Chairman's statement

Following two years of exceptional growth, I advised you in my statement last year that our earnings would be lower in 2003, and in the range of 9p – 11p per share. In the event, earnings per share at 10.2p (before exceptional items) was down 34% against 2002 and profit before interest and tax (before exceptional items) at £285 million was down 27%.

The details behind these headline figures are presented and explained elsewhere in this Report, but in summary they show that our assets outside of the US and UK did well. The extremely weak markets in Texas and New England, which in fact worsened as the year progressed, meant that losses there offset some exceptional performances elsewhere. In the UK, although wholesale margins showed some temporary improvement in mid 2003, this was short lived and therefore of limited benefit to our earnings for the year.

As we look ahead, we can still see good progress being made in many of our markets around the world. Unfortunately, without some industry re-structuring in our US markets and in the UK, possibly accompanied by some repositioning of our business and assets in these areas, we believe that the next few years could remain difficult. Importantly, we have well run and highly efficient assets in both the US and the UK, and as the current imbalance between supply and demand reduces, we expect to be among the first generators able to return our plants to profit.

I would like to comment on two other issues that will affect our decision making as we manage our existing US and UK assets, and consider how much support and investment, or otherwise, we should provide.

In the US, because the visible medium-term outlook for our markets remains weak, we are in discussions with the bank group for our US business to restructure its non-recourse debt facility. A successful conclusion to this exercise, in the interests of shareholders and all other parties, is essential to ensure our on-going commitment to these assets. In the UK, a sensible carbon allocation level which is compatible with that adopted by our European trading partners, is equally important to our investment decisions in this market. Both of these issues will become much clearer as the year progresses, and we will keep you informed at the appropriate times.

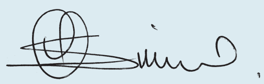
Our policy on distributions to shareholders has also developed during 2003. We implemented a share buyback programme in May, and to date have bought back some 10.7 million shares at a cost of £13 million. We also negotiated some additional flexibility in our corporate bank facility, enabling dividend distributions to commence in 2005. We will review our dividend policy at our 2004 year end, based on our cash flow performance and our business outlook.

The last year was also a year of change in your Board. At the end of November 2003, our Chief Executive Officer (CEO), David Crane, left the Board when he was offered an exceptional US-style salary package, with which we could not and did not wish to compete. We also said goodbye to Peter Giller. I would like to express my thanks to David and to Peter for their contribution to the Company over the last few years. When we knew that David was leaving, we set in train the process to find the right replacement. This involved the appointment of external search consultants, and an examination of both external as well as internal candidates. At the end of this process, I was very pleased that Phil Cox accepted our offer to become CEO. Phil had been our Chief Financial Officer since demerger and there is no-one who has a better overall understanding of our business, our markets and our objectives. Phil's replacement is Mark Williamson, who had been the head of our finance function from demerger. At the beginning of 2004, we also welcomed two new operational Directors to the Board. Steve Riley, who recently returned from Australia, is now the Executive Director responsible for our European activities, and Tony Concannon, who until recently managed our UK assets, is now the Executive Director responsible for our business in Australia. Steve and Tony are both young men, but they have been with the Company for some time and bring to the Board their considerable experience in our industry.

I would also like to thank all the employees across the Group for their continued efforts in 2003. Wherever I go in the Group I am always impressed by their enthusiastic and professional approach to their work.

Good corporate governance remains at the forefront of our minds, and last year I undertook to report on this subject more fully. In the event, the Financial Reporting Council issued a revised Combined Code in July 2003. Although this Revised Code is not directly applicable to us for the financial year just ended, we do report in our corporate governance section, not only on our practice during 2003, but also on the application of the Revised Code, highlighting those limited areas where currently we may be at variance with its requirements.

As you will see from our CEO's statement, we continue to actively review growth opportunities in all our core regions. We do, however, need to resolve some difficult issues this year, particularly the restructuring of our US non-recourse debt facility, to ensure that we can return to the path of earnings growth and increased shareholder value.



Sir Neville Simms
Chairman