

Innogy plc

Directors' report and financial
statements

Registered number 03892782

For the nine month period ended
31 December 2002



Directors' report and financial statements

Contents

Directors' report	1
Auditors' report	4
Profit and loss account	5
Balance sheet	6
Notes to the financial statements	7 - 32

Directors' report for the 9 month period ended 31 December 2002

The Directors present their report and the audited financial statements of the Company for the 9 month period to 31 December 2002. The comparative figures are for the year ended 31 March 2002.

Principal Activities

Innogy plc is a 100% subsidiary of Innogy Holdings plc, one of the UK's leading integrated energy businesses. Innogy plc controls all of the group's operations, which comprise Trading and Asset Management, Cogeneration, Risk Management, Innogy One, Renewables, Retail and Regenesys.

Review of Business and Future Developments

The Company has continued to make tremendous progress in realising the vision of becoming the UK's leading integrated energy company. On 27 May 2002 the RWE Group's offer to purchase Innogy Holdings plc, the parent undertaking, was accepted by its shareholders. With effect from 17 July 2002, the ordinary shares of the parent company Innogy Holdings plc were no longer listed on the official list of the London Stock Exchange in the UK. It is anticipated that profits for the company and its subsidiaries for 2003 will be in line with RWE's expectations as outlined at the time of the acquisition. The 2003 results will reflect the first full year reporting as part of the RWE Group. Innogy plc's position in the market as an integrated player continues to ensure that the Company is well positioned to exploit value throughout the commercial supply chain, while enabling a high level of risk management. Subsequent to the year end RWE Finance BV made an exchange offer to Innogy bond holders as set out in note 32.

Research and development

The Company's research and development capability is used to add value to its business activities, including the development of new technologies, optimisation of power station operation and fuel utilisation. Expenditure on these programmes was £6 million during the period (31 March 2002: £6 million).

Results and Dividends

The Company's loss for the 9 month period ended 31 December 2002 is £210 million (year to 31 March 2002: loss £251 million restated). An interim dividend of £130 (31 March 2002: £Nil) per ordinary share, amounting to £13 million (31 March 2002: £Nil million) was paid during the period. A final dividend of £700 (31 March 2002: £400) per ordinary share, amounting to £70 million (31 March 2002: £40 million) is proposed by the Directors.

Directors and Their Interests

The Directors who held office during the period are given below:

Mr Michael Bowden
Dr Brian Morrison Count
Mr Andrew James Duff
Mr Stephen Paul Fletcher
Mr Timothy Peter Weller

Resigned: 24 September 2002

According to the register required to be kept under section 325 of the Companies Act 1985 none of the Directors of the Company at 31 December 2002 held any interest in the share options or debentures of group companies incorporated in the United Kingdom, at 31 December 2002. As permitted by statutory instrument, the register does not include shareholdings of Directors in companies incorporated outside Great Britain.

Directors' Emoluments

During the period Innogy Holdings plc has recharged Innogy plc £1.8 million for the Directors emoluments (March 2002: £2.3 million), of which £390,000 was then recharged by Innogy plc to a subsidiary company. The highest paid Director was B M Count £553,080 (March 2002: £630,987).

Innogy Holdings plc has recharged Innogy plc £52,416 (March 2002: £44,000) for Directors pension contributions.

During the period all of the directors participated in a Long Term Incentive Programme under which shares in the immediate parent company, Innogy Holdings plc, are awarded. No awards were made during the period.

Directors' report *(continued)*

Directors' Emoluments *(continued)*

All directors' share options crystallised following the acquisition of Innogy Holdings plc by RWE AG. No new share options were granted during the period.

Charitable and Political Donations

During the period the Company made charitable donations of £380,000 (year to 31 March 2002: £129,000) of which a high percentage was to local charities serving the communities in which the Company operates.

During the period donations were made to affiliates of the Labour party amounting to £700 (Fabian Society £200 and SERA £500).

Employees

The energy, innovation and creativity of our staff add value to our businesses. Examples of this include the development of our third party business in Innogy One and the success of our Trading operations.

The Company is committed to the development of all staff in the organisation in order to leverage our intellectual capital. Among many development and training initiatives, all staff are encouraged to maintain personal development plans.

The major changes within the Company mean that effective communications with staff are vital. Corporate publications and other media, including distribution of key development messages and team briefings, are used to promote wide understanding of policies and strategy. We also utilise the latest technology to aid rapid communication with staff around the world through use of a comprehensive Company Intranet.

