Notes held by such Noteholder, at their principal amount together with accrued interest up to (but excluding) the relevant date of repayment (subject to any requirement to deduct or withhold amounts for or on account of tax therefrom). On the expiry of any such notice, E.ON UK will be bound to redeem on the relevant Interest Payment Date the Loan Notes in respect of which notice has been given as aforesaid.
- (b) If, at any time after the first Redemption Date, the Loan Notes in issue constitute an aggregate nominal amount of less than 20 per cent. of the aggregate nominal amount of the Loan Notes originally issued or interest payable under the Loan Notes in issue falls (or would upon enactment of a change in law that has been officially proposed, fall) to be treated as a distribution or otherwise non-deductible for tax purposes, E.ON UK shall have the right, on giving to the remaining Noteholders not less than 30 days' notice expiring on any Interest Payment Date falling on or after the first Redemption Date and before the first Interest Payment Date falling on or after the fifth anniversary of the first issue of Loan Notes (the "Maturity Date"), to redeem all (but not some only) of the Loan Notes then in issue at par together with accrued interest up to (but excluding) the date of payment (subject to any requirement to deduct or withhold amounts for or on account of tax therefrom).
- (c) Unless previously repaid, redeemed or purchased and cancelled, E.ON UK will redeem the Loan Notes on the Maturity Date at par together with accrued interest up to (but excluding) that date (subject to any requirement to deduct or withhold amounts for or on account of tax therefrom).
- (d) On a redemption by E.ON UK on the Maturity Date, E.ON UK shall have the right to pay to each Noteholder *in lieu of and in satisfaction of the sterling amount otherwise payable, an amount in US dollars equal to the amount in US dollars that such sterling amount could have purchased on the date 28 days before the Maturity Date, provided that such amount shall not be more or less than (and if it would otherwise be, shall be equal to) 99.5 per cent. or 100.5 per cent. of the amount in US dollars that the sterling principal amount of the Loan Notes to be redeemed could have purchased on the Maturity Date.*

#### **5. Purchase of Loan Notes**

E.ON UK will be entitled, at any time after the first Redemption Date, to purchase, or procure the purchase of, any Loan Notes at any price by tender (available to all Noteholders alike), private treaty or otherwise by agreement with the relevant Noteholder(s).

#### **6. Cancellation**

Any Loan Notes repaid or redeemed under paragraph 4 or purchased under paragraph 5 above shall be cancelled and shall not be available for re-issue.

## **7. Events of Default**

Each Noteholder shall be entitled to require all of the Loan Notes held by him to be repaid at par together with accrued interest (subject to any requirement to deduct or withhold any amounts for or on account of tax therefrom) immediately if:

- (a) any principal or interest on any of the Loan Notes held by that Noteholder shall fail to be paid in full within 30 days of the due date for payment thereof; or
- (b) an order is made or an effective resolution is passed for the winding-up or dissolution of E.ON or E.ON UK (other than for the purposes of a reconstruction or amalgamation or a members' voluntary winding-up (or any directly analogous proceeding in a relevant jurisdiction) on terms previously approved by extraordinary resolution of the Noteholders (as defined in the Loan Note Instrument)).

## **8. Modifications**

The provisions of the Loan Note Instrument and the rights of the Noteholders will be subject to modification, abrogation or compromise in any respect with the sanction of an extraordinary resolution of the Noteholders, as defined in the Loan Note Instrument, or by resolution in writing signed by holders of 75 per cent. in principal amount of the outstanding Loan Notes, and with the consent in each case of E.ON and E.ON UK. E.ON UK may amend the provisions of the Loan Note Instrument without such sanction or consent if the amendment is of a formal, minor or technical nature or to correct a manifest error.

## **9. Registration and transfer**

The Loan Notes will be evidenced by certificates and will be in registered form and shall be transferable in amounts or integral multiples of £1,000 in nominal amount, or of the entire holding. No transfer will be registered within a seven day period prior to an Interest Payment Date or on or following one month before the Maturity Date.

Restricted Overseas Persons (including US Persons) will not be entitled to receive Loan Notes and will be entitled to receive only cash consideration.

The Loan Notes to be issued in connection with the Acquisition may not be offered, sold or delivered, directly or indirectly, in or into Canada, Australia, Japan, New Zealand, South Africa, Belgium, France, Germany, The Netherlands, Singapore, Malaysia or Spain (except in transactions exempt from or not subject to the relevant securities laws of those jurisdictions).

## **10. Prescription**

Noteholders will cease to be entitled to amounts in respect of interest which remain unclaimed for a period of five years and to amounts due in respect of principal which remain unclaimed for a period of ten years, in each case from the date on which the relevant payment first becomes due. Such amounts shall revert to E.ON UK.

## **11. No listing**

No application has been made or is intended to be made for the Loan Notes to be listed or dealt in on any stock exchange in any jurisdiction.

## **12. Substitution of principal debtor**

E.ON UK or its successors may substitute on one or more occasions, any subsidiary of E.ON UK and/or any member of the Wider E.ON Group as the principal debtor under the Loan Notes (or any part thereof) or require such holders to exchange their Loan Notes (or any part thereof) for Loan Notes issued on the same terms mutatis mutandis by any subsidiary of E.ON UK and/or any member of the Wider E.ON Group. References to E.ON UK in this Part V shall be construed to apply to the substitute (if any) from time to time of E.ON UK. The obligations of any such substituted or new issuer will be guaranteed by E.ON.

### **13. Section 349A Income and Corporation Taxes Act 1988**

Interest on the Loan Notes will be paid free of deduction on account of United Kingdom income tax where the holder of the Loan Notes can prove to the satisfaction of E.ON UK that the person beneficially entitled to the interest on such Loan Notes is (a) a company resident in the UK (b) a partnership each member of which is a company resident in the UK or (c) a non-resident company that carries on a trade in the UK through a branch or agency and that is liable to UK corporation tax on such interest. A holder of Loan Notes who believes that this provision may apply to him should request a Section 349A application form from E.ON UK's Registrars, Computershare Investor Services PLC, P.O. Box 478, The Pavilions, Bridgwater Road, Bristol BS99 7JP, which will set out the declarations, undertakings and indemnities required of the holder before interest can be paid free of deduction.

### **14. Guarantee**

The obligations of E.ON UK to Noteholders will be guaranteed by E.ON.

### **15. Governing Law**

The Loan Notes and the Loan Note Instrument will be governed by and construed in accordance with English law.

### **16. Further terms of the Loan Note Alternative**

Each holder of Scheme Shares by whom, or on whose behalf, a Form of Election is, in due course, executed and lodged with Powergen's Registrars, Computershare Investor Services PLC, P.O. Box 478, The Pavilions, Bridgwater Road, Bristol BS99 7JP, (or otherwise with E.ON UK or its agents) irrevocably undertakes, represents, warrants and agrees to and with E.ON UK and Computershare Investor Services PLC (so as to bind him, his heirs, successors and assigns) to the effect that the execution of the Form of Election (provided it has not been deemed to have been revoked) shall, conditionally on (and with effect from) the Scheme becoming effective and pending registration of the transfer of the Transfer Shares to which such form relates, constitute:

- (a) an irrevocable authority pursuant to which E.ON UK shall be entitled to direct the exercise of any votes and any or all other rights and privileges (including the right to requisition the convening of a general meeting of Powergen or any class of its shareholders) attaching to such Transfer Shares;
- (b) an authority to Powergen from such Powergen Shareholder to send any notice, warrant, document or other communication issued after the Scheme Effective Date which may be required to be sent to him as a member of Powergen (including any share certificate(s) or other document(s) of title issued as a result of a conversion of such Transfer Shares into certificated form) to E.ON UK c/o Computershare Investor Services PLC, P.O. Box 478, The Pavilions, Bridgwater Road, Bristol BS99 7JP;
- (c) an authority to E.ON UK or any director of E.ON UK to sign any consent to short notice on his behalf in respect of, and/or to attend and/or execute a form of proxy in respect of such Transfer Shares (and/or, where appropriate, any appointment pursuant to section 375 of the Act) appointing any person nominated by E.ON UK to attend general meetings and separate class meetings of Powergen or its members (or any of them) (and any adjournment thereof) and further to exercise or refrain from exercising the votes attaching to such shares on his behalf; and
- (d) the agreement of such shareholder not to exercise any of such rights without the consent of E.ON UK and the irrevocable undertaking of such shareholder not to appoint a proxy or corporate representative to attend, and not himself to attend, any such general meeting or separate class meeting.

**PART VI**  
**ADDITIONAL INFORMATION**

**1. Responsibility**

- (a) The Powergen Directors, whose names are set out in section 2 below, accept responsibility for the information contained in this document other than information relating to the E.ON Group, the E.ON Management Board, the directors of E.ON UK, members of their immediate families, related trusts and persons connected with them (within the meaning of section 346 of the Act). To the best of the knowledge and belief of the Powergen Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document for which they accept responsibility is in accordance with the facts and does not omit anything likely to affect the import of such information.
- (b) The E.ON Management Board and the directors of E.ON UK, whose names are set out in section 3 below, accept responsibility for the information contained in this document relating to the E.ON Group, the E.ON Management Board, the directors of E.ON UK, members of their immediate families, related trusts and persons connected with them (within the meaning of section 346 of the Act). To the best of the knowledge and belief of the E.ON Management Board and the directors of E.ON UK (who have taken all reasonable care to ensure that such is the case), the information contained in this document for which they accept responsibility is in accordance with the facts and does not omit anything likely to affect the import of such information.

**2. The Powergen Directors**

The Powergen Directors and their respective functions are:

<b>Name</b>	<b>Position</b>
Edmund Wallis	Chairman
Nick Baldwin	Chief Executive
Peter Hickson	Group Finance Director
Victor Staffieri	Executive Director
Dr. Paul Golby	Executive Director
Sir Frederick Crawford	Non-Executive Director
Christopher Gibson-Smith	Non-Executive Director
Sydney Gillibrand	Non-Executive Director
Dr. David Li	Non-Executive Director
Thomas Oates	Non-Executive Director
Peter Wilson	Non-Executive Director

### **3. The E.ON Management Board and the directors of E.ON UK**

The members of the E.ON Management Board and their respective functions are:

<b>Name</b>	<b>Position</b>
Ulrich Hartmann	Chairman and co-CEO
Prof. Dr. Wilhem Simson	Chairman and co-CEO
Dr. Hans Michael Gaul	Member of E.ON Management Board
Dr. Manfred Krüper	Member of E.ON Management Board
Dr. Erhard Schipporeit	Member of E.ON Management Board

The directors of E.ON UK and their respective functions are:

<b>Name</b>	<b>Position</b>
Stephen Ashford	Executive Director
Arnold Groot	Executive Director
Stefan Hloch	Non-Executive Director
Hans Gisbert Ulmke	Non-Executive Director

### **4. Information on E.ON UK and E.ON**

E.ON UK, a wholly-owned subsidiary of E.ON, is a UK incorporated company. It did not trade in the year ended 31 December 2001. The registered office of E.ON UK is at 1 Berkeley Street, London W1J 8DJ.

E.ON is a public company (Aktiengesellschaft) incorporated under the laws of the Federal Republic of Germany and has its seat in Düsseldorf and is registered in the Commercial Register of the local court of Düsseldorf under HRB 232315. E.ON's registered office is located at E.ON-Platz 1, 40479 Düsseldorf, Germany.

E.ON's shares are traded on all German stock exchanges, Xetra (Germany's 24-hour electronic trading system), the Swiss Stock Exchange and as ADRs on the New York Stock Exchange.

For the year ended 31 December 2000, E.ON had reported sales of Euro 83.0 billion and net income of Euro 3,570 million. As at 31 December 2000, E.ON had net assets of Euro 28,033 million. For the nine months ended 30 September 2001, E.ON had reported sales of Euro 64.3 billion and net income of Euro 1,026 million. As at 30 September 2001, E.ON had net assets of Euro 23,171 million.

As at 20 March 2002, E.ON had a market capitalisation of approximately Euro 39.9 billion and had an Aa2 with stable outlook rating with Moody's and an AA credit watch negative rating from S&P.

### **5. Powergen issued share capital and market quotations of Powergen Shares**

- (a) At the close of business on 20 March 2002 (the last practicable date prior to the publication of this document), 654,845,045 Powergen Shares were in issue and credited as fully paid.
- (b) Set out below are the closing middle market prices of Powergen Shares as derived from the Official List on:
  - (i) the first Business Day of each of the six months immediately prior to the date of this document;
  - (ii) 16 January 2001 (the last Business Day prior to the date on which Powergen announced that it was in preliminary discussions with E.ON which may or may not lead to an offer being made for Powergen);

(iii) 6 April 2001 (the last Business Day prior to the Announcement); and

(iv) 20 March 2002 (the latest practicable date prior to the publication of this document).

