Additional information in respect of US GAAP

This information is derived from the financial statements that will be included in the Company's report on Form 20-F for the year ended 31 December 2004, which will be filed with the US Securities and Exchange Commission. In the summary US GAAP reconciliations presented below, the adjustments are presented net of any minority interest effect and do not include certain additional classification disclosures in respect of minority interest that will be included in the Form 20-F. Form 20-F should be referred to for a complete discussion of the significant differences between UK GAAP and US GAAP that affect the Group.

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

Note		Year ended 31 December 2004 £m	Year ended 31 December 2003 (restated) £m
	Net income		
	Profit/(loss) attributable to ordinary shareholders under UK GAAP	**94**	(219)
	Adjustments:		
b)	Impairment of plant:		
	Impairment of US plant	**–**	404
	Reinstatement of HUBCO impairment	**–**	(35)
	Release on partial disposal of HUBCO	**7**	–
	Impact on depreciation charge	**(26)**	(7)
c)	Purchase accounting and goodwill:		
	Impairment of goodwill	**–**	(28)
	Fair value and purchase accounting	**3**	3
	Deemed acquisition of KAPCO	**–**	15
d)	Development expenditure	**2**	1
e)	Onerous property lease provision	**1**	2
f)	Liquidated damages and associated costs	**3**	(19)
g)	Insurance recovery	**6**	–
h)	Derivatives and hedging activities	**(27)**	2
i)	Deferred finance costs	**(5)**	12
j)	Disposal of investments	**3**	1
k)	Restructuring costs	**–**	(3)
m)	Income taxes	**(9)**	1
n)	Stock compensation schemes	**(8)**	(2)
	Tax effect of US GAAP adjustments	**17**	(113)
	Net income under US GAAP	**61**	15
	Effect of restatement:		
	Net loss under US GAAP, as previously reported		(17)
	Deemed acquisition of KAPCO (see note c)		15
	Net loss under US GAAP, before restatement		(2)
	Effect of the restatement of derivatives and deferred tax		17
	Net income under US GAAP, as restated		15
	Earnings/(loss) per ordinary share:		
	Earnings/(loss) per share under US GAAP		
	Basic:		
	Before the effect of the restatement of derivatives and deferred tax		(0.2)p
	Effect of restatement to net income		1.4p
	Total	**4.7p**	1.2p
	Diluted:		
	Before the effect of the restatement of derivatives and deferred tax		(0.2)p
	Effect of restatement to net income		1.4p
	Total	**4.6p**	1.2p

The earnings/(loss) per share has been adjusted for the Rights Issue in the second half of 2004.

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

Note		As at 31 December 2004 £m	As at 31 December 2003 restated £m
	Shareholders' funds – equity		
	Total shareholders' funds – equity under UK GAAP	**1,825**	1,521
	Adjustments:		
a)	Pensions	**10**	10
b)	Impairment of plant	**499**	547
c)	Purchase accounting and goodwill	**157**	(24)
d)	Development expenditure	**(13)**	(15)
e)	Onerous property lease provision	**–**	(1)
f)	Liquidated damages and associated costs	**(131)**	(144)
g)	Insurance recovery	**6**	–
h)	Derivatives and hedging activities	**(48)**	(1)
i)	Deferred finance costs	**6**	12
l)	Dividends paid and proposed	**37**	–
m)	Income taxes	**(235)**	(48)
n)	Stock compensation schemes	**–**	(3)
	Cumulative tax effect of US GAAP adjustments	**(59)**	(87)
	Total shareholders' funds – equity under US GAAP	**2,054**	1,767

Effect of restatement:

Total shareholders' funds – equity under US GAAP, as previously reported	1,780
Deemed acquisition of KAPCO (see note c)	(4)
Total shareholders' funds – equity under US GAAP, before restatement	1,776
Effect of the restatement of derivatives and deferred tax	(9)
Total shareholders' funds – equity under US GAAP, as restated	1,767

Restatement

The net income restatement of £17 million relates to certain derivatives where the hedge effectiveness documentation prepared at inception is no longer considered to support hedge accounting (increase in net income £26 million), net of the elimination of a deferred tax asset in respect of derivative instruments (decrease in net income £9 million). This has an impact of reducing shareholders' funds – equity by £9 million at 31 December 2003.

a) Pension costs

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 future cash flows are less than the carrying amounts 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 amounts 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 is reinstated for US GAAP. A portion of the impairment has been adjusted through the profit and loss account in 2004, following the disposal of a partial holding in HUBCO.

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 in accordance with applicable accounting literature. Goodwill impairments were recorded in 2003 under US GAAP.

Under UK GAAP, when there is a change in the level of influence over the financial and operating policy decisions of an undertaking such that a trade investment becomes an associate (and thus the equity method of accounting is adopted), a deemed acquisition arises where it is necessary to apply the rules on piecemeal acquisitions. Under UK GAAP the effects of the change are recorded prospectively from the date of deemed acquisition and the deemed consideration equates to the carrying value of the trade investment at that date. Under US GAAP the results of operations (current and prior periods presented) and retained earnings are adjusted retrospectively in a manner consistent with the accounting for a step-by-step acquisition.

Additional information in respect of US GAAP continued

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.

g) Insurance recovery

Under UK GAAP, an insurance recovery has been recorded as a reduction in the capitalised cost of the relevant replacement assets. Under US GAAP, even though the insurance proceeds have been used to finance replacement parts the cost base in the balance sheet is not adjusted and the difference between the insurance receipt and the carrying value of replaced assets is recognised in the profit and loss account. This difference in the asset cost results in different levels of depreciation under UK and 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. In 2004, costs incurred specifically to finalise the restructured debt were capitalised and are being amortised over the revised term of the debt.

Under US GAAP, the restructured debt was deemed an extension of the existing facility. Accordingly, the unamortised deferred financing costs of the original facility remain capitalised and are being amortised over the revised term of the debt. Additionally, in 2004 only costs paid directly to the lender have been capitalised. These differences give rise to different amortisation charges.

j) Disposal of investments

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) 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, for exit or disposal activities initiated before 31 December 2002, the requirements for charging restructuring costs to income were more prescriptive and included 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.

l) Dividends paid and proposed

Under UK GAAP, final ordinary dividends are recognised in the financial year in respect of which they are proposed by the Board of Directors. Under US GAAP, such dividends are not recognised until they are formally approved at the following Annual General Meeting.

m) Income taxes

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. US GAAP is generally more prescriptive in its requirements for provisioning for potential tax exposures. This can lead to differences in provision levels under UK and US GAAP.

n) 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 market value of the shares at the grant date 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.