Equal Opportunities and Diversity

The Company is committed to equal opportunity and diversity because of a sense of social responsibility and also because it makes sound business sense to tap into the wide-ranging knowledge and experience of individuals in all sectors of society. Through its commitment to valuing the talents of its employees, Innogy aims to ensure that it is able to compete in attracting and retaining high calibre employees with wide-ranging experience and is therefore able to respond positively and flexibly to change. Decisions to appoint, reward, train, develop and promote are taken based on skills and abilities, or demonstrated potential, merit and the requirements of the job. Employment decisions affecting both job applicants and employees with disabilities will be made following any reasonable adjustments that may be necessary to ensure fair treatment.

The Company is a member of the Employers' Forum on Disability, Opportunity Now and the Employers' Forum on Age and is committed to the aims of these organisations.

Employee share plans

Innogy operates a savings related share option plan for the benefit of employees in the UK. Over 50% of eligible staff participate in the scheme, saving between £5 and £125 per month with the option to purchase RWE shares at a 20% discount at the end of a three year savings period.

Prompt payment policy

The Company aims to observe the highest standards of business practice as both a buyer and seller of products and services. The Company subscribes to the CBI's Prompt Payment Code and has formally adopted the BS Standard 7890 Methods for Achieving Good Payment Performance in Commercial Transactions. The average number of days outstanding in respect of trade creditors at 31 December 2002 was 8 days for the Company (31 March 2002: 14 days).

Directors' report *(continued)*

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial period that give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. The directors are required to prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business.

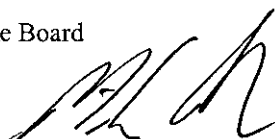
The directors confirm that suitable accounting policies have been used and applied consistently with the exception of the changes arising on the adoption of new accounting standards in the period and changes in accounting policies as explained on page 8 under Note 1 'Accounting policies'. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the nine month period ended 31 December 2002 and that applicable accounting standards have been followed.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The directors are also responsible for the maintenance and integrity of the information, including the Financial Statements, on the company's website.

Auditors

Following the resignation of KPMG Audit plc on 11 November 2002, PricewaterhouseCoopers were appointed as auditors of the Company. On 1 January 2003, PricewaterhouseCoopers converted to a limited liability partnership (LLP) by transferring substantially all of their business to a new entity PricewaterhouseCoopers LLP. The PricewaterhouseCoopers partnership resigned as auditors and the new firm PricewaterhouseCoopers LLP was appointed to fill the casual vacancy. A resolution to reappoint PricewaterhouseCoopers will be proposed at the Annual General Meeting.

By order of the Board



Mike Bowden

Company Secretary

27 June 2003

Independent auditors' report to the members of Innogy plc

We have audited the financial statements which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheet and the related notes, which have been prepared under the historical cost convention as modified by the true and fair override disclosed on page 7.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the Directors' report.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

Basis of audit opinion

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company at 31 December 2002 and of the loss for the nine month period then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
27 June 2003

Profit and loss account
for the 9 month period ended 31 December 2002

	Note	9 Months to 31 December 2002 £m	Year to 31 March 2002 Restated £m
Turnover	4	728	427
Operating costs			
Exceptional operating costs	10	(302)	-
Other operating costs		(612)	(617)
Total operating costs		(914)	(617)
Operating profit/(loss) before exceptional items		116	(190)
Exceptional items		(302)	-
Operating loss		(186)	(190)
Profit on disposals of fixed assets		22	13
Loss on ordinary activities before interest and taxation		(164)	(177)
Net interest payable and similar charges	6,7	(111)	(136)
Loss on ordinary activities before taxation	5	(275)	(313)
Tax on loss on ordinary activities	11	65	62
Loss for the financial period		(210)	(251)
Dividends	12	(83)	(40)
Retained loss for the period		(293)	(291)

Statement of total recognised gains and losses

		9 Months to 31 December 2002 £m	Year to 31 March 2002 Restated £m
Loss for the period		(210)	(251)
Exchange differences		4	-
Total recognised gains and losses related to the period		(206)	(251)
Prior year adjustment	2	(27)	
Total gains and losses recognised since last financial statements		(233)	

All results relate to continuing operations.

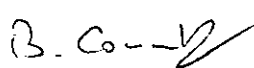
There are no material differences between the profit on ordinary activities before taxation and the retained profit for the period stated above and their historical cost equivalents.

The accounting policies and notes on pages 7 to 32 form an integral part of these financial statements.

