Operating and financial review

HIGHLIGHTS

Outstanding financial performance in a challenging environment

Higher earnings from Australia, Pakistan and North America were the key drivers in 2002 that contributed to the overall increase in profitability from 2001.

Our industry is regionally cyclical in nature. Different countries or regions have their own demand-supply cycles and there is no single global cycle. Our strategy to have a geographically diverse asset portfolio has always been one of our competitive advantages and the benefits were clearly demonstrated in 2002 with strong performances in areas such as Australia, offsetting downward pressure in other regions.

Group turnover increased 29% to £717 million from £557 million in 2001. Profit before interest and tax (PBIT), excluding exceptional items, rose 19% to £388 million from £326 million last year.

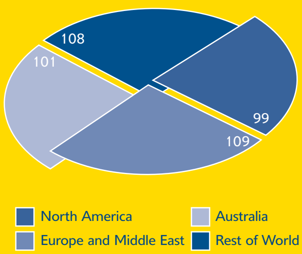
Earnings per share (pre-exceptional items) was up 26% on last year at 15.5p. In line with our continuous focus on cash, our profits were backed by free cash flow of £252 million, which was up 41% from £179 million in 2001.

Fiscal discipline has always been one of our core values. We have never underestimated or overlooked the value of capital availability. Over the last two years, we have been able to demonstrate this principle through the continued strength of our balance sheet. In 2002 we maintained our net debt at a very prudent level, with gearing of 46% and debt capitalisation of 31% at 31 December 2002.

In 2002, our key achievement in Pakistan was the commencement of regular dividend receipts from Kot Addu Power Company (KAPCO).

As a consequence of the weak and uncertain future pricing environment in England and Wales, we wrote down the value of our Deeside plant by £45 million and our Rugeley plant by £58 million.

Regional profit (PBIT) (£m)



Key ratios

Return on equity	=	**10.0%**
Free cash flow / Market value*	=	**23.6%**
EV – (market value*) / EBITDA	=	**3.8x**
Gearing	=	**45.9%**
Debt capitalisation	=	**31.5%**

*As at 31 December 2002 – £1,070 million

Profit and loss account – excluding exceptional items (continuing business only)

	Year ended 31 December 2002	Year ended 31 December 2001 (Restated[1])	Year ended 31 December 2000 (proforma[2]) (Restated[1])
	£m	£m	£m
Turnover - gross	**1,129**	1,103	1,002
Profit before interest and tax	**388**	326	221
Interest	**(132)**	(123)	(104)
Tax	**(77)**	(64)	(37)
Minority interests	**(6)**	(2)	(6)
	173	137	74
Earnings per share	**15.5p**	12.3p	6.6p

1. Restated for the adoption of FRS 19 Deferred Tax.
2. The proforma results for the year ended 31 December 2000 are unaudited and have been derived by aggregating the results of the continuing business for the nine months ended 31 December 2000 and the management accounts for the three months to 31 March 2000, and making proforma adjustments to interest and tax to reflect the post-demerger capital structure.

Segment results – excluding exceptional items

	Year ended 31 December 2002	Year ended 31 December 2001	Year ended 31 December 2000 (proforma[2])
	£m	£m	£m
Turnover			
North America	**315**	237	150
Europe and Middle East	**440**	521	534
Australia	**226**	194	133
Rest of World	**148**	151	185
Gross turnover	**1,129**	1,103	1,002
Less: turnover of joint ventures	**(122)**	(139)	(110)
Less: turnover of associates	**(290)**	(407)	(496)
Group turnover	**717**	557	396
Profit before interest and tax			
North America	**99**	93	43
Europe and Middle East	**109**	141	128
Australia	**101**	72	53
Rest of World	**108**	48	40
Segmental operating profit	**417**	354	264
Corporate costs	**(29)**	(28)	(43)
Operating profit (excluding exceptional items)	**388**	326	221
Exceptional items	**(61)**	30	(170)
Profit before interest and tax	**327**	356	51