

## Additional information for US shareholders

This information is derived from the financial statements included in the Company's report on Form 20-F for the year ended 31 December 2003, which will be filed with the US Securities and Exchange Commission. Form 20-F should be referred to for a complete discussion of the differences between UK GAAP and US GAAP that affect the Group.

### EFFECT ON PROFIT AFTER TAX (NET INCOME) OF SIGNIFICANT DIFFERENCES BETWEEN UK AND US GAAP

Note	Year ended 31 December 2003 £m	Year ended 31 December 2002 £m
<b>Net income</b>		
(Loss)/profit attributable to ordinary shareholders under UK GAAP	<b>(219)</b>	113
Adjustments:		
a) Pensions	-	2
b) Impairment of plant		
Impairment of US plant	<b>404</b>	-
Reinstatement of HUBCO impairment	<b>(35)</b>	-
Impairment of UK plant	-	102
Impact on depreciation charge	<b>(7)</b>	(3)
c) Purchase accounting and goodwill		
Impairment of goodwill	<b>(28)</b>	(51)
Fair value and purchase accounting	<b>3</b>	2
d) Development expenditure	<b>1</b>	1
e) Onerous property lease provision	<b>2</b>	-
f) Liquidated damages and associated costs	<b>(19)</b>	(71)
g) Restructuring costs	<b>(3)</b>	3
h) Derivatives and hedging activities	<b>(35)</b>	5
i) Deferred finance costs	<b>12</b>	-
j) Disposal of a 5% holding in HUBCO	<b>1</b>	-
k) Retranslation of foreign currency denominated subsidiary	-	18
l) Deferred tax	<b>1</b>	(16)
m) Stock compensation schemes	<b>(2)</b>	-
Tax effect of US GAAP adjustments	<b>(93)</b>	12
<b>Net (loss)/income under US GAAP before cumulative effect of accounting policy change</b>	<b>(17)</b>	117
Cumulative effect of US GAAP accounting policy change:		
c) Impairment of goodwill	-	(44)
Tax effect	-	-
<b>Net (loss)/income under US GAAP</b>	<b>(17)</b>	73
<b>(Loss)/earnings per Ordinary Share:</b>		
(Loss)/earnings per share under US GAAP before cumulative effect of accounting policy change		
Basic and diluted	<b>(1.5)p</b>	10.5p
(Loss)/earnings per share under US GAAP after cumulative effect of accounting policy change		
Basic and diluted	<b>(1.5)p</b>	6.5p

## EFFECT ON SHAREHOLDERS' FUNDS – EQUITY OF SIGNIFICANT DIFFERENCES BETWEEN UK AND US GAAP

Note	As at 31 December 2003 £m	As at 31 December 2002 £m
<b>Shareholders' funds – equity</b>		
Total shareholders' funds – equity under UK GAAP	<b>1,523</b>	1,740
Adjustments:		
a) Pensions	<b>10</b>	9
b) Impairment of plant	<b>547</b>	199
c) Purchase accounting and goodwill	<b>(20)</b>	9
d) Development expenditure	<b>(15)</b>	(17)
e) Onerous property lease provision	<b>(1)</b>	(3)
f) Liquidated damages and associated costs	<b>(144)</b>	(140)
g) Restructuring costs	–	3
h) Derivatives and hedging activities	<b>(1)</b>	(41)
i) Deferred finance costs	<b>12</b>	–
m) Stock compensation schemes	<b>(3)</b>	(1)
n) Employee share trust arrangements	<b>(2)</b>	(1)
l) Deferred tax	<b>(48)</b>	(49)
Cumulative tax effect of US GAAP adjustments	<b>(78)</b>	49
<b>Total shareholders' funds – equity under US GAAP</b>	<b>1,780</b>	1,757

A brief discussion of the significant differences between UK and US accounting principles follows:

### a) Pensions

There are differences in the methods of valuation required under UK and US GAAP for valuing assets and liabilities of defined benefit pension plans. US GAAP is generally more prescriptive in respect of actuarial assumptions and the allocation of costs to accounting periods.

### b) Impairment of plant

Under UK GAAP, an impairment provision is recognised when the discounted cash flows are less than the carrying amount of the related assets. Under US GAAP, an impairment provision for assets is made when the undiscounted expected future cash flows fail to recover the carrying amount of the related assets. Accordingly, a US GAAP difference arises when the carrying amount of the assets is greater than the discounted future cash flows but less than the undiscounted future cash flows. This difference in the carrying value results in different levels of depreciation under UK and US GAAP.

Under UK GAAP, an impairment may be reversed when the recoverable amount exceeds the carrying amount. Under US GAAP, recognition of subsequent recoveries in fair value is prohibited. Accordingly, the HUBCO impairment reversed in 2003 under UK GAAP has been reinstated for US GAAP.