Balance sheet
at 31 December 2002

	Note	31 December 2002 £m	31 March 2002 Restated £m
Fixed Assets			
Tangible assets	13	384	652
Investments	14		
Joint ventures		6	14
Associates		4	4
Other investments		244	244
		<hr/> 638	<hr/> 914
Current assets			
Stocks - raw materials		76	82
Debtors: recoverable within one year	15	1,063	868
Debtors: recoverable after more than one year	15	3,126	2,960
Investments	16	-	1
Cash at bank and in hand		121	328
		<hr/> 4,386	<hr/> 4,239
Creditors: amounts falling due within one year			
Bank loans and overdrafts		-	(13)
Other creditors	17	(2,130)	(1,795)
		<hr/> 2,256	<hr/> 2,431
Net current assets			
		<hr/> 2,894	<hr/> 3,345
Total assets less current liabilities			
Creditors: amounts falling due after more than one year	18	(2,556)	(2,653)
Provisions for liabilities and charges	21	(161)	(226)
		<hr/> 177	<hr/> 466
Net assets			
		<hr/> 177	<hr/> 466
Capital and reserves			
Called up share capital	22	-	-
Share premium account	23	129	129
Profit and loss account	23	48	337
		<hr/> 177	<hr/> 466
Equity shareholders' funds	24	177	466

The financial statements on pages 5 to 32 were approved by the Board of Directors on 27 June 2003 and were signed on its behalf by:


Brian Count
Director


Tim Weller
Director

The accounting policies and notes on pages 7 to 32 form an integral part of these financial statements.

Notes to the financial statements for the 9 month period ended 31 December 2002

1 Accounting policies

These financial statements are prepared on the going concern basis, under the historical cost convention (as modified below) and in accordance with the Companies Act 1985 and applicable accounting standards. The principal accounting policies are set out below.

The directors consider it appropriate, in order that the financial statements show a true and fair view, to value certain open trading positions at market prices in accordance with industry practice, with any gains or losses taken through the profit and loss account. This represents a departure from the current statutory requirement of lower of cost and net realisable value. It is not possible to determine with reasonable accuracy the effect on the financial statements of this departure, as it is not market practice to retain details of cost.

(i) *Basis of preparation of financial statements*

The Company has taken advantage of the exemption from preparing consolidated financial statements. The results of the Company and its subsidiaries are included in the consolidated financial statements of RWE AG (note 29).

(ii) *Turnover*

Turnover comprises sales to the wholesale electricity trading market in England and Wales of electricity generated by the Company. Turnover also includes net sales relating to our energy trading activity (see note xiv).

Income from the sale of generation output to the wholesale market is achieved through our trading activities. Internal contracts held by generation are recorded as income in the Company's financial statements and the adjustment to final external delivered prices represents the net margin achieved in our trading activities.

(iii) *Pension costs*

Pension contributions are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives. The regular cost is attributed to individual years using the projected unit credit method. Variations in pension costs, which are identified as a result of actuarial valuations, are amortised over the average expected remaining working lives of employees. Differences between the amounts funded and the amounts charged to the profit and loss account are treated as either provisions or prepayments in the balance sheet.

In accordance with the transitional arrangements under Financial Reporting Standard 17 "Retirement Benefits" additional balance sheet disclosures are required for period ended 31 December 2002, these are disclosed in note 9 to the financial statements.

(iv) *Research and development*

Expenditure on fixed assets used for research and development is written off over the expected useful life of the relevant asset; all other research and development expenditure is charged to the profit and loss account as incurred.

(v) *Foreign exchange*

The profits or losses of overseas subsidiary undertakings and associates are translated into sterling at average rates of exchange. Balance sheets of subsidiary undertakings and net investments in associates are translated at closing rates.

Exchange differences arising on the retranslation at closing rates of overseas subsidiary undertakings' balance sheets and net investments in associates and joint ventures, together with the year end adjustment to convert the balance of retained profits to closing rates, are taken directly to reserves. Differences arising on the translation of relevant foreign currency borrowings are taken directly to reserves, to match the corresponding exchange difference on the translation of the related net investment in overseas subsidiary undertakings, associates and joint ventures, as are differences arising on equity investments denominated in foreign currencies in the Company's financial statements. Transactions denominated in foreign currencies arising in the normal course of business are translated into sterling at the exchange rate ruling on the date payment takes place unless related or matching forward foreign exchange contracts have been entered into, when the rate specified in the contract is used. Monetary assets and liabilities expressed in foreign currencies that are not covered by hedging arrangements are translated into sterling at the rates of exchange ruling at the balance sheet date and any difference arising on the retranslation of those amounts is taken to the profit and loss account.