<i>Date</i>	<i>Powergen Share price (pence)</i>
16.01.01	700.0
06.04.01	706.0
03.09.01	740.5
01.10.01	726.0
01.11.01	744.5
03.12.01	741.5
02.01.02	754.5
01.02.02	763.0
01.03.02	771.5
20.03.02	763.0

## **6. Shareholdings and dealings**

### **(a) Interests in Powergen Shares**

- (i) As at the close of business on 20 March 2002 (the latest practicable date prior to the publication of this document), the interests of the Powergen Directors and their immediate families and related trusts in the share capital of Powergen which have been notified to Powergen pursuant to section 324 or 328 of the Act, or which are required to be entered in the register maintained under section 325 of the Act or are interests of a person connected with any Powergen Director (within the meaning of section 346 of the Act) which would, if the connected person were a Powergen Director, be required to be disclosed as set out above and the existence of which is known or could with reasonable diligence be ascertained by the relevant Powergen Director, are set out below:

<i>Name</i>	<i>Powergen Shares</i>	<i>Powergen Shares under option</i>
Edmund Wallis	65,359	674,283
Nick Baldwin	9,933	301,500
Victor Stafferi	—	89,901 ADSs
Dr. Paul Golby	287	131,283
Sir Frederick Crawford	7,398	—
Christopher Gibson-Smith	—	—
Sydney Gillibrand	6,858	—
Peter Hickson	28,624	382,283
Dr David Li	20,000	—
Thomas Oates	—	—
Peter Wilson	850*	—

All of the above interests are beneficial interests unless otherwise stated.

\* Non-beneficial interest.

The Powergen Directors with service contracts are also technically interested by virtue of the Act in the 691,377 Powergen Shares held by the Powergen Employee Share Trust as at the close of business on 20 March 2002 (the latest practicable date prior to the publication of this document). It is not expected that those directors will receive any benefit from shares held by the Powergen Employee Share Trust other than pursuant to the Powergen Share Schemes as specified in this section 6(a).

- (ii) As at the close of business 20 March 2002 (the latest practicable date prior to the publication of this document), the following Powergen Directors had the following options outstanding under Powergen Share Option Schemes:

Name	Number of Powergen Executive Share Scheme Options	Number of Powergen Sharesave Scheme Options	Date of grant	Exercise price per Powergen Share (£)	Exercise Dates	
					From	To
Edmund Wallis	25,500		01.12.92	2.78	01.12.95	01.12.02
	27,500		01.07.93	3.87	01.07.96	01.12.02
	53,500		22.11.94	5.57	22.11.99	22.11.04
	56,000		29.11.95	5.32	29.11.00	29.11.04
	63,500		26.06.96	5.32	26.06.01	26.06.06
	20,000		02.07.97	7.35	02.07.02	02.07.07
	50,500		25.09.98	8.88	25.09.03	25.09.08
	10,500		12.03.99	8.70	12.03.04	12.03.09
	364,000*		10.04.00	3.995	10.04.03	10.04.10
			05.04.00	2.95	01.06.03	30.11.03
Nick Baldwin	11,000	3,283*	22.11.94	5.57	22.11.97	22.11.04
	13,000		29.11.95	5.32	29.11.98	29.11.05
	15,500		26.06.96	4.705	26.06.99	26.06.06
	14,000		02.07.97	7.35	02.07.00	02.07.07
	20,500		25.09.98	8.88	25.09.03	25.09.08
	32,500		12.03.99	6.875	12.03.04	12.03.09
	195,000*		10.04.00	3.995	10.04.03	10.04.10
Peter Hickson	78,500	4,575	24.07.96	3.77	01.08.01	31.01.02
	32,000		11.12.96	5.72	11.12.01	11.12.06
	30,500		02.07.97	7.35	02.07.02	02.07.07
	21,000		25.09.98	8.88	25.09.03	25.09.08
	217,000*		12.03.99	6.875	12.03.04	10.04.10
Dr. Paul Golby	12,000	3,283*	10.04.00	3.995	10.04.03	10.04.10
	93,500*		05.04.00	2.95	01.06.03	30.11.03
	22,500*		12.03.99	6.875	12.03.02	12.03.09
			10.04.00	3.995	10.04.03	10.04.10
		13.06.01	7.175	13.06.04	13.06.11	

\* Granted during disclosure period.

- (iii) As at the close of business on 20 March 2002 (the latest practicable date prior to the publication of this document), the following Powergen Directors had the following awards over Powergen Shares outstanding under the Powergen Restricted Share Plan (either as a Bonus Enhancement Award or a Medium Term Bonus Award):

<i>Name</i>	<i>Award</i>	<i>Date of grant</i>	<i>Number of Powergen Shares*</i>
Edmund Wallis	Medium Term Bonus Award	15.05.97	19,927
	Medium Term Bonus Award	20.05.98	18,929
Nick Baldwin	Medium Term Bonus Award	12.03.99	26,181
	Bonus Enhancement Award	20.05.98	8,614
	Medium Term Bonus Award	20.05.98	9,542
	Medium Term Bonus Award	12.03.99	13,090
Dr. Paul Golby	Medium Term Bonus Award	22.05.01	22,377
	Bonus Enhancement Award	12.03.99	2,586
	Bonus Enhancement Award	08.03.00	11,369
Peter Hickson	Bonus Enhancement Award	20.06.98	12,504
	Bonus Enhancement Award	12.03.99	13,298
	Medium Term Bonus Award	15.05.97	13,187
	Medium Term Bonus Award	20.05.98	12,301
	Medium Term Bonus Award	12.03.99	16,000
	Medium Term Bonus Award	22.05.01	16,839

\* The number of Powergen Shares under Bonus Enhancement Awards includes additional Powergen Shares to reflect the Powergen Directors' entitlements arising from the reinvestment of dividends in Powergen Shares.

- (iv) As at the close of business on 20 March 2002 (the latest practicable date prior to the publication of this document), the following Powergen Director had the following options to acquire ADSs outstanding under Powergen Share Option Schemes:

<i>Name</i>	<i>Number of Powergen ADSs under option</i>	<i>Date of grant</i>	<i>Exercise price per Powergen ADS (US dollars)</i>	<i>Exercise Dates</i>	
				<i>From</i>	<i>To</i>
Victor Staffieri	38,890*#	11.12.00	\$35.13	11.12.00	03.02.09
	40,179#	02.03.01	\$39.225	02.03.02	02.03.11
	10,832#	30.04.01	\$41.15	30.04.02	30.04.11

\* This option over 38,890 ADSs (the "Converted Option") was granted to Mr Staffieri following Powergen's acquisition of LG&E on 11 December 2000 in substitution for an option granted to Mr Staffieri under LG&E's Long-Term Incentive Plan. On retention of this option (or retention of the resulting ADSs following exercise) by Mr Staffieri for two years from the LG&E completion, Mr Staffieri is entitled under his employment agreement to a further 9,722 ADSs (that is, one quarter of the ADSs under the Converted Option) without payment. In the event of a change of control of Powergen (which, for these purposes, will occur if the resolutions to be proposed at the Court Meeting and Extraordinary General Meeting are duly passed), Mr Staffieri will be entitled to these further ADSs irrespective of exercise of the Converted Option.

# Granted during disclosure period.

- (v) Mr Staffieri has an interest in ADSs through his holding of 7,688 Restricted ADSs, as described in section 8(a)(iv) below.
- (vi) As a participant in the savings retirement plan operated by LG&E, Mr Staffieri, in common with all other eligible employees of LG&E, holds units in the Powergen equity sub-fund; these units corresponding to approximately 13 ADSs.
- (vii) As at the close of business on 20 March 2002 (the latest practicable date prior to the publication of this document), the following advisers of Powergen (or persons in the same group as advisers of Powergen) owned or controlled the following Powergen Shares:

<i>Name</i>	<i>Number of Powergen Shares</i>
Dresdner Kleinwort Wasserstein Securities Limited	100,000

These Powergen Shares are held as an equity hedge against an equity swap versus one month Sterling LIBOR which expires on 9 May 2002.

**(b) Interests in the shares of members of the E.ON Group**

- (i) As at the close of business on 20 March 2002 (the latest practicable date prior to the publication of this document) the Powergen Directors and their immediate families had no interests in the shares of members of the E.ON Group.
- (ii) Allianz Aktiengesellschaft ("Allianz") owns more than five per cent. but less than ten per cent. of the voting share capital of E.ON.

In accordance with its disclosure obligations under German securities law, Allianz notified E.ON on 2 August 2001 that, as at that date, it held 7.59 per cent. of the voting share capital of E.ON. Allianz is now under no further obligation to disclose its interest in the voting share capital of E.ON unless its interest passes above ten per cent. or falls below five per cent. of the voting share capital of E.ON. Allianz has not notified E.ON of any changes to its interest in the voting share capital of E.ON since 2 August 2001.

**(c) Dealings in Powergen Shares**

- (i) The following Powergen Directors, members of their immediate families or related trusts and connected persons (within the meaning of section 346 of the Act) have dealt for value in Powergen Shares during the disclosure period:

<i>Name</i>	<i>Nature of transaction</i>	<i>Date of transaction</i>	<i>Number of Powergen Shares</i>	<i>Price per Powergen Share (£)</i>
Edmund Wallis	2000 Profit-sharing scheme award	16.03.2000	157	3.65
	PEP Re-investments	10.05.2000	1,110	4.370
	PEP Re-investments	26.07.2000	94	5.885
	PEP Re-investments	08.11.2000	400	5.60
	PEP Re-investments	27.12.2000	42	6.22
	2001 Profit-sharing scheme award	30.03.2001	73	7.160
	PEP Re-investments	04.04.2001	790	7.050
	PEP Tax Reclaim	23.05.2001	86	7.160
	PEP Re-investments	20.06.2001	280	7.205
	PEP Re-investments	22.08.2001	32	7.375
	PEP Re-investments	19.09.2001	280	7.305
	PEP Tax Reclaim	21.11.2001	32	7.435
	PEP Re-investments	19.12.2001	308	7.495
	Nick Baldwin	2000 Profit-sharing scheme award	16.03.2000	157
PEP Re-investments		10.05.2000	51	4.370
Acquisition of shares under the Dividend Re-investment Plan		10.05.2000	189	4.530
PEP Re-investments		26.07.2000	4	5.895
Acquisition of shares under the Dividend Re-investment Plan		03.11.2000	70	5.790
PEP Re-investments		08.11.2000	16	5.600
Acquisition of shares under the Dividend Re-investment Plan		30.03.2001	133	7.270
2001 Profit-sharing scheme award		30.03.2001	73	7.160
PEP Re-investments		04.04.2001	35	7.050
PEP Tax Reclaim		23.05.2001	4	7.160
Acquisition of shares under the Dividend Re-Investment Plan		15.06.2001	52	7.170
PEP Re-investments		20.06.2001	11	7.205
Exercise of Options on maturity of Sharesave scheme		11.09.2001	4,575	3.770
Acquisition of shares under the Dividend Re-investment Plan		14.09.2001	51	7.350
PEP Re-investments		19.09.2001	13	7.305
Acquisition of shares under the Dividend Re-investment Plan		14.12.2001	107	7,445
PEP Re-investments	19.12.2001	13	7,485	
Peter Hickson	2000 Profit-sharing scheme award	16.03.2000	157	3.650
	2001 Profit-sharing scheme award	30.03.2001	73	7.160
Dr. Paul Golby	2000 Profit-sharing scheme award	16.03.2001	157	3.65
	2001 Profit-sharing scheme award	30.03.2001	73	7.160

- (ii) During the disclosure period, options in respect of Powergen Shares were granted to Powergen Directors as indicated in section 6(a)(ii) and (iv) above.

(iii) During the disclosure period, the following changes took place in the interests of Powergen Directors in Powergen Shares held in trust under the provisions of Powergen's Restricted Share Plan:

<i>Name</i>	<i>Nature of transaction</i>	<i>Date of transaction</i>	<i>Number of Powergen Shares</i>	<i>Price per Powergen Share (£)</i>
Edmund Wallis	Exercise of options on shares having been awarded and vested under a Medium Term Bonus Award	18.04.00	19,989	4.3625
	Lapse of options held under a Medium Term Bonus Award	25.05.00	(21,277)	0.00
	Lapse of options held under a Medium Term Bonus Award	13.05.01	(19,480)	0.000
Nick Baldwin	Re-investment of dividend on shares held under a Bonus Enhancement Award	10.05.00	330	4.485
	Medium Term Bonus Award Grant	22.05.01	22,377	0.000
	Re-investment of dividend on shares held under a Bonus Enhancement Award	03.11.00	122	5.730
	Re-investment of dividend on shares held under a Bonus Enhancement Award	30.03.01	227	7.150
	Re-investment of dividend on shares held under a Bonus Enhancement Award	15.06.01	106	7.170
	Re-investment of dividend on shares held under a Bonus Enhancement Award	14.09.01	105	7.310
	Re-investment of dividend on shares held under a Bonus Enhancement Award	17.12.01	105	7.445
Peter Hickson	Re-investment of dividend on shares held under a Bonus Enhancement Award	10.05.00	1,464	4.485
	Vesting of shares under Annual Bonus Scheme into own name	08.06.00	(11,337)	5.000
	Re-investment of dividend on shares held under a Bonus Enhancement Award	03.11.00	367	5.730
	Re-investment of dividend on shares held under a Bonus Enhancement Award	30.03.01	692	7.150
	Medium Term Bonus Award Grant	22.05.01	16,839	0.000
	Re-investment of dividend on shares held under a Bonus Enhancement Award	15.06.01	289	7.170
	Lapse of options held under a Medium Term Bonus Award	26.07.01	(16,321)	0.000
	Re-investment of dividend on shares held under a Bonus Enhancement Award	14.09.01	288	7.310
	Re-investment of dividend on shares held under a Bonus Enhancement Award	14.12.01	286	7.445

During the disclosure period, the independent trustee of the Powergen Employee Share Trust dealt in Powergen Shares for the purposes of satisfying its obligations under the Powergen Restricted Share Plan. Although the Powergen Directors with service contracts are technically interested in all shares the subject of such dealings by the Powergen Employee Share Trust by virtue of the Act, it is not expected that those directors will receive any benefit from shares held by the Powergen Employee Share Trust other than pursuant to the Powergen Share Schemes as specified in section 6(a) above.