### c) Purchase accounting and goodwill

Under UK GAAP, goodwill arising on acquisitions after 1 April 1998, accounted for under the purchase method, is capitalised in the balance sheet and amortised over a period not exceeding 20 years. Prior to that date such goodwill arising on acquisitions was and remains eliminated against reserves. Under US GAAP, goodwill arising on purchase business combinations is capitalised in the balance sheet. With effect from 1 January 2002 goodwill is not subject to amortisation but is evaluated for impairment annually or whenever changes in circumstances indicate that goodwill might be impaired. Goodwill impairments were recorded in 2003 and 2002. A cumulative charge of £44 million was made at 1 January 2002 on adoption of the US standard FAS 142 (Goodwill and Intangible Assets).

### d) Development expenditure

Under UK GAAP, the Group capitalises certain development expenditure as described in more detail in accounting policy note viii to the consolidated financial statements. US GAAP requires such costs to be expensed as incurred.

### e) Onerous property lease provision

Under UK GAAP, a provision in respect of an onerous property lease is stated on a discounted basis. Under US GAAP, this provision is measured on an undiscounted basis. Accordingly, the impact of the discounting is reversed under US GAAP.

### f) Liquidated damages and associated costs

Under UK GAAP, liquidated damages relating to amounts receivable from contractors in respect of the late commissioning of new power plants are recorded as income when they represent compensation for lost earnings. This is offset by certain costs, including interest and costs associated with the rectification of the plant, which are expensed in the period in which liquidated damages are recorded as revenue. Under US GAAP, this net amount is recorded as a reduction in the cost of the asset, regardless of the nature of the compensation. These differences in the asset cost result in different levels of depreciation under UK and US GAAP.

Those receipts that relate to compensation for plants not achieving long-term contractual performance levels are recorded as a reduction in the cost of the assets under both UK and US GAAP.

## **Additional information for US shareholders** continued

### **g) Restructuring costs**

Under UK GAAP, when a decision has been taken to restructure the business and a constructive obligation has been created to meet the qualifying expenditure, the necessary provision is made. Under US GAAP, the requirements for charging restructuring costs to income are more prescriptive and include the need for all significant actions arising from the restructuring plan to be determined and the completion dates to be identified by the balance sheet date. Accordingly, the charge for restructuring costs made under UK GAAP in 2002 was reversed and charged to the profit and loss account in 2003 under US GAAP.

### **h) Derivatives and hedging activities**

Under UK GAAP, the Group recognises only derivatives of a speculative nature at fair value on the balance sheet with related gains and losses charged or credited to the profit and loss account. Gains or losses on other derivative instruments are deferred until the hedged transactions actually occur.

Under US GAAP, the Group recognises all qualifying derivatives (including certain derivatives embedded in other instruments) at fair value on the balance sheet. Gains and losses arising on derivatives that do not meet the US GAAP hedge accounting criteria, along with the accretion of the discounted value of debt where bifurcation is required, are recognised in the profit and loss account. Gains and losses on the Group's derivatives that qualify for cash flow hedge accounting are initially recognised in reserves (to the extent that the hedge is effective) and subsequently reclassified to the profit and loss account as the hedged item impacts earnings. Any ineffective element of these hedges is immediately recognised in earnings.

### **i) Deferred finance costs**

For UK GAAP purposes an exceptional interest charge of £12 million has been recorded in 2003 in relation to the write off of deferred finance costs in respect of the ANP bank facility. The facility is currently in technical default and negotiations with the banks are ongoing. It is not possible to reliably estimate the nature or timing of any renegotiated facility. For US GAAP purposes the deferred finance costs remain capitalised as amounts continue to be outstanding under the ANP facility.

### **j) Disposal of a 5% holding in HUBCO**

Applying the accounting differences between UK and US GAAP can result in differences in the carrying values of net assets under UK and US GAAP. As a consequence of this, different gains and losses may result on the subsequent disposal of the asset.

### **k) Retranslation of foreign currency denominated subsidiary**

During 2001, the Group disposed of its interest in UFG and retained approximately Euro 450 million of these funds in a Euro-denominated foreign enterprise with the intention of reinvesting the proceeds into Euro-denominated generating assets. Under UK GAAP, this foreign enterprise retained its Euro functional currency, with exchange gains and losses being recorded in reserves. Under US GAAP, its functional currency is that of its parent and, as such, gains and losses on translation of these funds are recognised through the income statement.

### **l) Deferred tax**

Under UK GAAP a deferred tax asset or liability is not recognised on the difference between the tax and book values of an asset or liability that existed at the date of a business combination. Under US GAAP, deferred tax is recognised on this difference.

### **m) Stock compensation schemes**

Under UK GAAP, no cost is recorded for the Sharesave Scheme. For other stock compensation schemes, the intrinsic value, being the difference between the book value of the shares before granting the options and the option price, is charged over the period of performance to which the award relates (the vesting period). Under US GAAP, the compensation expense for both schemes is measured as the difference between the market value of the shares at the date of grant and the option price and is spread over the same vesting period. Share options which are exercisable if certain performance criteria are achieved are accounted for as variable awards and compensation expense is calculated at the end of each year by reference to the market price of the shares that are considered likely to vest and recognised over the vesting period.

### **n) Employee share trust arrangements**

Under UK GAAP, Ordinary Shares in the Group held by employee share trusts are included at historical book value. Under US GAAP, such shares are classified as treasury stock and presented at their historical cost as a deduction to shareholders' equity.