Notes (continued)

1 Accounting policies (continued)

(vi) Operating leases

Rentals payable under operating leases are charged to the profit and loss account evenly over the term of the lease.

(vii) Interest

All interest is charged to the profit and loss account.

(viii) Tangible fixed assets

Tangible fixed assets are stated at original cost less accumulated depreciation and any provision for impairment in value. In the case of assets constructed by the Company, cost includes related works and administrative overheads and commissioning costs in accordance with FRS 15. Assets in the course of construction are included in tangible fixed assets on the basis of expenditure incurred at the balance sheet date.

Depreciation is calculated so as to write down the cost of tangible fixed assets to their residual value evenly over their estimated useful lives. Estimated useful lives are reviewed periodically, taking into account commercial and technological obsolescence as well as normal wear and tear, provision being made for any impairment in value.

The depreciation charge is based on the following estimates of useful lives:

Combined cycle gas turbine power stations	25
Other power stations	20-40
Non-operational buildings	40
Fixtures, fittings, tools and equipment	4-5
Computer equipment and software	3-5
Hot gas path CCGT turbine blades	3

(ix) Finance leases

Assets held under finance leases are capitalised where material and included in tangible fixed assets at fair value at the inception of the lease. Each asset is depreciated over the shorter of its lease term and its estimated useful life. The obligations related to finance leases, net of finance charges in respect of future periods are included, as appropriate, under creditors due within or creditors due after one year. The interest element of the rental obligation is allocated to accounting periods during the lease term so as to produce a constant periodic rate of charge on the balance outstanding.

(x) Fixed asset investments

All fixed asset investments are stated at cost less provision for any impairment.

(xi) Current asset investments

Current asset investments are stated at the lower of cost and market value.

(xii) Stocks and long term contracts

Operating stocks of fuel and spares are valued at the lower of cost and net realisable value. Our long term Innogy One contracts are reflected in the profit and loss account by recording turnover and the related costs as contract activity progresses. Profit attributable to turnover to date is included where the outcome of the contract can be foreseen with reasonable certainty. Full provision is made for losses on unprofitable contracts. To the extent that material recorded turnover is in excess of material payments on account then this excess is classified separately within the balance sheet.

(xiii) Deferred tax

The charge for taxation is based on the profit for the period and takes into account taxation deferred. Except where otherwise required by accounting standards, full provision without discounting is made for all timing differences which have arisen but not reversed at the balance sheet date.

Notes (continued)

1 Accounting policies (continued)

(xiv) Financial instruments

The Company uses a range of financial instruments, including energy-based futures contracts, interest rate swaps and forward foreign exchange contracts. Financial instruments are used for both hedging and trading purposes.

Fair Value of Energy Trading Activities

In the period ended 31 December 2002, the Company has changed its accounting policy for the treatment of energy based financial instruments. The impact on the Financial Statements of this is set out in note 2. The accounting policy has been changed, following the acquisition by RWE, to reflect group accounting policies whilst remaining consistent with applicable accounting standards. The previous treatment was to account for all energy-based financial instruments on a mark to market basis.

The change in accounting policy has resulted in a restructure of the trading books whereby certain energy contracts entered into have been excluded from any fair valuation, based on their ongoing use within the business to deliver physical commodities to our assets and customers. Under group accounting policy, these contracts meet the definition of executory contracts, to the extent that the contract's were entered into and continue to meet our physical usage requirements, were designated for that purpose at inception and are to be settled by delivery. These contracts are accounted for on an accruals basis. In addition, internal contracts are no longer marked to market.

Our Energy Trading activities are focused on managing our exposure to energy prices, optimising the use of our assets and maximising returns on risk capital provided. The fair values of derivative contracts are recorded as assets and liabilities in the balance sheet of the Company with movements in valuation recorded in the Company profit and loss account. We have reviewed our contractual commitments within the energy trading market and produced fair valuations of commitments held for trading purposes.

The Company intends for the reporting of its trading position to show the fair valuation of the amount at which its derivative instruments could be exchanged in an arms length transaction between informed and willing parties. The estimation techniques used determine the "mark to market" value of our contracts using forward price curves. The fair value of derivative instruments takes account of transaction costs held in the market and any recognised losses associated with credit default of our trading counterparties. These form part of our reserving policies as laid out below:

Liquidity Risk - The liquidity risk represents the costs to the Company if open positions held were closed to leave no market risk following an agreed 'exit strategy'. The costs of liquidating the portfolio include adjustments from a mid-market price to a bid or offer price, which includes an adjustment to allow for the size of the position we hold in relation to the overall liquidity of the mark.