- (iv) The following persons deemed to be acting in concert with E.ON or E.ON UK have dealt for value in Powergen Shares and Powergen ADSs during the disclosure period:

Powergen Shares

Name	Nature of transaction	Date of transaction	Number of Powergen Shares	Price per Powergen Share (£)
Goldman Sachs International	Buy	25.04.00	7,200	4.055
Goldman Sachs International	Sell	25.04.00	720	4.055
Goldman Sachs International	Sell	26.04.00	6,480	4.0525
Goldman, Sachs & Co.	Buy	28.11.00	3,000	5.85
Goldman, Sachs & Co.	Sell	28.11.00	3,000	8.3576
Goldman, Sachs & Co.	Buy	01.12.00	300	8.1855
Goldman, Sachs & Co.	Sell	01.12.00	300	5.73
Goldman Sachs International	Sell	05.12.00	58,400	5.7702
Goldman, Sachs & Co.	Sell	11.12.00	2,700	5.765
Goldman, Sachs & Co.	Buy	08.01.01	15,300	6.145

Powergen ADSs

Name	Nature of transaction	Date of transaction	Number of Powergen ADSs	Price (US\$)
Goldman, Sachs & Co.*	Sell	03.03.00	180	28%
Goldman, Sachs & Co.*	Sell	14.03.00	2,060	24%
Goldman, Sachs & Co.*	Sell	11.04.00	470	26%
Goldman, Sachs & Co.	Buy	27.09.00	300	31%
Goldman, Sachs & Co.	Buy	27.09.00	500	31%
Goldman, Sachs & Co.	Buy	27.09.00	500	31%
Goldman, Sachs & Co.	Buy	27.09.00	1,000	31%
Goldman, Sachs & Co.	Buy	27.09.00	1,000	31%
Goldman, Sachs & Co.	Buy	28.09.00	100	31%
Goldman Sachs International	Buy	05.12.00	14,600	33.2302

\*Discretionary Manager

- (v) The following person deemed to be acting in concert with Powergen has dealt for value in Powergen Shares during the disclosure period:

Name	Nature of transaction	Date of transaction	Number of Powergen Shares	Price per Powergen Share (pence)
Dresdner Kleinwort Wasserstein Securities Limited	Sell	11.07.00	25,000	598.5
	Sell	11.07.00	25,000	600
	Buy	21.07.00	25,000	596
	Buy	21.07.00	25,000	596
	Buy	31.07.00	48,000	586.36
	Sell	23.08.00	48,000	592
	Sell	08.01.01	10,000	610
	Buy	08.01.01	10,000	614
	Buy	08.01.01	10,000	614
	Buy	08.01.01	54,000	614.17
	Buy	08.01.01	54,000	614.17
	Sell	08.01.01	10,000	617
	Sell	12.01.01	54,000	616
	Sell	12.01.01	54,000	616
	Buy	07.02.01	4,000	707
	Sell	07.02.01	4,000	708
	Sell	07.02.01	1,000	708
	Buy	19.06.01	1,000	719.45

These trades were all contracts for difference and these positions have now all been closed.

(d) **General**

- (i) Save as disclosed above, as at the close of business on 20 March 2002 (the latest practicable date prior to the publication of this document), no Powergen Director nor any member of their immediate families or related trusts or connected persons (within the meaning of section 346 of the Act), owned or controlled or (in the case of the Powergen Directors, their immediate families and related trust or

- connected persons) was interested, directly or indirectly, in any relevant securities nor has any such person dealt for value therein during the disclosure period.
- (ii) Save as disclosed above, as at the close of business on 20 March 2002 (the latest practicable date prior to the publication of this document), neither E.ON nor E.ON UK, nor any directors of E.ON or E.ON UK, nor any member of their immediate families or related trusts, nor any person deemed to be acting in concert with E.ON or E.ON UK, owned or controlled or (in the case of the directors of E.ON or E.ON UK, their immediate families and related trusts) was interested, directly or indirectly, in any relevant securities, nor has any such person dealt for value therein during the disclosure period.
  - (iii) Save as disclosed herein, as at 20 March 2002 (the latest practicable date prior to the publication of this document) no bank, stockbroker, financial or other professional adviser (other than an exempt market maker) to Powergen (nor any person controlling, controlled by, or under the same control as such bank, stockbroker, financial or other professional adviser) nor any subsidiary of Powergen nor any pension fund of Powergen or of any of its subsidiaries, nor any person whose investments are managed on a discretionary basis by a fund manager (other than an exempt fund manager) which is controlled by, controls or is under the same control as Powergen or any bank, stockbroker, financial or other professional adviser to Powergen, owned or controlled any relevant securities nor has any such person dealt for value therein during the disclosure period.
  - (iv) No arrangement exists between any person and Powergen or any associate of Powergen or E.ON or E.ON UK or any person acting in concert with E.ON or E.ON UK in relation to relevant securities including, in addition to indemnity and option arrangements, any agreement or understanding, formal or informal, of whatever nature, which may be an inducement to deal or refrain from dealing.
  - (v) No agreement, arrangement or understanding (including any compensation arrangement) exists between E.ON or E.ON UK or any party acting in concert with E.ON or E.ON UK for the purposes of the Acquisition and any of the directors, recent directors, shareholders or recent shareholders of Powergen having any connection with or dependence on, or which is conditional on the outcome of, the Acquisition.
  - (vi) There is no agreement, arrangement or understanding by which the beneficial ownership of any of the Powergen Shares to be acquired pursuant to the Acquisition will be transferred to any other person, save that E.ON UK reserves the right to transfer any such shares to any other member of the E.ON Group or to a nominee.
  - (vii) No proposal exists in connection with the Acquisition whereby any payment or other benefit shall be made or given by E.ON or E.ON UK or any other person acting in concert with E.ON or E.ON UK for the purposes of the Acquisition to any Powergen Director as compensation for loss of office or as consideration for or in connection with his loss of office.
  - (viii) Powergen has not redeemed or purchased any Powergen Shares during the disclosure period.
  - (ix) For the purposes of this section 6:
    - (A) "disclosure period" means the period commencing on 17 January 2000 (being the date 12 months prior to the date on which Powergen announced that it was in preliminary discussions with E.ON which may or may not lead to an offer being made for Powergen) and ending on 20 March 2002 (the latest practicable date prior to the publication of this document);
    - (B) "relevant securities" means Powergen Shares and securities convertible into, or exchangeable for, rights to subscribe for and options (including traded options) in respect of, or derivatives or covered warrants referenced to, Powergen Shares as the case may be;
    - (C) "derivative" includes any financial product whose value, in whole or in part, is determined directly or indirectly by reference to the price of an underlying security but which does not include the possibility of delivery of such underlying security;
    - (D) references to "acting in concert" have the same meaning as in the Code;
    - (E) references to an "associate" are to:
      - (i) a company's subsidiaries and associated companies and companies of which any such subsidiaries or associated companies are associated companies;

- (ii) banks, financial and other professional advisers (including stockbrokers) to the companies or company covered in (i) above, including persons controlling, controlled by or under the same control as such banks, financial or other professional advisers;
  - (iii) the directors of the company and the directors of any company covered in (i) above (together in each case with their close relatives and related trusts); and
  - (iv) the pension funds of the company or a company covered in (i) above;
- (F) references to a "bank" does not apply to a bank whose sole relationship with Powergen or a company covered in paragraph (E)(i) above is the provision of normal commercial banking services or such activities in connection with the Acquisition as handling acceptances and other registration work; and
- (G) ownership or control of 20 per cent. or more of the equity share capital of a company is regarded as the test of associated company status and "control" means a holding, or aggregate holdings, of shares carrying 30 per cent. or more of the voting rights attributable to the share capital of the company which are currently exercisable at a general meeting, irrespective of whether the holding gives de facto control.

## **7. Powergen Share Schemes**

Participants in each of the Powergen Share Schemes will be notified separately of the impact of the Scheme on their holdings, including tax consequences.

Following the Scheme becoming effective, no further grants will be made under the Powergen Share Schemes.

### **(a) Powergen 1998 Profit Sharing Scheme**

The Scheme extends to any Powergen Shares held on behalf of employees and former employees by the trustee of the Powergen 1998 Profit Sharing Scheme, which is approved by the Inland Revenue. Participants will be entitled to the same consideration as that available to Powergen Shareholders in relation to the Scheme.

### **(b) Powergen Share Option Schemes**

All subsisting options under the Powergen Share Option Schemes which are not already exercisable will become exercisable on the Hearing Date (save that options under the Powergen Long-Term Incentive Plan will become exercisable on 19 April 2002 if the resolutions to be considered at the Court Meeting and the Extraordinary General Meeting on that date are duly passed). All Powergen Shares issued on the exercise of options prior to the close of business on the Business Day preceding the Hearing Date will be subject to the Scheme, but the Scheme will not extend to Powergen Shares issued, including on the exercise of options, after that time. The effect of the amendment to Powergen's Articles of Association to be proposed at the Extraordinary General Meeting (set out in the notice of the Extraordinary General Meeting at the end of this document) will be that, if the Scheme becomes effective, each Powergen Share issued on the exercise of options after the close of business on the Business Day preceding the Hearing Date will be compulsorily acquired by E.ON UK, or as it may direct, for the same cash consideration as that paid in respect of each Scheme Share (or the equivalent Loan Note consideration).

Alternatively, holders of options under the Powergen Share Option Schemes will be offered the opportunity, subject to the Scheme becoming effective, to cancel their options in return for a cash payment from a member of the E.ON Group equal to the difference between the cash consideration paid in respect of each Scheme Share and the exercise price under the relevant option, multiplied by the number of Powergen Shares which are capable of being acquired on exercise of the option.

Participants in the Powergen Sharesave Scheme and the Powergen Sharesave Scheme (1998) will be entitled to exercise their options within the period of six months following the Hearing Date. The number of Powergen Shares which they may acquire on exercise will be restricted to that number which can be acquired at the exercise price with their accumulated monthly savings. As a result, save for contracts which mature within six months of the Hearing Date, participants will be able to acquire fewer Powergen Shares than could have been acquired on maturity of the savings contract. Accordingly, participants holding Powergen Sharesave Scheme and Powergen Sharesave Scheme (1998) options granted prior to the date of announcement of the Acquisition on 9 April 2001 will,

subject to the Scheme becoming effective, be entitled to a cash payment from a member of the E.ON Group equal to the additional profit which they would have made if they had continued to save for a further six months following expiry of the exercise period stated above. Edmund Wallis, Peter Hickson and Dr. Paul Golby hold Sharesave options entitling them, on the same terms as other optionholders, to a payment of approximately £2,585 each, before taxation.

Any performance target attaching to options granted under the Powergen Executive Share Option Scheme and the Powergen Executive Share Option Scheme (1998) will cease to apply where options are exercised following the Hearing Date.

(c) Powergen Restricted Share Plans

The Powergen Restricted Share Plans provide for the grant of two categories of award – medium term bonus awards and bonus enhancement awards. The number of Powergen Shares released under medium term bonus awards is generally dependent on the performance of Powergen over a five year period, with no shares being released if Powergen is in the lower half of its comparator group by reference to total shareholder return, and with the full number of shares being released if Powergen is in the top quartile. Under bonus enhancement awards, participants are entitled to take bonuses in the form of Powergen Shares, with those shares being held in trust; after three years, additional matching shares will be transferred to the participant subject to the satisfaction of certain conditions.

The effect of the Scheme will be that, in accordance with the rules of the Powergen Restricted Share Plans, all Powergen Shares under medium term bonus awards will be released in full (irrespective of the performance condition), and all Powergen Shares under bonus enhancement awards (that is, those bought with bonus and additional matching shares) will also be released early. The Powergen Employee Share Trust holds sufficient Powergen Shares to satisfy these awards in full.

Edmund Wallis, Nick Baldwin, Peter Hickson and Dr. Paul Golby participate in the Restricted Share Plans and details of their awards are set out in section 6(a)(iii) above. No awards have been made under the Restricted Share Plans in 2002.

(d) Powergen Long-Term Incentive Plan

The Powergen Long-Term Incentive Plan provides for the grant of “performance units”, and such grants have been made to US-based executives (including Mr Staffieri, an executive director of Powergen). The vesting of these performance units is normally dependent on corporate performance measured in terms of the growth of LG&E’s cash flow during a three year performance period. Under the rules of the plan, these units will vest on 19 April 2002 if the resolutions to be considered at the Court Meeting and the Extraordinary General Meeting on that date are duly passed. In this event, the units will be valued by reference to the extent to which the performance conditions are satisfied over the period ending on the vesting date or, if higher, the value of the units when they were granted. Although the corporate performance condition cannot be tested until the vesting date, it is anticipated that the value of the performance units will be determined by reference to their value when they were granted. In accordance with the rules of the plan, a cash payment will be made in satisfaction of the amount due.

Certain senior executives of LG&E (including Mr Staffieri) are contractually entitled to participate in the Long-Term Incentive Plan each year. Accordingly, the Remuneration Committee has made a grant of performance units to these individuals in respect of 2002, which will vest on the basis described above if the resolutions to be considered at the Court Meeting and the Extraordinary General Meeting are duly passed. No grants of share options will be made to these individuals in respect of 2002.

