CHIEF EXECUTIVE OFFICER'S STATEMENT

2004 WAS A YEAR OF SIGNIFICANT PROGRESS, AS WE COMPLETED A NUMBER OF IMPORTANT STEPS TO STRENGTHEN AND REPOSITION YOUR GROUP FOR BOTH THE IMMEDIATE FUTURE AND THE LONG-TERM, ALONGSIDE DELIVERING RESULTS AT THE TOP END OF OUR EARNINGS GUIDANCE. LOOKING FORWARD, WE HAVE THE CLEAR PRIORITY TO INTEGRATE OUR NEWLY ACQUIRED ASSETS QUICKLY AND EFFICIENTLY TO ENSURE WE DELIVER TO SHAREHOLDERS THE RETURNS WE HAVE PROMISED.

Dear Shareholder

2004 was a year of significant progress, as we completed a number of important steps to strengthen and reposition your Group for both the immediate future and the long-term, alongside delivering results at the top end of our earnings guidance. We are clearly not satisfied that our 2004 profits (excluding exceptional items) were down on 2003 by some 4%, but we do believe the steps taken in 2004 provide a sound basis for an immediate and sustainable growth in earnings and cash flow. Let me explain.

Firstly, we acquired the international generating assets of Edison Mission Energy (EME). This portfolio comprises nine assets in six countries with a net generating capacity of 3,202 MW, representing a significant increase in our total capacity. This was a major acquisition, costing some US$1.9 billion (£972 million), undertaken in a 70:30 partnership with Mitsui of Japan, who we know well through our previous joint developments in Asia and the Middle East. We are delighted to have Mitsui as our partner in this major investment – we have highly complementary skills and aligned objectives. The EME assets are an excellent fit, with seven of the nine assets having secure long-term contracts, and the other two operating in our core merchant markets of the UK and Victoria (Australia). These assets are now being quickly and successfully integrated into our existing regional structure, giving an immediate and significant increase in earnings.

Secondly, we completed the acquisition of a majority stake in Turbogás in Portugal, a modern and efficient 990 MW gas fired plant. This asset, together with our existing investment in Portugal – namely the 600 MW Pego coal fired plant – provides a profitable, cash generative and highly integrated Portuguese portfolio, and positions us very well for the anticipated liberalisation of the Iberian market.

Thirdly, we also completed the restructuring of the US$879 million (£488 million) non-recourse debt facility for our US merchant portfolio. As we flagged last year, the low margins in our US merchant markets resulted in insufficient cash flow to fully meet interest costs. We carefully evaluated all options, and concluded that it was in the best interests of shareholders to retain the upside exposure to the medium-term recovery in our US markets. The restructured facility, extended to 2010, provides a solid capital structure, and we can now fully concentrate on ways of commercially strengthening our US business.

Throughout these major moves, where we were committing a major element of our Group cash reserves and assuming a significant amount of non-recourse debt, we kept our focus on maintaining a prudent capital structure. Our objective was to add no additional debt at the Group centre, and to retain some capacity to execute value-added growth opportunities in our core regions. We concluded that a Rights Issue was the most appropriate option, and I want to thank shareholders for their overwhelming support.

Operationally in 2004, the Group continued to benefit from our portfolio approach, with continued strong performance in four of our five core regions offsetting the anticipated weak performance of our US merchant business.

In the US, margins in our two markets of Texas and New England continued to be low, and insufficient to meet total operating costs. We did a very thorough market analysis to ensure there are solid grounds for anticipating a recovery in the medium-term, namely the 2007 to 2009 timeframe. In the short-term, current forward prices for 2005 also generally show some very modest improvement. Our contracted assets continue to perform very well, and

under the new regional leadership of Bruce Levy, we look forward to reviewing commercial opportunities to maximise returns from our US business.

In Europe, there was continued strong performance from EOP in the Czech Republic, Pego in Portugal and Marmara in Turkey. The UK business saw some improvement in power prices, but as this was principally driven by an increase in gas prices, there was only a minimal impact on profitability.

Our Middle East business continues to grow, with both our developments in Abu Dhabi, namely Shuweihat and Umm Al Nar, making an increased contribution to profits in 2004. High quality growth opportunities, that provide long-term contracted income, continue to be pursued in this region.

In Australia, our strong forward contracted position helped maintain profitability at a time when market prices were softer. Our integrated portfolio in this region was strengthened by the construction of our first wind farm, which is now fully operational, and by the commissioning of the SEA Gas pipeline in South Australia.

Our Asian portfolio is totally covered by long-term offtake contracts and, continued high levels of plant availability, delivered another year of good financial performance.

Our safety, environmental and community programmes continue to have a very high priority throughout the Group – all of our assets have a consistent set of principles and policies, and although each individual initiative is ultimately implemented at a local level, they are co-ordinated, encouraged and reviewed from the Group centre. We are committed to the highest levels of safety and environmental performance at all our plants, and we continually strive to be a participative and supportive neighbour in all the communities in which we operate. The corporate social responsibility section of this report will give you some practical examples of how we translate this commitment into positive actions.

The Group is now well positioned, with a stronger contracted base to our earnings and cash flow, in depth market knowledge and operating skills across all our core regions, a portfolio approach that both mitigates risk and provides upside exposure to recovery in merchant markets, strong partners in our projects, and, very importantly, a solid capital structure based on non-recourse project debt with liquidity at the corporate centre.

Looking forward, we have the clear priority to integrate our newly acquired assets quickly and efficiently to ensure we deliver to shareholders the returns we have promised. We are now implementing detailed integration plans to do precisely that.

We are committed to delivering increased profitability and cash flow. These earnings and cash flow will be used to grow our dividends in line with our declared policy and selectively to grow our portfolio. On growth, our guiding principles remain financial discipline and regional focus, and we will continue only to allocate capital where we see good long-term value for our shareholders.

Philip Cox
Chief Executive Officer