Credit Risk - Credit risk represents the risk of the loss to the Company arising from a counterparty failing to meet obligations within the trading contracts. The credit risk reserve is calculated based on the current exposure we have from our counterparties and an estimation of the probability of default based on the credit grade given to the counterparty.

Transactions for energy risk management purposes are undertaken between the Company's business units and Trading. Internal positions are integral to the Company's management of wholesale energy risk, ensuring risk can be managed on a portfolio basis and offsetting positions within the Company can be recognised. Internal transactions are reflected in the segmental analysis of performance in note 4. The transfer of risk through internal transactions occurs at market prices on an arms length basis and in accordance with hedge policies approved by the Board.

Treasury Hedging activities

Our Treasury Department is responsible for hedging all our currency and interest rate exposures. It uses derivative instruments for this purpose. The Company does not enter into speculative derivative contracts. All such instruments are used for hedging purposes to alter the risk profile of an existing underlying exposure of the Company in line with Company's risk management policies. Amounts payable or receivable in respect of interest rate swaps are recognised as adjustment to interest expense over the period of the contracts.

Notes (continued)

2 Change in Accounting Policy: Impact on Financial statements

Following the acquisition by RWE AG, Innogy plc has reviewed all accounting policies to ensure consistency with RWE within UK GAAP. The impact of the changes made in policy are set out below:

9 months to 31 December 2002

	Non- capitalisation of interest	Fair value of energy based financial instruments	Deferred taxation	Total
	£m	£m	£m	£m
Profit and loss account				
Turnover	-	3	-	3
Exceptional operating costs	6	-	-	6
Operating costs	5	-	-	5
Operating profit	11	3	-	14
Interest	(4)	-	-	(4)
Profit before taxation	7	3	-	10
Taxation	(2)	(1)	-	(3)
Profit after taxation	5	2	-	7
	Non- capitalisation of interest	Fair value of energy based financial instruments	Deferred taxation	Total
	£m	£m	£m	£m
Balance sheet				
Tangible fixed assets				
- cost	(142)	-	-	(142)
- depreciation	36	-	-	36
	(106)	-	-	(106)
Debtors: recoverable within one year	-	(54)	-	(54)
Debtors: recoverable after more than one year	-	(168)	-	(168)
	-	(222)	-	(222)
Creditors: amounts falling due within one year	-	96	-	96
Net current assets	-	(126)	-	(126)
Creditors: amounts falling due after more than one year	-	324	-	324
Provisions	32	(59)	(85)	(112)
Net assets	(74)	139	(85)	(20)

Notes (continued)

2 Change in Accounting Policy: Impact on Financial statements (continued)

Year to 31 March 2002

	Non- capitalisation of interest	Fair value of energy based financial instruments	Deferred taxation	Total
	£m	£m	£m	£m
Profit and loss account				
Turnover	-	(368)	-	(368)
Exceptional operating costs	-	-	-	-
Operating costs	8	-	-	8
Operating profit	8	(368)	-	(360)
Interest	(13)	-	-	(13)
Profit before tax	(5)	(368)	-	(373)
Taxation	2	110	(39)	73
Profit after taxation	(3)	(258)	(39)	(300)
	Non- capitalisation of interest	Fair value of energy based financial instruments	Deferred taxation	Total
	£m	£m	£m	£m
Balance sheet				
Tangible fixed assets				
- cost	(138)	-	-	(138)
- depreciation	25	-	-	25
	(113)	-	-	(113)
Debtors: recoverable within one year	-	(214)	-	(214)
Debtors: recoverable after more than one year	-	(138)	-	(138)
	-	(352)	-	(352)
Creditors: amounts falling due within one year	-	154	-	154
Net current assets	-	(198)	-	(198)
Creditors: amounts falling due after more than one year	-	393	-	393
Provisions	34	(58)	(85)	(109)
Net assets	(79)	137	(85)	(27)

The Company no longer capitalises interest on borrowings relating to major capital projects. This has required a prior year adjustment within the Company financial statements.

As set out in the accounting policies (note xiv), during the period we have changed our accounting policy for energy trading activities. This has required a prior year adjustment within the Company financial statements.