(e) Section 401(k) retirement plan for US employees

All US-based employees in service at 1 January 2001 and 2 July 2001 were allocated an interest in Powergen ADSs in the form of units in a special equity sub-fund constituted under a section 401(k) retirement plan operated by LG&E, to the value of \$500 per participant. The Scheme extends to the Powergen ADSs held under this plan, and the custodian of the plan will receive cash in respect of the units held by participants. Participants will be notified of the investment choices available to them in respect of the cash received.

## 8. Powergen Directors' Service Contracts and Letters of Appointment

### (a) Service Contracts

- (i) Each of the following Powergen Directors has a service contract with a Powergen Group company, details of which are as follows:

<i>Director</i>	<i>Date of Contract</i>	<i>Salary from 1 January 2002</i>	<i>Salary before 1 January 2002</i>
Edmund Wallis	31 March 1991	£520,000	£520,000
Nick Baldwin	8 October 2001	£435,000	£400,000
Peter Hickson	9 December 1996	£340,000	£330,000
Victor Staffieri	25 February 2000	\$630,000	\$600,000
Dr. Paul Golby*	1 June 2001	£265,000	£235,000

\* Appointed a Powergen Director on 21 January 2001. On 4 February 2002, Dr. Paul Golby's service contract was amended to provide for a salary of £300,000 per annum with effect from 21 January 2002.

- (ii) Mr Wallis's service contract was amended on 21 February 2001 in connection with his change in status from Chief Executive to Chairman. Mr Wallis is currently employed as Chairman for a fixed term ending on 28 February 2003, at a salary of £520,000 per annum until 28 February 2002 and thereafter a salary of £200,000 per annum. Mr Wallis has been paid a bonus of £130,000 for the year ended 28 February 2002, but is not entitled to any bonus in respect of the remainder of the period to 28 February 2003. Mr Wallis has ceased to accrue pension benefits having reached the age of 62 on 28 February 2001. Mr Wallis is entitled to the provision of a company car and private health cover. In the event that Powergen UK plc terminates Mr Wallis's employment at any time prior to 28 February 2003 (other than for misconduct), Mr Wallis will be entitled to receive a sum equal to £950,000 less the gross amounts of any salary or bonus paid to Mr Wallis in the period from 1 March 2001 to the date of termination.

As announced on 29 January 2002, it is intended that Mr Wallis will assume the role of Chief Executive Officer and Deputy Chairman of Powergen following completion of the Acquisition. No terms have been agreed with Mr Wallis regarding this appointment.

- (iii) Nick Baldwin, Peter Hickson and Dr. Paul Golby are entitled under their service contracts to benefits, including eligibility to participate in Powergen's bonus schemes, the provision of a company car, provision of private health cover, participation in the Electricity Supply Pension Scheme and participation in an unapproved unfunded pension scheme. Each of their service contracts are subject to termination by either party giving not less than one year's notice (or two years in the circumstances described below). Each of their appointments will automatically terminate on attainment of age 60.

In the event of a change of control of Powergen UK plc or Powergen, the notice period of each of Messrs Baldwin and Hickson is automatically extended to two years. If the employment of either of Messrs Baldwin or Hickson is terminated within the period of two years following the earlier of such a change of control or the announcement of a change of control ("Protected Period"), Powergen UK plc is required to make a payment on termination ("Termination Payment"). Powergen UK plc is also required to make a Termination Payment if during the Protected Period Messrs Baldwin or Hickson terminates his employment in certain specified constructive dismissal events including: any reduction in his remuneration; any change in his title without his consent; any reduction in his authority, duties or responsibilities without his consent; the assignment to him of any position, duties or responsibilities inconsistent with his status and authority immediately prior to the announcement of the change of control event; his normal place of work being moved to a location outside the United Kingdom; him ceasing to hold the office of director for any reason (other than his resignation or him becoming prohibited or disqualified in law from acting as a director); or where, during the Protected Period, he is unable to perform his duties by reason of the actions of Powergen or any shareholder and he has served notice of this fact and Powergen has failed to remedy the situation within three months.

The Termination Payment payable to Messrs Baldwin and Hickson shall be an amount equal to the aggregate of the following: (a) twice his gross annual salary at the rate current on the date of termination of employment (the "Termination Date"); (b) twice his target annual bonus (being 25 per cent. of gross annual salary) for the financial year in which the Termination Date falls; and (c) an amount determined by an actuary equal to the excess of the capital value on the Termination Date

of the pension and other benefits which would be payable under Powergen's retirement benefit schemes had Messrs Baldwin or Hickson continued in employment until the second anniversary of the Termination Date or (if earlier) his normal retirement date, over the capital value at the Termination Date of such pension and other benefits actually payable under Powergen's retirement benefit schemes. The Termination Payment shall not be reduced on account of mitigation. Where notice of termination of employment is given by Powergen, the Termination Payment shall be reduced pro rata by reference to any period of notice actually served by Messrs Baldwin or Hickson.

As announced on 29 January 2002, Messrs Baldwin and Hickson have, following discussions with E.ON as to their future role within the Enlarged Group, indicated their intention to leave Powergen following completion of the Acquisition. In accordance with their service contracts, Messrs Baldwin and Hickson will become entitled to the Termination Payment (as described above) on termination of their employment.

- (iv) Mr Staffieri is employed under an Employment and Severance Agreement dated 25 February 2000 as amended (including upon Mr Staffieri's appointment as Chief Executive Officer of LG&E on 30 April 2001) (the "Agreement"). The Agreement, which became effective on completion of Powergen's acquisition of LG&E on 11 December 2000 ("LG&E Completion"), is for an initial term of two years from LG&E Completion but will be automatically extended each year thereafter unless LG&E or Mr Staffieri gives notice of non-renewal. In addition to base salary, Mr Staffieri is entitled to participate in bonus arrangements on the basis of a target annual bonus of 70 per cent. of base salary with effect from his appointment as Chief Executive Officer of LG&E, which will be subject to a guaranteed minimum of 75 per cent. of target annual bonus for 2002. Mr Staffieri is also entitled to certain contractual benefits, including life insurance cover (and a further payment to cover tax liabilities on this benefit, calculated on a grossed-up basis).

The Agreement provides for the payment of retention amounts to Mr Staffieri (in common with other senior executives of LG&E whom Powergen regarded as essential to the success of its acquisition of LG&E). On LG&E Completion, Mr Staffieri became entitled to a payment of \$600,000, which has been paid to him. Mr Staffieri is entitled, subject to continued employment with LG&E at the date of payment, to three additional retention payments (of \$809,000, \$809,000 and \$774,330 respectively) at six-monthly intervals following LG&E Completion. These amounts have been credited to Mr Staffieri's deferred compensation plan and the amount payable will be adjusted in accordance with the terms of that plan. A fourth retention payment of \$262,835 is also payable eighteen months following LG&E Completion. All retention amounts are payable earlier in certain circumstances. The first two additional retention payments have been made at the relevant six-monthly intervals (the adjusted amounts paid being \$833,111 and \$886,772 respectively). Mr Staffieri's entitlement to the third and fourth additional retention payments will be accelerated by a change of control of Powergen (which, for these purposes, will occur if the resolutions to be proposed at the Court Meeting and Extraordinary General Meeting are duly passed), provided that Mr Staffieri remains in LG&E's employment until that date. Mr Staffieri is entitled to elect for such payments to continue to be held in his deferred compensation plan. However, if Mr Staffieri elects to receive payment, the amount payable would be approximately \$845,590 in respect of the third retention payment and \$262,835 in respect of the fourth retention payment.

Under these retention arrangements, Mr Staffieri is entitled under the Agreement to 7,688 ADSs (the "Restricted ADSs") if he remains in employment with LG&E until eighteen months following LG&E Completion. Mr Staffieri's entitlement to the Restricted ADSs will likewise be accelerated by the change of control of Powergen (as defined above), provided that Mr Staffieri remains in LG&E's employment until that date. On release of the Restricted ADSs, Mr Staffieri will also be entitled to a payment (in cash or ADSs, at Mr Staffieri's election) equal to the value of dividends paid on the Restricted ADSs during the period since they were awarded to Mr Staffieri.

During 2001 Mr Staffieri was granted 9,710 "performance units" under the Powergen Long-Term Incentive Plan, of which 7,648 were granted on 2 March 2001 and 2,062 were granted on 30 April 2001. Each performance unit has an initial value of \$39,225, corresponding to the market value of an ADS on 2 March 2001. On 21 January 2002, Mr Staffieri was granted a further 25,278 performance units under the Powergen Long-Term Incentive Plan (each performance unit having an initial value of \$43,615, corresponding to the market value of an ADS on that date) in recognition of the contractual entitlement of Mr Staffieri and other senior executives of LG&E to participate in the Powergen Long-Term Incentive Plan in 2002 (as described in section 7(d) above). The vesting of these performance units is normally dependent on corporate performance measured in terms of the

achievement of certain cash flow targets by LG&E during a three year performance period. Mr Staffieri's entitlement to these performance units will be accelerated by the change of control of Powergen (as defined above), provided that Mr Staffieri remains in LG&E's employment until that date. In these circumstances, the performance units will be valued by reference to the extent to which the performance conditions are satisfied over the period ending with the change of control or, if higher, the value of the performance units when they were granted to Mr Staffieri. Although the date for testing the corporate performance conditions has not yet occurred, it is anticipated that the value of the performance units will be determined by reference to their value when they were granted to Mr Staffieri. In this event, Mr Staffieri would become entitled to a payment of \$1,483,375.

If Mr Staffieri's employment is terminated by LG&E (including as a result of LG&E giving notice not to extend the term of the Agreement, but not if LG&E is terminating for cause) or by Mr Staffieri in certain constructive dismissal situations, within two years following a change of control of Powergen (as defined above). Mr Staffieri is entitled to a severance amount equal to 2.99 times the sum of his base salary and a specified amount in respect of annual bonus entitlement. In addition, Mr Staffieri is entitled to payment of all accrued remuneration, to continued provision of certain benefits for a period of three years from termination and to an amount in respect of outplacement services. Further, any payments to Mr Staffieri which would equal or exceed an amount which would constitute a non-deductible payment pursuant to relevant US tax law and which would be subject to an excise tax imposed under such law will be increased to ensure that Mr Staffieri receives an amount as if no excise tax had been imposed. If Mr Staffieri's employment is terminated by LG&E (including as a result of LG&E giving notice not to extend the term of the Agreement, but not if LG&E is terminating for cause), or by Mr Staffieri in certain constructive dismissal situations, but not following a change of control, Mr Staffieri is entitled to a severance amount equal to the sum of his base salary and a specified amount in respect of annual bonus entitlement, divided by twelve, and then multiplied by twenty-four. In addition, Mr Staffieri is entitled to payment of all accrued remuneration, to continued provision of certain benefits for a period of two years from termination and to an amount in respect of outplacement services.

- (v) Save as referred to above, there is no contract of service of any Powergen Director with Powergen or any of its subsidiaries which has more than 12 months to run and no such contract has been entered into or amended within six months prior to the date of this document.

(b) Letters of Appointment

The Non-Executive Directors of Powergen do not have service contracts, and serve Powergen under the terms of letters of appointment. Each of the Non-Executive Directors is entitled to a fee of £25,000 per annum; Sydney Gillibrand is entitled to an additional fee of £5,000 per annum as chairman of the Audit Committee.

## 9. Material contracts

The following contracts, not being contracts entered into in the ordinary course of business, have been entered into by members of the Powergen Group during the period beginning two years before 17 January 2001 (being the date on which Powergen announced that it was in preliminary discussions with E.ON which may or may not lead to an offer being made for Powergen) and ending on 20 March 2002 (the last practicable date prior to the publication of this document) and are or may be material:

- (a) In connection with the Acquisition, E.ON and Powergen entered into the Letter Agreement dated 8 April 2001. Under the Letter Agreement:
  - (i) Powergen agreed that it would not, without the consent of E.ON, solicit or initiate discussions with third parties in relation to the acquisition of 10 per cent. of more of the share capital of Powergen. However, Powergen is permitted to implement a competing proposal which is not initiated by Powergen if required by the fiduciary duties of the directors of Powergen;
  - (ii) Powergen undertook not to take any action which it is aware would cause any of the pre-conditions (the "Pre-conditions") or conditions to the Acquisition not to be satisfied in a material respect in the period prior to the Acquisition becoming unconditional, without the consent of E.ON (such consent not to be unreasonably withheld or delayed);

- (iii) Powergen agreed to pay an inducement fee of £50 million if (i) the Acquisition lapses or is withdrawn following a competing proposal that is recommended by a majority of the Powergen Directors, and such proposal is completed; (ii) the Acquisition lapses or is withdrawn following a withdrawal of the recommendation of the Acquisition by more than one of the Powergen Directors; (iii) E.ON elects, with the consent of Powergen, to implement the Acquisition by way of scheme of arrangement and the scheme of arrangement does not become effective as a result of the Powergen Directors failing to take the necessary agreed action; or (iv) the Acquisition lapses or is withdrawn following a material breach of the Letter Agreement by Powergen or Powergen knowingly taking any action which prevents a Pre-condition or condition of the Acquisition from being satisfied in a material respect and intending to prevent it from being so satisfied. E.ON agreed to pay to Powergen an inducement fee of at least £50 million, depending on the circumstances, if it does not fulfil certain of its obligations under the Letter Agreement or if certain other requirements relating to the Pre-conditions are not fulfilled; and
- (iv) E.ON and Powergen agreed to co-operate in respect of filings with regulatory authorities and E.ON agreed that it would not refuse to accept regulatory requirements that both parties had been advised would be necessary. E.ON and Powergen agreed that the Panel would determine issues as to materiality that arose in respect of the Pre-conditions.

