CHAIRMAN'S STATEMENT

2004 WAS A TRANSFORMATIONAL YEAR FOR YOUR COMPANY WHICH SAW ITS BUSINESS RESTRUCTURED TO CREATE A PLATFORM FOR IMMEDIATE AND MORE VISIBLE EARNINGS AND CASH FLOW GROWTH. THE KEY TASKS FOR 2005 ARE THE INTEGRATION AND CONSOLIDATION OF OUR ACQUISITIONS WITHIN THE EXISTING PORTFOLIO WHILST ENSURING WE DELIVER ON OUR COMMITMENTS TO SHAREHOLDERS.

2004 was a transformational year for your Company which saw its business restructured to create a platform for immediate and more visible earnings and cash flow growth, resulting in the Board announcing its intention to commence paying a dividend.

The strengthened platform for the Group was primarily created through the acquisitions of the international generation portfolio of Edison Mission, and of Turbogás in Portugal, underpinned by a successful Rights Issue that raised £286 million in September 2004. Importantly, we also successfully restructured the financing of the non-recourse project debt of ANP, our US subsidiary company.

In addition to these important strategic moves, the Company's existing assets performed well to produce earnings at the top end of our EPS guidance for the year. We delivered an EPS (excluding exceptional items) of 8.3p as compared to 9.1p last year (both adjusted for the Rights Issue), down as we predicted because of continued weak markets in the US, namely in Texas and New England. We had anticipated that our US markets would remain subdued, but we remain confident that our modern, efficient US portfolio will benefit from market recovery in the medium-term when the oversupply position has corrected.

Our regional portfolios in Europe, the Middle East, Australia and Asia all had a good year, demonstrating the strength of our regional spread and our mix of long-term contracted and merchant output.

A more detailed review of our regional business is set out in our Chief Executive's report.

In my statement last year, I said that although we were actively reviewing growth opportunities, the key priority for 2004 was the restructuring of the non-recourse debt facility for our US merchant plant. We achieved this with a limited cash contribution from the parent company providing financial stability for the US assets until the expected market recovery. With this restructuring behind us, we were able to convert selected growth opportunities into real shareholder value by acquiring in November a majority interest in Turbogás (a 990 MW gas fired power station in Portugal) and in December, in a 70:30 partnership with Mitsui & Co of Japan, the Edison Mission international portfolio (which increased our generating capacity by a further 3,202 MW). These newly acquired assets represent an excellent regional fit with our existing portfolio and increase the percentage of our output sold under good long-term contracts, providing increased stability and visibility to our cash flow and earnings.

These acquisitions would not have been possible without two very important contributions. One was from the employees of the Group, led by the new executive management team put in place by Philip Cox, Chief Executive Officer, at the start of 2004. The team all put in a tremendous amount of work to implement successfully the refinancing and the acquisitions, whilst still ensuring

good operational performance of the existing assets. I am very grateful for the enthusiasm, commitment and professionalism of all our employees in the last year. The other very significant contribution was the financial support provided by our shareholders in funding the Rights Issue to ensure we could finance these acquisitions. The success of the Rights Issue demonstrated the confidence that the shareholders have in our management team and in the transactions we announced – I would like to thank our shareholders for their support.

Having reviewed the impact of these acquisitions on our earnings and cash flow, the Board now feels it is appropriate for the Company to start paying dividends to shareholders. Subject to approval at the forthcoming Annual General Meeting (AGM), the Board proposes to pay a dividend of 2.5p a share for 2004 payable in the summer of 2005.

In future the Board will propose an annual dividend at the time of our preliminary results, taking into account the outlook for future earnings, free cash flow generation and the investment opportunities available to the Group to deliver further growth and shareholder value.

For 2005 the Board expects to maintain a dividend pay-out ratio similar to the 30% level provided for the 2004 dividend. We expect then to move progressively towards a pay-out ratio of 40% in the medium-term.

This year we report against the new Combined Code for the first time, and, in the few instances where we do not comply fully with these requirements, we explain why this is the case. We are also required to comply with the US Sarbanes-Oxley Act, due to our listing in New York.

In 2004 we welcomed Struan Robertson to our Board as a new Non-Executive Director. Struan's appointment was made following a recruitment exercise carried out by external consultants. Along with his engineering background, Struan also brings excellent international business experience gained at a senior level within the energy sector at BP.

The key tasks for 2005 are the integration and consolidation of our acquisitions within the existing portfolio whilst ensuring that we deliver on the commitments we have given to shareholders, both on earnings and on dividends. It continues to be a time of major restructuring in our industry, and we will also continue to review carefully and selectively growth opportunities if they meet our strategic and financial criteria and clearly add to shareholder value. We have achieved a lot to reposition your Group in 2004, and we intend to deliver in 2005.

Sir Neville Simms
Chairman