The comparatives for the year ended 31 March 2002 have been restated, but since the physical book only came into existence in the current year and in the absence of designation of executory contracts in the prior period, all external contracts have been recorded at mark to market value in the prior period.

Notes (continued)

2 Change in Accounting Policy: Impact on Financial statements (continued)

Deferred taxation attributable to all policy changes has been recognised. In addition, deferred taxation has now been provided on timing differences assumed on the transfer of the trade to the company in March 2000. These differences were previously regarded as permanent. Comparatives have accordingly been restated

3 Cash Flow Statement and Related Party Disclosures

The Company is a wholly-owned subsidiary of RWE AG and is included in the consolidated financial statements of RWE AG, which are publically available. Consequently, the Company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS1 (revised 1996). The Company is also exempt under the terms of FRS8 from disclosing related party transactions with entities that are part of the RWE AG group or investees of the RWE AG group. For details of other related party transactions see note 30.

4 Segmental analysis

	9 Months to 31 December 2002		31 March 2002 Restated	
(a) By Class of Business	Turnover £m	PBIT* £m	Turnover £m	PBIT* £m
Trading and Asset Management	684	119	396	(172)
InnogyOne	220	8	252	6
Renewables	5	1	4	1
Retail	-	(1)	-	-
Head office and other corporate costs	-	(10)	-	(26)
Central items	-	(1)	-	1
Intra division	(181)	-	(225)	-
	<hr/>		<hr/>	
	728	116	427	(190)
Exceptional items (note 10)		(302)		-
Profit on sale of fixed assets		22		13
		<hr/>		<hr/>
(Loss)/profit on ordinary activities before interest and Taxation		(164)		(177)

* Profit on ordinary activities before interest and taxation

(b) Net assets employed by division

	Net Assets 31 December 2002	Net Assets 31 March 2002 Restated
	£m	£m
Trading and Asset Management	180	501
InnogyOne	72	21
Renewables	113	166
Retail	2,379	2,336
Central items	(2,567)	(2,558)
	<hr/>	<hr/>
Total	177	466

All the activities of the Company relate primarily to one geographic segment, the United Kingdom.

Notes (continued)

5 (Loss)/profit on ordinary activities before taxation

(Loss)/profit is stated after charging/(crediting):

	9 Months to 31 December 2002 £m	31 March 2002 Restated £m
Exceptional items (note 10)	302	-
Depreciation on tangible fixed assets		
- owned assets	12	26
- under finance leases	18	37
Research and development costs	6	6
Hire of machinery and equipment	1	1
Property lease rentals payable	2	6
Profit on disposal of fixed assets	(22)	(13)
Auditors' remuneration	1	2
Foreign exchange (gains)/losses	2	(2)

Auditors' remuneration includes fees relating to audit services of £0.7 million (31 March 2002: £0.4 million) and fees relating to other audit related work of £0.2 million (31 March 2002: £0.3 million). Auditors' remuneration also includes other fees paid to the auditors and their associates for services in the UK of £0.1 million (31 March 2002: £1.1 million).

In addition to the amounts charged to profit set out above, fees amounting to £ nil million (31 March 2002: £1.9 million) were paid to the auditors, primarily in respect of stock exchange reporting work and due diligence on major acquisitions. These fees were capitalised during the period.

6 Interest receivable and similar income

	9 Months to 31 December 2002 £m	31 March 2002 £m
Other interest receivable and similar income	78	54

7 Interest payable and similar charges

	9 Months to 31 December 2002 £m	31 March 2002 Restated £m
Interest on borrowings wholly repayable within five years:		
Bonds	53	30
Bank loans	18	26
Other borrowings	25	7
Interest on borrowings not wholly repayable within five years:		
Bonds	80	84
Bank loans	-	25
Finance charges payable - finance leases	13	18
Total interest payable and similar charges	189	190
Total interest receivable and similar income (note 6)	(78)	(54)
Net interest payable	111	136

Notes (continued)

8 Directors' and employees remuneration

(a) Directors' remuneration

The Directors are remunerated by Innogy plc for provision of services to the Innogy Holdings group, as detailed in the Directors' report.