The Letter Agreement will terminate (and the obligations of the parties, including E.ON's obligation to make the Offer, will lapse) if the Pre-conditions are not satisfied by the close of business (London time) on 9 July 2002.

- (b) On 19 March 2002, E.ON and Powergen entered into a supplemental letter agreement pursuant to which E.ON has agreed to extend its obligations under the Letter Agreement to pay an inducement fee to Powergen, in certain circumstances, if the pre-conditions relating to PUHCA that have been waived by E.ON and have become conditions of the Acquisition are not satisfied.
- (c) An agreement and plan of merger dated 27 February 2000 between (1) Powergen, (2) LG&E Energy, (3) a Delaware Corporation formed as an indirect wholly owned subsidiary of Powergen ("US Subholdco 2") and (4) a Kentucky Corporation to be formed as a direct wholly owned subsidiary of US Subholdco 2, under which Powergen agreed to acquire all of the outstanding shares of LG&E Energy at a price of \$24.85 in cash for each LG&E Energy share, valuing the equity of LG&E Energy at a total of \$3,233 million on a fully diluted basis. The acquisition was effected by a statutory merger under Kentucky law, whereby an indirect wholly owned subsidiary of Powergen merged with and into LG&E Energy and, as a result, became an indirect subsidiary of Powergen on completion. Completion of the acquisition was subject to certain conditions, including receipt of certain regulatory and governmental approvals. The agreement also contained certain representations, warranties and indemnities by Powergen and LG&E Energy. For three years after completion of the acquisition, the board of directors of LG&E Energy will consist of three directors, one of whom will have been an officer or director of LG&E Energy at completion.
- (d) A sale and lease agreement dated 30 April 1999, together with an amendment agreement dated 8 July 1999, each made between (1) Powergen UK plc and (2) Edison First Power Limited ("EFP") under which Powergen UK plc agreed to sell and lease, and EFP agreed to purchase and to take on the lease of, the assets and land of the Ferrybridge 'C' power station for a cash consideration of £510 million. This premium was subject to a post-completion adjustment upon the issuance by the Environment Agency of certain environmental controls relating to the power station. In addition, the agreement includes certain warranties and indemnities by Powergen UK plc.
- (e) A sale and lease agreement dated 30 April 1999, together with an amendment agreement dated 8 July 1999, each made between (1) Powergen UK plc and (2) EFP under which Powergen UK plc agreed to sell and lease, and EFP agreed to purchase and to take on the lease of, the assets and land of the Fiddler's Ferry power station for a cash consideration of £526 million. This premium was subject to a post-completion adjustment upon the issuance by the Environmental Agency of certain environment controls relating to the power station. In addition, the agreement includes certain warranties and indemnities by Powergen UK plc.
- (f) (i) On 7 December 2000, Powergen UK plc ("Powergen UK") entered into a Joint Venture Agreement with CLP Power International Limited ("CLP"), which was amended by agreements dated 23 February 2001 and 21 December 2001 between the same parties, relating to various joint venture companies (the "Joint Venture Companies") established to acquire Powergen

UK's Australian, Indian and other Asian assets. The Joint Venture Companies are, or are to be, 80 per cent. owned by CLP and 20 per cent. owned by Powergen. Under the agreement, in certain circumstances, Powergen has the right to sell its shares in the Joint Venture Companies to CLP and CLP has the right to acquire Powergen shares in the Joint Venture Companies, at an arm's length price to be agreed between the parties or to be determined independently, subject to an adjustment of  $\pm 15$  per cent. in case of fault by one of the parties. The agreement also provides that Powergen has the right to sell to CLP Powergen Southeast Asia Limited, a Joint Venture Company, and CLP Powergen Southeast Asia Limited has the right to acquire Powergen UK's and Powergen Holdings BV's interest in a 1,220 MW power station at Paiton, Indonesia, subject to a number of conditions, for an arm's length price to be agreed by the parties or to be determined independently following the restructuring of the project. This put and call option arrangement was subsequently set out in a separate agreement dated 2 August 2001 between Powergen UK, Powergen Holdings BV, CLP, Ergon Energy Limited and CLP Powergen Southeast Asia Limited.

- (ii) On 7 December 2000, Powergen UK, Powergen Holdings BV, CLP and CLP Powergen Sdn Bhd (formerly know as Organic Power Sdn Bhd), a Joint Venture Company, entered into a sale and purchase agreement under which, subject to certain conditions and adjustments, Powergen Holdings BV agreed to sell and CLP Powergen Sdn Bhd agreed to acquire Powergen Holding BV's 49.95 per cent. holding in the 1,450 MW coal-fired Yallourn power station in Australia for a cash consideration plus shares in CLP Powergen Sdn Bhd equivalent to 20 per cent. of its issued share capital. On the same date CLP Powergen Sdn Bhd separately agreed to acquire a further 42.05 per cent. holding held by other shareholders.
- (iii) On 7 December 2000, Powergen UK, Powergen Holdings BV, CLP and CLP Powergen India Limited (formerly known as CLP Power Projects I), a Joint Venture Company, entered into a sale and purchase agreement, which was amended by an agreement dated 21 December 2001 between the same parties, under which, subject to certain conditions, Powergen Holdings BV agreed to sell and CLP Powergen India Limited agreed to acquire Powergen Holding BV's 88 per cent. holding in a 655 MW power station at Paguthan in Gujarat, India ("GPEC") (together with a further 12 per cent. holding in GPEC to be purchased by Powergen UK plc pursuant to the agreement referred to in paragraph (iv) below) for a cash consideration plus shares in CLP Powergen India Limited equivalent to 20 per cent. of its issued share capital.
- (iv) On 27 June 2001, Powergen UK and Gujarat Power Corporation Limited ("GPCL"), entered into a sale and purchase agreement under which, subject to certain conditions, GPCL agreed to sell and Powergen UK agreed to acquire GPCL's 12 per cent. shareholding in GPEC for an aggregate consideration of approximately US\$58.6 million, payable in rupees.

The aggregate consideration for the sales by Powergen Holdings BV referred to in paragraphs (ii) and (iii) above is US\$393 million of which US\$361 million has been received for the sale of its 49.95 per cent. holding in the Yallourn power station in Australia and its 88 per cent. holding in the power station in Gujarat, India.

The above sale and purchase agreements contain certain representations, warranties and indemnities by members of the Powergen Group.

- (g) On 11 December 2000, Powergen Holdings BV ("the Vendor") and Powergen UK entered into an agreement with RWE Power Aktiengesellschaft ("RWE") for the sale of the Vendor's 49.9 per cent. shareholding in Turbogás Produtora Energética S.A. ("Turbogás"), which owned Tapada do Outeiro, a 990 MW natural gas-fired CCGT power station based near Oporto in northern Portugal and the Vendor's 75 per cent. shareholding in Portugen Energia S.A. The consideration payable was Euro 182 million. In addition, RWE agreed to purchase the Vendor's shareholder loans to Turbogás at completion. The Vendor's obligations under the agreement were guaranteed by Powergen UK plc. Completion of the sale was subject to certain conditions, including regulatory approvals. The agreement also contained certain representations and warranties by the Vendor.
- (h) On 12 April 2001, the Vendor, Powergen UK, NRG International III, Inc. and NRG Energy, Inc. ("NRG") entered into a sale and purchase agreement for the sale to NRG of the Vendor's mining and power station interests in Germany, including the Powergen Group's stake in Mibrag GmbH and Saale Energie GmbH (owner of Schkopau power station). Also on 12 April 2001, the Vendor, Powergen UK plc, Csepel Luxembourg (No. 1) Sarl and NRG entered into a sale and purchase

agreement for the sale to NRG of the Vendor's power station interests in Hungary, including the wholly owned Hungarian assets, Csepel I and II. The total consideration payable pursuant to these agreements was £130 million. Completion of the transactions was subject to certain conditions, including regulatory approvals. The agreements also contained certain warranties and indemnities by members of the Powergen Group.

- (i) An interest purchase agreement entered into on 5 November 2001 between LG&E Power Inc., American Power, Incorporated and Progress Ventures Inc. under which LG&E Power Inc. and American Power, Incorporated agreed, subject to certain conditions, including receipt of certain regulatory and governmental approvals, to sell the entire ownership interests in LG&E Power Monroe LLC and LG&E Power Tiger Creek LLC for cash consideration of US\$345 million. The agreement includes certain representations, warranties and indemnities by LG&E Power Inc.

## **10. Summary of terms and conditions of use of electronic proxy appointments**

Set out below is a summary of certain material terms and conditions (the "Conditions of Use") governing the use by Powergen Shareholders of the Registrars' electronic proxy appointment service (the "Electronic Proxy Service") in connection with the Court Meeting and the Extraordinary General Meeting. The Conditions are legally binding and should be read carefully before using the Electronic Proxy Service. The Conditions of Use are set out in full on the Registrars' website, which may be accessed by logging on to Powergen's website, [www.powergenplc.com](http://www.powergenplc.com) and clicking on 'Electronic Communications'. Powergen Shareholders will have to enter their 10-digit Shareholder Reference Number and 4-digit PIN number printed on the Forms of Proxy.

### Confirmations

When clicking on the icon "I Agree", the Powergen Shareholder will be deemed to confirm that he, she or it:

- (a) is a shareholder of Powergen or is otherwise duly authorised to submit the Form of Proxy through the Electronic Proxy Service on behalf of such shareholder;
- (b) if the shareholding is a joint holding, is the first named shareholder and has obtained the consent of all other joint holders to participate in the Electronic Proxy Service;
- (c) has read and understood the Conditions of Use and agrees to be bound by them; and
- (d) is either resident in, or a citizen of, the United Kingdom or has otherwise complied with all applicable legal requirements in any other jurisdiction necessary to lawfully make use of the Electronic Proxy Service.

### Security and Confidentiality

In using the Electronic Proxy Service, Powergen Shareholders acknowledge that risks of interception and/or tampering with the communication exist and that confidentiality cannot always be assured. Neither the Company nor the Registrar accepts any responsibility for any interception or tampering or loss of confidentiality which may take place or for any losses, claims, damages or expenses which may be suffered or incurred by any Powergen Shareholder as a result of any such interception or tampering.

### Electronic Proxy Appointment

An appointment of proxy communicated through the Electronic Proxy Service shall only be valid if it is correctly completed and lodged at the address and by the date and time specified in such Form of Proxy. Proxy appointments may, however, be subject to verification on such terms and conditions as the Company or the Registrar may consider appropriate. If verification is not completed to its satisfaction, each of Powergen and the Registrar reserves the right to treat any such appointment of proxy as invalid.

In the event of more than one proxy appointment being made (whether by use of the documentary Proxy Form or the Electronic Proxy Service (each a "relevant proxy form")) then the last relevant

proxy form received at the address specified in such relevant proxy form shall override all previous appointments unless, in the case of documentary Proxy Forms only, the documentary Proxy Form indicates otherwise.

#### Liability

Neither the Registrar nor Powergen shall be liable for any loss or damage suffered or incurred as a result of a Powergen Shareholder using the Electronic Proxy Service unless such loss or damage results directly from the wilful default or fraud of the Registrar or Powergen. In the event that Powergen Shareholders do not comply with the Conditions of Use and this results in loss or damage to the Registrar or Powergen or both, such Powergen Shareholders shall be liable to compensate each of the Registrar and Powergen for any such loss or damage.

#### Disruption to the Service

Each of Registrar and Powergen aims to provide the Electronic Proxy Service in an uninterrupted manner. However, neither Powergen nor the Registrar shall be responsible if, for reasons beyond the control of either Powergen or the Registrar, the Electronic Proxy Service cannot be provided.

#### Software and hardware

Powergen Shareholders are responsible for the maintenance of their computer system and for ensuring they can appoint a proxy through the Electronic Proxy Service. They are also responsible for ensuring all Electronic Proxy Forms submitted by them through the Electronic Proxy Service to Powergen or the Registrar are free from viruses or defects. If a Form of Proxy submitted by a Powergen Shareholder through the Electronic Proxy Service is found to contain a virus, it may not be accepted by the Registrar or Powergen.

### **11. Material changes**

Save as disclosed in this document, there has been no material change in the financial or trading position of Powergen since 31 December 2000, being the date to which the latest audited financial statements of Powergen were prepared.

### **12. Consents**

- (a) Dresdner Kleinwort Wasserstein has given and not withdrawn its written consent to the issue of this document with the inclusion of its letter set out in Part II of this document and the references to its name in the form and in the context in which they appear.
- (b) Goldman Sachs International has given and not withdrawn its written consent to the inclusion in this document of the references to its name in the form and context in which they appear.

### **13. Details of financing and cash confirmation**

The cash consideration payable by E.ON UK under the Scheme will be financed from the existing resources and financing arrangements of the E.ON Group. Goldman Sachs International, the financial adviser to E.ON and E.ON UK, is satisfied that the necessary financial resources are available to E.ON UK to satisfy the payment in full of the consideration due under the Scheme.

E.ON does not intend that the payment of interest on, repayment of or security for any liability (contingent or otherwise) will depend to any significant extent on the business of Powergen.

### **14. Sources and bases of information**

In this document, unless otherwise stated or the context otherwise requires, the following bases and sources have been used:

- (a) the financial information on Powergen is extracted from the audited financial statements of Powergen for the nine months ended 3 January 1999 and the two financial years ended 2 January 2000 and 31 December 2000 respectively, and the preliminary results statement issued by Powergen on 21 February 2002;

- (b) the financial information on E.ON set out in section 4 of this Part VI is extracted from the audited financial statements of E.ON for year ended 31 December 2000 and the unaudited interim results of E.ON for the nine months ended 30 September 2001;
- (c) the market capitalisation of E.ON set out in section 4 of this Part VI is based on 687,331,234 E.ON shares in issue on 20 March 2002 and a closing price of €58.09 for E.ON shares on Xetra at 8.00 p.m. (German time) on 20 March 2002; and
- (d) the value of the whole of the issued share capital of Powergen is based upon 654,845,045 Powergen Shares in issue on 20 March 2002.

#### **15. Documents on display**

Copies of the following documents will be available for inspection during normal business hours on any weekday (public holidays excepted) up to and including the Scheme Effective Date at the offices of Freshfields Bruckhaus Deringer, 65 Fleet Street, London EC4Y 1HS:

- (a) the memorandum and articles of association of Powergen (marked to show the amendment proposed in the special resolution in the notice of Extraordinary General Meeting of Powergen);
- (b) the memorandum and articles of association of E.ON UK;
- (c) the articles of association (Satzung) of E.ON;
- (d) the audited consolidated accounts of Powergen for the nine months ended 3 January 1999 and the two financial years ended 2 January 2000 and 31 December 2000 respectively;
- (e) the unaudited preliminary results of Powergen for the twelve months ended 31 December 2001;
- (f) the audited consolidated financial statements of E.ON for the two financial years ended 31 December 1999 and 31 December 2000 respectively;
- (g) the unaudited interim results of E.ON for the nine months ended 30 September 2001;
- (h) the service agreements referred to in section 8 above;
- (i) the contracts referred to in section 9 above;
- (j) the written consents referred to in section 12 above;
- (k) a draft, subject to amendment, of the Loan Note Instrument; and
- (l) the valuation of the Loan Notes by Goldman Sachs International.

Dated 27 March 2002

## PART VII DEFINITIONS

The following definitions have the following meanings in this document, other than in Part VIII and the notices of meeting, unless the context requires otherwise:

“Acquisition”	the proposed acquisition by E.ON UK of the Powergen Shares pursuant to the Scheme, details of which are set out in this document;
“Act” or the “Companies Act” or the “Companies Act 1985”	the Companies Act 1985, as amended;
“Announcement”	the announcement dated 9 April 2001 of E.ON’s recommended pre-conditional cash offer for Powergen;
“Australia”	the Commonwealth of Australia, its states, territories and possessions;
“Business Day”	a day (other than a Saturday or Sunday) on which banks are open for business (other than solely for trading and settlement in euro) in the City of London;
“Canada”	Canada, its provinces and territories and all areas subject to its jurisdiction and any political sub-divisions thereof;
“Cancellation Shares”	the Scheme Shares other than the Transfer Shares;
“certificated” or in “certificated form”	a share which is not in uncertificated form (that is, not in CREST);
“Code”	the City Code on Takeovers and Mergers;
“Court”	the High Court of Justice in England and Wales;
“Court Meeting”	the meeting of the Powergen Shareholders convened by order of the Court pursuant to section 425 of the Act, including any adjournment thereof;
“CREST”	a relevant system (as defined in the Regulations) in respect of which CRESTCo is the Operator (as defined in the Regulations);
“CRESTCo”	CRESTCo Limited;
“Depositary”	The Bank of New York, 101 Barclay Street, New York, New York 10286;
“Deposit Agreement”	the amended and restated deposit agreement dated 16 February 1995 between Powergen, the Depositary and holders from time to time of the Powergen ADSs;
“Dresdner Kleinwort Wasserstein”	Dresdner Kleinwort Wasserstein Limited;
“Enlarged Group”	the E.ON Group following the Acquisition;
“E.ON”	E.ON AG;
“E.ON Group”	E.ON and its subsidiaries and subsidiary undertakings and, where the context permits, each of them;
“E.ON Management Board”	the members of the Management Board of E.ON at the date of this document, whose names are set out in section 3 of Part VI of this document;
“E.ON UK”	E.ON UK PLC;
“Extraordinary General Meeting”	the extraordinary general meeting of Powergen convened by the notice set out at the end of this document, including any adjournment thereof;

"Form of Election"	the form of election in respect of the Loan Note Alternative enclosed with this document;
"Forms of Proxy"	the white forms of proxy for use in connection with the Extraordinary General Meeting and the blue forms of proxy for use in connection with the Court Meeting;
"Hearing Date"	the date on which the Court sanctions the Scheme and confirms the reduction of capital which forms part of it;
"holder"	includes any person entitled by transmission;
"Japan"	Japan, its cities, prefectures, territories and possessions;
"LG&E"	LG&E Energy Corp.;
"LG&E Preferred Shares"	(i) 860,287 outstanding 5 per cent. Cumulative Preferred Stock (\$25 par value); 250,000 outstanding \$5.875 Cumulative Preferred Stock (without par value); and 500,000 outstanding Auction Rate, Series A Preferred Stock (without par value) issued by Louisville Gas and Electric Company; and  (ii) 200,000 outstanding 4.75 per cent. Preferred Stock (\$100 stated value (without par value)); and 200,000 outstanding 6.53 per cent. Preferred Stock (\$100 stated value (without par value)) issued by Kentucky Utilities Company;
"LIBOR"	London Interbank Offered Rate, calculated from time to time in accordance with the Loan Note Instrument summarised in Part V of this document;
"Loan Notes"	the floating rate unlisted unsecured unsubordinated loan notes of E.ON UK, guaranteed by E.ON, which may be required to be issued under the Loan Note Alternative, the principal terms and conditions of which are set out in Part V of this document;
"Loan Note Alternative"	the loan note alternative under which Powergen Shareholders (other than Restricted Overseas Persons (including US Persons)) may elect to receive, in exchange for Scheme Shares, Loan Notes on the basis set out in this document, instead of all or part of the cash to which they would otherwise be entitled under the Scheme;
"Loan Note Instrument"	the instrument constituting the Loan Notes;
"London Stock Exchange"	London Stock Exchange plc;
"Nominee Form of Instruction"	the form of instruction for use by holders of Powergen Shares through the Nominee Service;
"Nominee Service" or "Computershare Nominee Service"	the nominee service under which Computershare Company Nominees Limited holds Powergen Shares as nominee;
"Offer Period"	17 January 2001 until the Scheme Effective Date;
"Official List"	the Official List of the UK Listing Authority;
"Panel"	the Panel on Takeovers and Mergers;
"Powergen"	Powergen plc;
"Powergen ADSs"	American depositary shares of Powergen, each representing four Powergen Shares;
"Powergen Directors"	the directors of Powergen at the date of this document, whose names are set out in section 2 of Part VI of this document;
"Powergen Group"	Powergen and its subsidiaries and its subsidiary undertakings and, where the context permits, each of them;

“Powergen Restricted Share Plans”	the Powergen Restricted Share Plan and the Powergen Restricted Share Plan (1998);
“Powergen Securities”	Powergen Shares and Powergen ADSs;
“Powergen Shareholders”	holders of Powergen Shares;
“Powergen Shares”	ordinary shares of 50 pence each in the capital of Powergen, including such shares represented by Powergen ADSs;
“Powergen Share Option Schemes”	the Powergen Sharesave Scheme, the Powergen Sharesave Scheme (1998), the Powergen Executive Share Option Scheme, the Powergen Executive Share Option Scheme (1998), the Powergen Long-Term Incentive Plan and the Powergen Long-Term Incentive Plan (Roger Hale);
“Powergen Share Schemes”	the Powergen Share Option Schemes, the Powergen 1998 Profit Sharing Scheme and the Powergen Restricted Share Plans;
“PUHCA”	the United States Public Utility Holding Company Act of 1935, as amended;
“Registrars” or “Computershare”	Computershare Investor Services PLC, P.O. Box 478, The Pavilions, Bridgwater Road, Bristol BS99 7JP;
“Regulations”	the Uncertificated Securities Regulations 1995 (SI 1995/3272);
“Restricted Overseas Person”	a US Person or other person (including an individual, partnership, incorporated syndicate, incorporated association, trust, trustee, executor, administrator or other legal representative) residing in or resident in the United States, Canada, Australia, Japan, New Zealand, South Africa, Belgium, France, Germany, The Netherlands, Singapore, Malaysia or Spain or any person who is deemed to be a Restricted Overseas Person in accordance with clause 5 of the Scheme;
“Scheme”	the scheme of arrangement under section 425 of the Act between Powergen and the holders of the Scheme Shares, as set out in Part VIII of this document or with or subject to any modification, addition or condition which the Court may think fit to approve or impose;
“Scheme Effective Date”	the date on which the Scheme becomes effective in accordance with its terms;
“Scheme Record Date”	the close of business on the Business Day immediately preceding the Scheme Effective Date;
“Scheme Shares”	the Powergen Shares in issue at the date of this document and any Powergen Shares issued: <ul style="list-style-type: none"> <li>(i) after the date of this document and prior to the Voting Record Time; or</li> <li>(ii) on or after the Voting Record Time and before the close of business on the Business Day preceding the Hearing Date on terms that the holder thereof shall be bound by the Scheme or, in the case of any such shares issued prior to the adoption of the amendment to the articles of association set out in the notice of Extraordinary General Meeting at the end of this document, in respect of which the original or any subsequent holder thereof is or shall have agreed in writing to be bound by the Scheme,</li> </ul> excluding, in either case, any Powergen Shares held by E.ON UK on the Scheme Record Date;
“SEC”	the United States Securities and Exchange Commission;

“subsidiary”, “subsidiary undertaking”, “associated undertaking” and “undertaking”	shall be construed in accordance with the Act (but for this purpose ignoring paragraph 20(1)(b) of Schedule 4A of the Act);
“TFE Instruction”	a <i>Transfer from Escrow instruction</i> (as defined by the CREST manual issued to CRESTCo);
“TTE Instruction”	a <i>Transfer to Escrow instruction</i> (as defined by the CREST manual issued to CRESTCo);
“Transfer Shares”	those of the Scheme Shares in relation to which a valid election for the Loan Note Alternative shall have been made and not deemed to have been revoked in accordance with the provisions of the Scheme;
“UK”	the United Kingdom of Great Britain and Northern Ireland;
“UK Listing Authority”	The Financial Services Authority in its capacity as competent authority under Part VI of the Financial Services and Markets Act 2000;
“uncertificated” or in “uncertificated form”	recorded on the relevant register as being held in uncertificated form in CREST and title to which by virtue of the Regulations, may be transferred by means of CREST;
“United States” or “US”	the United States of America, its territories and possessions, any state or political sub-division of the United States of America and the District of Columbia;
“USS” or “US dollars” or “\$”	the lawful currency of the United States of America;
“US Person”	a US person as defined in Regulation S under the US Securities Act;
“US Securities Act”	the United States Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder;
“Voting Instruction Card”	the voting instruction card in respect of Powergen ADSs enclosed with this document for use by holders of Powergen ADSs;
“Voting Record Time”	9.30 a.m. on 17 April 2002 or, if the Court Meeting is adjourned, 48 hours before the time fixed for such adjournment;
“Wider E.ON Group”	E.ON and any of its subsidiaries or subsidiary undertakings or associated undertakings and any other body corporate, partnership, joint venture or person in which E.ON and such undertakings (aggregating their interests) have an interest of 20 per cent. or more of the voting or equity capital or the equivalent and any “ <i>affiliated companies</i> ” within the meaning of section 15 of the German Stock Corporation Act; and
“Wider Powergen Group”	Powergen and any of its subsidiaries or subsidiary undertakings or associated undertakings and any other body corporate, partnership, joint venture or person in which Powergen and such undertakings (aggregating their interests) have an interest of 20 per cent. or more of the voting or equity capital or the equivalent.