(b) Employees' remuneration

Salaries and other staff costs, were as follows:

	9 Months to 31 December 2002 £m	31 March 2002 £m
Wages and salaries	66	85
Social security costs	5	7
Pension costs (note 9)	(11)	(4)
Total employees' remuneration	60	88
Less: amount capitalised as part of assets in the course of construction	(2)	(2)
Total staff costs	58	86
	9 Months to 31 December 2002 Number	31 March 2002 Number
Trading and Asset Management	240	185
Innogy One	1,489	1,347
Renewables	81	75
Regenesys	113	86
Retail	8	9
Corporate	241	210
Total average number of employees	2,172	1,912

Notes (continued)

9 Pension scheme funding

The majority of pensions are funded through the industry-wide scheme, the Electricity Supply Pension Scheme (ESPS) which is a defined benefit scheme with assets invested in separate trustee-administered funds. The ESPS is divided into sections, one of which is the Innogy section. In addition as a result of the acquisition of the Yorkshire retail business Innogy has responsibility for the Yorkshire section for ESPS and the Yorkshire meter reading scheme.

An actuarial valuation of the Innogy Group of the Electricity Supply Pension Scheme (IESPS) is carried out every three years by a professionally qualified actuary who recommends the rates of contribution payable by each employer. The Company has taken separate advice from a professionally qualified actuary in order to determine the pension cost to be included in the financial statements under Statement of Standard Accounting Practice 24. The latest available review of the assets and liabilities in Innogy's section of the ESPS for accounting purposes was undertaken as at 31 March 2001, using the projected unit credit method. The assumptions which have the most significant effect on the results of the review are those relating to the rate of return on investments and the rates of increase in salaries and pensions. It was assumed that the annual investment return would be 3.0% higher than the annual general increase in salaries and 2.8% higher than the annual increases in pensions.

At 31 March 2001, the market value of the ESPS assets was £2,744 million and the market value covered 112% of the benefits that had accrued to members after allowing for expected future increases in earnings and benefit improvements granted to members following the formal valuation of the Innogy section of the ESPS as at 31 March 2001.

During the period ended 31 December 2002, Innogy contributed to the ESPS at the rate of 6% of members' pensionable earnings.

The latest review of the assets and liabilities of the Yorkshire section of the ESPS was undertaken at 31 March 2001. At this date the market value of the Yorkshire ESPS assets was £909 million and the market value covered 115% of the benefits that had accrued to members after allowing for expected future increases in earnings and benefit improvements granted to members following the formal valuation of the scheme as at 31 March 2001.

The total pension credit was £13 million (March 2002: a credit of £4 million). The total prepayment shown on the balance sheet is at 31 December 2002 is £297 million (2002: £281 million).

Whilst the Company continues to account for pension costs in accordance with Statement of Standard Accounting Practice 24 "Accounting for Pension costs", under Financial Reporting Standard 17 "Retirement benefits" the following transitional disclosures are required:

Innogy plc participates, along with other employers in the Innogy Group, in the IESPS and the Innogy Group Pension Scheme (IGPS), both defined benefit pension schemes. Innogy plc is unable to identify its share of the underlying assets and liabilities in a reasonable and consistent manner and hence the schemes are accounted for as multi-employer under FRS 17. Independent actuaries have assessed the FRS 17 position as at 31 December 2002 for the Schemes as a whole by updating the last formal valuation using methods appropriate for FRS 17. At this date the deficit in the IESPS was £79.1 million and in the IGPS was £16.2 million. Innogy plc has paid contributions of £0.9 million to the IESPS and £nil to the IGPS in the nine months to 31 December 2002.

At the current time the Company does not expect that the FRS 17 deficit would have any immediate impact on the financial statements, as contributions are expected to continue at the current level until the next actuarial assessment as at 31 March 2004.

Notes (continued)

10 Exceptional items

Total exceptional items before taxation

	9 Months to 31 December 2002 £m	31 March 2002 £m
Fixed asset impairment	(247)	-
Write down of amount due by group undertaking	(19)	-
Share related costs	(13)	-
Restructuring charge	(13)	-
Other	(10)	-
	<hr/>	<hr/>
Exceptional items included within operating costs	(302)	-
	<hr/>	<hr/>

The company has reviewed the carrying value of its portfolio of generating assets, as a result an impairment charge of £247 million was made of which £6 million relates to interest capitalised in the period. Adjustments of £10 million, which have been credited to operating costs, combined with this total impairment charge of £247 million have resulted in the £237 million fair value adjustment to fixed assets that is set out in note 13.

A provision of £19 million was made against the carrying value of the intercompany debtor with Npower Communications Limited.

On 27 May 2002 Innogy Holdings Group was purchased by the RWE Group. As a consequence of this Innogy plc has suffered costs due to the crystallisation of all existing share schemes at the date of acquisition. The total cost that related to Innogy plc was £13 million.

Following the acquisition of the Innogy Group, restructuring charges of £13 million have arisen.