**PART VIII**  
**THE SCHEME OF ARRANGEMENT**

IN THE HIGH COURT OF JUSTICE  
CHANCERY DIVISION  
COMPANIES COURT

No. 1985

**IN THE MATTER OF**  
**POWERGEN PLC**

and

**IN THE MATTER OF THE COMPANIES ACT 1985**

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**SCHEME OF ARRANGEMENT**  
(under section 425 of the Companies Act 1985)

between

**POWERGEN PLC**

and

**THE HOLDERS OF SCHEME SHARES**  
(as hereinafter defined)

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**Preliminary**

(A) In this Scheme, unless inconsistent with the subject or context, the following expressions bear the following meanings:

"Act"	means the Companies Act 1985, as amended;
"Business Day"	means a day (other than a Saturday or Sunday) on which banks are open for business (other than solely for trading and settlement in euro) in the City of London;
"Cancellation Shares"	means the Scheme Shares other than the Transfer Shares;
"Cash Consideration"	means the consideration payable by E.ON UK under clause 3;
"certificated form" or "in certificated form"	means not in uncertificated form (that is, not in CREST);
"Court"	means the High Court of Justice in England and Wales;
"Court Meeting"	means the meeting of the holders of Powergen Shares convened by order of the Court pursuant to section 425 of the Act, including any adjournment thereof;
"CREST"	means a relevant system (as defined in the Uncertificated Securities Regulations 1995) in respect of which CRESTCo Limited is the Operator (as defined in such Regulations);
"E.ON"	means E.ON AG;
"E.ON Group"	means E.ON and its subsidiaries and subsidiary undertakings;

"E.ON UK"	means E.ON UK PLC, a wholly-owned subsidiary of E.ON, registered in England and Wales with number 1313782;
"E.ON UK Loan Notes"	means floating rate unlisted unsecured unsubordinated loan notes each of E.ON UK, guaranteed by E.ON, which may be required to be issued under the Loan Note Alternative, the principal terms and conditions of which are summarised in Part V of the Scheme Document;
"Explanatory Statement"	means the explanatory statement dated 27 March 2002 circulated with this Scheme pursuant to section 426 of the Act;
"Form of Election"	means the form of election in respect of the Loan Note Alternative despatched to holders of Powergen Shares for use in respect of the Loan Note Alternative;
"Hearing"	means the hearing by the Court of the petition to sanction this Scheme and confirm the reduction of capital which forms part of it;
"Hearing Date"	means the date on which the Court sanctions this Scheme and confirms the reduction of capital which forms part of it;
"holder"	includes any person entitled by transmission;
"Loan Note Alternative"	means the alternative consideration for which a holder of Scheme Shares (other than a Restricted Overseas Person) is entitled to elect under, and subject to, clause 5;
"Members"	means members of Powergen on the register of members at any relevant date;
"Powergen"	means Powergen plc, registered in England and Wales with number 3586615;
"Powergen ADSs"	means American depositary shares of Powergen, each representing four Powergen Shares;
"Powergen Shares"	means ordinary shares of 50 pence each in the capital of Powergen, including any such shares represented by Powergen ADSs;
"Restricted Overseas Person"	means a US Person or any other person (including an individual, partnership, incorporated syndicate, incorporated association, trust, trustee, executor, administrator or other legal representative) residing in or resident in the United States, Canada, Australia, Japan, New Zealand, South Africa, Belgium, France, Germany, The Netherlands, Singapore, Malaysia or Spain or any person who is deemed to be a Restricted Overseas Person in accordance with clause 5;
"Scheme"	means this Scheme in its present form or with or subject to any modification, addition or condition which the Court may think fit to approve or impose;
"Scheme Document"	means the circular to Powergen Shareholders dated 27 March 2002;
"Scheme Effective Date"	means the date on which this Scheme becomes effective in accordance with clause 8;
"Scheme Record Date"	means the close of business on the Business Day immediately preceding the Scheme Effective Date;
"Scheme Shares"	means the Powergen Shares in issue at the date hereof and any Powergen Shares issued:  (i) after the date hereof and prior to the Voting Record Time; or

- (ii) on or after the Voting Record Time and before the close of business on the Business Day preceding the Hearing Date on terms that the holder thereof shall be bound by this Scheme or, in the case of any such shares issued prior to the adoption of the amendment to the articles of association set out in the notice of Extraordinary General Meeting which is contained in the Explanatory Statement, in respect of which the original or any subsequent holder thereof is or shall have agreed in writing to be bound by the Scheme,

excluding, in either case, any Powergen Shares held by E.ON UK on the Scheme Record Date;

"Transfer Shares"	means those of the Scheme Shares in relation to which a valid election for the Loan Note Alternative shall have been made and not deemed to have been revoked in accordance with the provisions of this Scheme;
"uncertificated" or in "uncertificated form"	means recorded on the relevant register as being held in uncertificated form in CREST and title to which may be transferred by means of CREST;
"United States" or "US"	mean the United States of America, its territories and possessions, any state or political sub-division of the United States of America and the District of Columbia;
"US Person"	a US Person as defined in Regulation S under the US Securities Act;
"US Securities Act"	the United States Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder; and
"Voting Record Time"	means 9.30 a.m. on 17 April 2002 or, if the Court Meeting is adjourned, 48 hours before the time fixed for such adjourned meeting.

- (B) The authorised share capital of Powergen at the date of this Scheme is £525,049,998 divided into 1,050,000,000 ordinary shares of 50p each and 49,998 limited voting redeemable preference shares of £1 each of which, as at 20 March 2002, 654,845,045 ordinary shares of 50p each and 49,998 limited voting redeemable preference shares of £1 each have been issued and are credited as fully paid and the remainder are unissued.
- (C) E.ON UK has agreed to appear by counsel on the hearing of the petition to sanction this Scheme and to undertake to the Court to be bound thereby and to execute and do or procure to be executed and done all such documents, acts and things as may be necessary or desirable to be executed or done by it for the purposes of giving effect to this Scheme.
- (D) E.ON has agreed to appear by counsel on the hearing of the petition to sanction this Scheme and to undertake to the Court to be bound thereby and to execute and do or procure to be executed and done all such documents, acts and things as may be necessary or desirable to be executed or done by it for the purposes of giving effect to this Scheme.

## The Scheme

### 1. Cancellation and Cancellation Shares

- (i) The share capital of Powergen shall be reduced by cancelling and extinguishing the Cancellation Shares.
- (ii) Forthwith and contingently upon the reduction of capital referred to in clause 1(i) taking effect:
- (a) the share capital of Powergen shall be increased to its former amount by the creation of such number of new Powergen Shares as shall be equal to the number of Cancellation Shares; and
  - (b) Powergen shall apply the credit arising in its books of account as a result of the cancellation of the Cancellation Shares in paying up in full at par the new Powergen Shares created pursuant to

sub-clause 1(ii)(a) of this clause which shall be allotted and issued credited as fully paid to E.ON UK.

## **2. Acquisition of Transfer Shares**

- (i) Forthwith and contingently upon the cancellation of Cancellation Shares and the issue of the new Powergen Shares referred to respectively in clauses 1(i) and 1(ii)(b) taking effect and the name of E.ON UK having been entered in the Powergen register of members as the registered holder of such shares, E.ON UK shall, with effect from the Scheme Effective Date, acquire the Transfer Shares in consideration for the issue of E.ON UK Loan Notes, free from all liens, equities, charges, encumbrances and other interests whatsoever and together with all rights at the date of this Scheme or hereafter attaching thereto including the right to receive all dividends or other distributions declared, paid or made thereon on or after the date of this Scheme.
- (ii) For such purposes the Transfer Shares shall be transferred to E.ON UK and to give effect to such transfer(s) any person may be nominated by E.ON UK to execute as transferor an instrument or instruction of transfer of any of the Transfer Shares and every instrument or instruction of transfer so executed shall be as effective as if it had been executed by the holder or holders of the Transfer Shares thereby transferred.

## **3. Consideration for cancellation of the Cancellation Shares**

- (i) In consideration for the cancellation of the Cancellation Shares and the allotment and issue of the new Powergen Shares as provided in clause 1(ii)(b), E.ON UK shall, subject as hereinafter provided, pay or procure that there shall be paid to or for the account of each holder of the Cancellation Shares (as appearing in the register of members of Powergen on the Scheme Record Date):

for each Cancellation Share     £7.65 in cash

- (ii) Powergen Shareholders have received quarterly dividends in respect of the first three quarters of 2001 and will be entitled to retain the last quarterly dividend for 2001. In addition, Powergen Shareholders will be entitled to retain the first quarterly dividend for 2002 and dividends for any subsequent periods ending on or before the Scheme Effective Date. Any such dividends will be payable on a date consistent with Powergen's previous dividend practice or, if earlier, with payment of the consideration pursuant to clause 3(i), subject to such quarterly dividends not exceeding 9.2 pence per Powergen Share.
- (iii) The consideration to be paid to holders of Powergen Shares pursuant to clause 3(i) will be increased, on a daily basis, at a rate of 9.2 pence per quarter, in respect of the period commencing immediately after the last quarter end date before the Scheme Effective Date and ending on the Scheme Effective Date.
- (iv) If after the date of the Scheme Document, any dividend other than the dividends set out in clause 3(ii) is paid or becomes payable, E.ON UK will have the right, as an alternative to lapsing the Scheme, to reduce the consideration for each Powergen Share (including any Powergen Share represented by Powergen ADSs) by an amount equal to the excess.

## **4. Share Certificates**

- (i) On the Scheme Effective Date, each existing certificate representing a holding of Cancellation Shares shall cease to be valid in respect of such holding and each holder of Cancellation Shares shall be bound at the request of Powergen to deliver up the same to Powergen or to any person appointed by Powergen to receive the same for cancellation or to destroy such share certificates.
- (ii) On the Scheme Effective Date, in respect of those holders of Cancellation Shares who hold Cancellation Shares in uncertificated form, CREST shall be instructed to cancel such holders' entitlement to such Cancellation Shares with effect from such date.

## 5. Loan Note Alternative

- (i) If any holder of Scheme Shares shall so validly elect pursuant to the Loan Note Alternative in respect of the whole or any part of such holding then E.ON UK shall, in consideration of the transfer of the Transfer Shares by such holder to E.ON UK, and subject to the remaining provisions of this clause 5 and clause 6, issue credited as fully paid to such holder E.ON UK Loan Notes, in amounts and integral multiples of £1.00, on the following basis:

for each Transfer Share      £7.65 nominal value of E.ON UK Loan Notes

and so in proportion for any greater number of Scheme Shares in respect of which the election is made, PROVIDED that the Loan Note Alternative shall not be available to Restricted Overseas Persons (including US Persons) or persons whom E.ON UK deems to be Restricted Overseas Persons (including US Persons) and PROVIDED FURTHER that fractional entitlements to Loan Notes will be disregarded.

- (ii) An election to receive E.ON UK Loan Notes in respect of all or part of a holding of Scheme Shares shall be made by completing and signing the Form of Election in accordance with the instructions printed thereon and by complying with the instructions and requirements contained in the same and by sending or delivering the same (accompanied by such documents or other evidence of title as may be required) to Powergen's registrars (at such address(es) as are specified in the Form of Election) so as to be received by the time and date specified in the Form of Election.
- (iii) (a) If at the Scheme Record Date the number of Scheme Shares held by a person who has elected to receive E.ON UK Loan Notes is equal to or exceeds the number of Scheme Shares in respect of which an election for E.ON UK Loan Notes made by him would otherwise be effective, the validity of his election shall not be affected by any alteration in his holding of Scheme Shares between the date on which he made such election and the Scheme Record Date and any reduction in his holding shall, if applicable, be treated as disposals of those Scheme Shares in respect of which he did not elect to receive E.ON UK Loan Notes.
- (b) If at the Scheme Record Date the number of Scheme Shares held by a person who has so elected to receive E.ON UK Loan Notes is less than the number of Scheme Shares in respect of which the holder has elected to receive such E.ON UK Loan Notes, he shall be treated as having validly elected to receive E.ON UK Loan Notes in respect of all of his Scheme Shares.
- (iv) The E.ON UK Loan Notes shall be constituted by an instrument substantially in the form already prepared and initialled for the purpose of identification by Slaughter and May, solicitors, with such modifications or additions, if any, as may prior to the execution thereof be agreed between Powergen and E.ON UK. The payment of principal and interest on the E.ON UK Loan Notes will be guaranteed by E.ON.
- (v) If valid elections for the Loan Note Alternative received by the deadline for the making of such elections do not require the issue of at least £25 million in nominal amount of E.ON UK Loan Notes, no E.ON UK Loan Notes will be issued unless E.ON UK determines otherwise. If no E.ON UK Loan Notes are issued pursuant to this sub-paragraph (v) of this clause 5, any relevant Scheme Shares whose holders have elected for the Loan Note Alternative shall be Cancellation Shares for the purposes of this Scheme and such holders will then receive the cash to which they would otherwise be entitled under this Scheme.
- (vi) Powergen may, in its sole discretion, at any time prior to the Scheme Effective Date, cancel any election made for the Loan Note Alternative at the request of any Powergen Shareholder who has validly elected for the Loan Note Alternative.
- (vii) The provisions of this clause 5 will be subject to any prohibition or condition imposed by law. Without prejudice to the generality of the foregoing, if, in respect of any holder of Scheme Shares with a registered address outside England or who is a citizen, resident or national of a jurisdiction outside England, E.ON UK is advised that the issue of E.ON UK Loan Notes pursuant to this clause would or may infringe the laws of any jurisdiction outside England, or would or may require E.ON UK to observe any governmental or other consent or any registration, filing or other formality with which E.ON UK is unable to comply or which E.ON UK regards as unduly onerous or of no benefit to such Powergen Shareholders, E.ON UK may determine that the Loan Note Alternative shall not

be available to such holder so that such holder shall be deemed to be a Restricted Overseas Person and a Form of Election shall not be sent to any such holder. If a Restricted Overseas Shareholder is sent a Form of Election, any Form of Election completed and delivered by such holder shall be invalid.

## **6. Despatch of consideration**

- (i) As soon as practicable following the Scheme Effective Date, and in any event not more than 14 days thereafter, E.ON UK shall:
  - (a) in the case of Cancellation Shares which on the Scheme Record Date were in certificated form, despatch or procure the despatch to the persons entitled thereto, or as they may direct, in accordance with the provisions of clause 6(ii), cheques for the sums payable to them respectively in accordance with clause 3 or, in the case of Cancellation Shares which on the Scheme Record Date were in uncertificated form, make payment of the said consideration through the CREST system in the manner prescribed by clause 6(iv) PROVIDED that E.ON UK may, if it so determines, make payment of the said consideration by cheque as aforesaid; and
  - (b) upon the execution of any instrument or instruction of transfer referred to in clause 2(ii) in the case of Transfer Shares, issue the E.ON UK Loan Notes which it is required to issue pursuant to clause 5, register the relevant holders of Transfer Shares as holders of E.ON UK Loan Notes with effect from the Scheme Effective Date and deliver certificates therefor.
- (ii) All deliveries of cheques or certificates required to be made pursuant to this Scheme shall be effected by sending the same by first class post in prepaid envelopes addressed to the persons entitled thereto at their respective registered addresses as appearing in the register of members of Powergen on the Scheme Record Date (or, in the case of joint holders, at the registered address of that one of the joint holders whose name stands first in the said register in respect of such joint holding on such date) or in accordance with any special instructions regarding communications, and neither E.ON UK, Powergen nor their respective agents shall be responsible for any loss or delay in the transmission of any cheques or certificates sent in accordance with this clause, which shall be sent at the risk of the persons entitled thereto.
- (iii) All cheques shall be made payable to the person to whom in accordance with the foregoing provisions of this clause the envelope containing the same is addressed and the encashment of any such cheque shall be a complete discharge to E.ON UK for the monies represented thereby.
- (iv) In respect of payments made through the CREST system, E.ON UK shall ensure that an assured payment obligation is created in accordance with the CREST assured payment arrangements. The creation of such assured payment obligation shall be a complete discharge to E.ON UK for the monies represented thereby.
- (v) The preceding paragraphs of this clause 6 shall take effect subject to any prohibition or condition imposed by law.

## **7. Dividend mandates**

All mandates relating to the payment of dividends on Transfer Shares and all other instructions by Members in force on the Scheme Record Date shall, unless and until revoked or amended, be deemed as from the Scheme Effective Date to be valid and effective mandates in relation to the payment of interest and capital and instructions to E.ON UK on the corresponding E.ON UK Loan Notes allotted and issued pursuant to this Scheme.

## **8. The Scheme Effective Date**

- (i) This Scheme shall become effective as soon as an office copy of the Order of the Court sanctioning this Scheme under section 425 of the Act and confirming under section 137 of the Act the reduction of capital provided for by this Scheme shall have been delivered to the Registrar of Companies in England and Wales and registered by him.

- (ii) Unless this Scheme shall have become effective on or before the close of business (London time) on 9 October 2002, or such later date (if any) as Powergen and E.ON UK may agree and the Court may approve, this Scheme shall never become effective.

## **9. Modification**

Powergen and E.ON UK may jointly consent on behalf of all persons concerned to any modification of or addition to this Scheme or to any condition which the Court may think fit to approve or impose.

Dated 27 March 2002

Mr Registrar Jaques

**IN THE MATTER OF POWERGEN PLC  
and  
IN THE MATTER OF THE COMPANIES ACT 1985**

NOTICE IS HEREBY GIVEN that, by an order dated 22 March 2002 made in the above matters, the Court has directed a meeting to be convened of the holders of ordinary shares of 50 pence each ("Ordinary Shares") in the capital of the above named Powergen plc (the "Company") for the purpose of considering and, if thought fit, approving (with or without modification) a scheme of arrangement proposed to be made between the Company and the holders of Scheme Shares (as therein defined) and that such meeting will be held at The Nine Kings Suite, Royal Lancaster Hotel, Lancaster Terrace, London W2 2TY at 9.30 a.m. on 19 April 2002, at which place and time all holders of Ordinary Shares are requested to attend.

A copy of the said scheme of arrangement and a copy of the statement required to be furnished pursuant to section 426 of the Companies Act 1985 are incorporated in the document of which this notice forms part.

Holders of Ordinary Shares entitled to attend and vote at the meeting may vote in person at the meeting or they may appoint another person as their proxy to attend and vote in their stead. A proxy need not be a member of the Company. A blue form of proxy for use at the meeting is enclosed with this notice. Completion and return of a blue form of proxy will not prevent a holder of Ordinary Shares from attending and voting at the meeting, or any adjournment thereof, in person if he wishes to do so.

In the case of joint holders of Ordinary Shares, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the vote(s) of the other joint holder(s) and for this purpose seniority will be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.

It is requested that forms of proxy be lodged with the Company's registrars, Computershare Investor Services PLC, P.O. Box 478, The Pavilions, Bridgwater Road, Bristol BS99 7JP, not less than 48 hours before the time appointed for the meeting but if forms are not so lodged they may be handed to the chairman at the meeting.

You may return the forms of proxy by post in the reply paid envelope provided or electronically by logging onto website [www.powergenplc.com](http://www.powergenplc.com). Full details of the procedure to be followed if you wish to return your forms of proxy electronically are given on the website.

Entitlement to vote at the meeting or any adjournment thereof, and the number of votes which may be cast thereat, will be determined by reference to the register of members of the Company at 9.30 a.m. on 17 April 2002 or, if the meeting is adjourned, 48 hours before the time fixed for such adjourned meeting.

By the said order, the Court has appointed Edmund Arthur Wallis, or, failing him, Nicholas Peter Baldwin, or, failing him, Peter Charles Fletcher Hickson, to act as chairman of the meeting and has directed the chairman to report the result of the meeting to the Court.

The said scheme of arrangement will be subject to the subsequent sanction of the Court.

Dated 27 March 2002

Freshfields Bruckhaus Deringer  
65 Fleet Street  
London EC4Y 1HS

*Solicitors for the Company*

## POWERGEN PLC

(Registered in England and Wales No. 3586615)

### Notice of meeting

Notice is hereby given that an Extraordinary General Meeting of Powergen plc (the "Company") will be held at The Nine Kings Suite, Royal Lancaster Hotel, Lancaster Terrace, London W2 2TY at 9.45 a.m. on 19 April 2002 (or as soon thereafter as the meeting of the holders of ordinary shares of 50 pence each convened for 9.30 a.m. on the same day, and at the same place, by an order of the High Court of Justice, shall have concluded or been adjourned) for the purpose of considering and, if thought fit, passing the following resolution, which will be proposed as a special resolution:

### Special Resolution

THAT:

- (A) the scheme of arrangement dated 27 March 2002 between the Company and the holders of its Scheme Shares (as defined in the said scheme) (the terms of which are set forth in the circular to the Company's shareholders dated 27 March 2002) in its original form or with or subject to any modification, addition or condition approved or imposed by the Court (the "Scheme"), be approved and the directors of the Company be authorised to take all such action as they consider necessary or appropriate for carrying the Scheme into effect;
- (B) for the purpose of giving effect to the Scheme:
- (a) the share capital of the Company be reduced by cancelling and extinguishing all the Cancellation Shares (as defined in the Scheme);
- (b) forthwith and contingent on such reduction of capital taking effect:
- (i) the share capital of the Company be increased to its former amount by the creation of such number of new ordinary shares of 50 pence each as shall be equal to the number of the Cancellation Shares; and
- (ii) the credit arising in the books of account of the Company as a result of the cancellation of the Cancellation Shares be applied in paying up in full at par the new ordinary shares of 50 pence each referred to in paragraph (b)(i) above, which shall be allotted and issued credited as fully paid to E.ON UK PLC ("E.ON"); and
- (c) the directors of the Company be authorised pursuant to and in accordance with section 80 of the Companies Act 1985 to give effect to this resolution and accordingly to effect the allotment of the new ordinary shares referred to in paragraph (b)(ii) above, provided that (i) this authority shall expire on the fifth anniversary of this resolution; (ii) the maximum nominal amount of shares which may be allotted hereunder shall be £332,975,134.50; and (iii) this authority shall be without prejudice to any other authority under the said section 80 previously granted and in force on the date on which this resolution is passed; and
- (C) forthwith upon the passing of this special resolution, the articles of association of the Company be amended by the adoption and inclusion of the following new article 4A:
- "4A.(1) In this article, references to the *Scheme* are to the scheme of arrangement between the Company and the holders of Scheme Shares (as defined therein) under section 425 of the Act set out in the circular to the Company's shareholders dated 27 March 2002 (in its original form or with or subject to any modification, addition or condition approved or imposed by the Court) and terms defined in the Scheme shall have the same meanings in this Article.
- (2) Notwithstanding any other provision of these Articles, if the Company issues any ordinary shares of 50 pence each after the adoption of this Article and prior to the close of business on the business day preceding the Hearing Date, such shares shall be allotted and issued subject to the terms of the Scheme and the holders of such shares shall be bound by the Scheme accordingly. The Company shall, if such shares are allotted within six months of the Scheme Effective Date, at the time of allotment of such shares send a form of election in relation to the Loan Note Alternative to such holders.

(3) Subject to the Scheme becoming effective, if on or following the Scheme Effective Date any shares in the Company are allotted and issued to any person or persons (each a *New Member*) other than a member of the E.ON Group or any nominee of the E.ON Group, they will be immediately transferred to E.ON UK, or as it may direct, in consideration of and conditional on the payment to the New Member of either:

- (a) the same cash consideration per ordinary share of 50 pence each in the capital of the Company as was paid to a holder of Cancellation Shares under the Scheme; or
- (b) the same nominal amount of E.ON UK Loan Notes per ordinary share of 50 pence each in the capital of the Company as was received by a holder of Transfer Shares under the Scheme (subject to and on the terms of the Loan Note Alternative and the Loan Note Instrument) PROVIDED THAT (i) the conditions for making the Loan Note Alternative available under the terms of the Scheme have been satisfied; (ii) all of the outstanding E.ON UK Loan Notes issued pursuant to the Scheme have not been repaid, redeemed or purchased by E.ON UK; and (iii) on or before the date which is six months after the Scheme Effective Date, the New Member makes a valid election to receive E.ON UK Loan Notes in accordance with the terms of the Loan Note Alternative and the Loan Note Instrument within 14 days of the date of the allotment of any shares in the Company to that New Member.

(4) On any reorganisation of, or material alteration to, the share capital of the Company (including, without limitation, any subdivision and/or consolidation), the value of the cash payment per share to be paid under paragraph (3) of this Article shall be adjusted by the Directors in such manner as the auditors of the Company may determine to be appropriate to reflect such reorganisation or alteration. References in this article to ordinary shares shall, following such adjustment, be construed accordingly.

(5) To give effect to any such transfer required by this article 4A, the Company may appoint any person to execute a form of transfer on behalf of the New Member in favour of E.ON UK, or as it may direct. Pending the registration of E.ON UK as the holder of any share to be transferred pursuant to this article 4A, E.ON UK shall be empowered to appoint a person nominated by the directors to act as attorney on behalf of the New Member in accordance with such directions as E.ON UK may give in relation to any dealings with or disposal of such share (or any interest therein), exercising any rights attached thereto or receiving any distribution or other benefit accruing or payable in respect thereof and the registered holders of such share shall exercise all rights attaching thereto in accordance with the directions of E.ON UK but not otherwise. Payment in respect of any shares transferred under this article 4A will be made within 14 days of the date of transfer of such shares."

*By order of the board*

David J. Jackson  
Company Secretary

27 March 2002

Registered office:

City Point

1 Ropemaker Street

London EC2Y 9HT

Note:

- (1) A member entitled to attend and vote at the Extraordinary General Meeting may appoint one or more persons to attend and, on a poll, to vote instead of him or her.
- (2) A proxy need not be a member of the Company.
- (3) A white form of proxy is enclosed. To be valid, the white form of proxy, together with the authority (if any) under which it is executed or a notarially certified copy of such authority, must be returned to the Company's registrars, Computershare Investor Services PLC, P.O. Box 478, The Pavilions, Bridgwater Road, Bristol BS99 7JP, by no later than 48 hours before the time of the meeting or (as the case may be) the adjourned meeting.
- (4) The completion and return of a form of proxy will not preclude a member from attending and voting in person at the meeting.
- (5) Persons who hold Powergen Shares through the Computershare Nominee Service should complete and sign the Nominee Form of Instruction in accordance with the instructions printed thereon in relation to the exercise of voting rights attached to Powergen Shares held on their behalf and return it to Powergen's Registrars, Computershare Investor Services PLC, P.O. Box 478, The Pavilions, Bridgwater Road, Bristol BS99 7JP, so as to be received as soon as possible and in any event by no later than 9.30 a.m. on 17 April 2002.
- (6) Members (and any proxies or representatives they appoint) agree, by attending the Extraordinary General Meeting, that they are expressly requesting and that they are willing to receive any communications (including communications relating to the Company's securities) made at that meeting.
- (7) Holders of ADSs should complete the Voting Instruction Card in relation to voting rights attached to the Powergen Shares represented by their ADSs and return it to the Depository in accordance with the instructions printed thereon as soon as possible and in any event by 5.00 p.m. (New York time) on 17 April 2002.
- (8) Pursuant to Regulation 34 of the Uncertificated Securities Regulations 1995, the Company has specified that only those shareholders registered on the register of members of the Company as at 9.45 a.m. on 17 April 2002 or, if the Extraordinary General Meeting is adjourned, on the register of members not less than 48 hours before the time of any adjourned meeting shall be entitled to attend and vote at the meeting in respect of the number of Powergen Shares registered in their name at that relevant time. Changes to entries on the register of members after 9.45 a.m. on 17 April 2002 or, if the Extraordinary General Meeting is adjourned, on the register of members not less than 48 hours before the time of any adjourned meeting, will be disregarded in determining the right of any person to attend and vote at the meeting.
- (9) Copies of the Company's existing articles of association and copies of the articles of association as proposed to be amended by paragraph (C) of the special resolution set out in the notice of the meeting and copies of the service agreements between the Company and its directors are available for inspection at Company's registered office, City Point, 1 Ropemaker Street, London EC2Y 9HT, during normal business hours on a weekday (excluding Saturdays and public holidays) until opening of business on the day on which the meeting is held and will also be available for inspection at the place of the Extraordinary General Meeting for at least 15 minutes prior to and during the Extraordinary General Meeting.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorised.

POWERGEN plc

By: \_\_\_\_\_



Name: Chris Salamé

Title: Authorised Signatory

Dated: March 27, 2002