Notes (continued)

11 Taxation on loss on ordinary activities

	9 Months to 31 December 2002 £m	Restated 31 March 2002 £m
Current:		
UK Corporation tax on loss in the period	-	(12)
Adjustments in respect of previous periods	-	18
Total current tax	-	6
Deferred tax credit	(65)	(68)
Tax on loss on ordinary activities	(65)	(62)

The tax assessed for the period is lower than the standard rate of corporation tax in the UK (30%). The differences are explained below:

	9 Months to 31 December 2002 £m	Restated 31 March 2001 £m
Loss on ordinary activities before tax	(275)	(313)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK (30%) (2002: 30%)	(83)	(94)
Difference between accounting and tax depreciation	41	(9)
Other timing differences	6	123
Movement on tax losses	15	(42)
Permanent differences	21	14
Adjustments in respect of prior periods	-	18
	-	10
Exceptional Items	-	(4)
Current tax charge for the period	-	6

Factors that may effect future tax charges:

Based on current capital investment plans, the Company expects to continue to be able to claim capital allowances in excess of depreciation in future years but to a lesser extent than in the current period.

12 Dividends

	31 December 2002 £m	Restated 31 March 2002 £m
Equity – ordinary		
Interim dividend paid: £130 (31 March 2002: £Nil) per £1 share	13	-
Final dividend proposed: £700 (31 March 2002: £400) per £1 share	70	40
Total dividends	83	40

Notes (continued)

13 Tangible fixed assets

	Freehold Land and Buildings £m	Plant, Machinery and Equipment £m	Assets under Construction £m	Total £m
Cost:				
At 1 April 2002	97	842	79	1,018
Prior year adjustments (note 2)	-	(138)	-	(138)
At 1 April 2002 as restated	97	704	79	880
Additions	-	5	12	17
Transfers	8	15	(23)	-
Disposals	-	(17)	(1)	(18)
At 31 December 2002	105	707	67	879
Depreciation:				
At 1 April 2002	(3)	(250)	-	(253)
Prior year adjustments (note 2)	-	25	-	25
At 1 April 2002 as restated	(3)	(225)	-	(228)
Depreciation	(4)	(26)	-	(30)
Net impairment charge (note 10)	-	(237)	-	(237)
At 31 December 2002	(7)	(488)	-	(495)
Net book amount at 31 December 2002	98	219	67	384
Net book amount at 31 March 2002	94	479	79	652

Assets held under finance leases within plant, machinery and equipment

	31 December 2002 £m	31 March 2002 £m Restated
Cost	617	614
Accumulated depreciation	(409)	(180)
Net book amount	208	434

Notes *(continued)*

14 Fixed asset investments

	31 March 2002 Restated £m	Disposals £m	31 December 2002 £m
Investments in Joint Ventures	8	(8)	-
Loans to Joint Ventures	6	-	6
Net investment in Joint Ventures	14	(8)	6
Loans to Associated Undertakings	4	-	4
Net Investment in Associated Undertakings	4	-	4
Shares in Group Companies	244	-	244
Total Group Fixed Asset Investments	262	(8)	254

The disposals in investments in joint ventures relates to the sale of Derby Cogen Limited.

The comparatives for 31 March 2002 have been restated (see note 15).

Notes (continued)

15 Debtors

	31 December 2002	31 March 2002 Restated
	£m	£m
Amounts recoverable within one year:		
Trade debtors	38	54
Amounts owed by group undertakings	158	232
Other debtors	814	540
Pension fund prepayments	21	21
Prepayments and accrued income	32	21
Total amounts recoverable within one year	1,063	868
Amounts recoverable after more than one year:		
Pension fund prepayments	276	260
Due from subsidiary undertakings	2,737	2,663
Other debtors	113	37
Total amounts recoverable after more than one year	3,126	2,960
Total debtors	4,189	3,828

Amounts owed by group undertakings are unsecured, interest free and have no fixed date of repayment.

The comparatives for 31 March 2002 have been restated. A provision of £199 million (March 2002: £199 million) made to reflect the carrying value of an amount owed by a group undertaking was previously shown within fixed asset investments. During the period this was transferred to debtors to offset the loan to which it relates.

16 Current asset investments

	31 December 2002	31 March 2002
	£m	£m
Listed investments	-	1
Total current asset investments	-	1

17 Creditors: amounts falling due within one year

	31 December 2002	31 March 2002 Restated
	£m	£m
Trade creditors	39	39
Amounts due to group undertakings	874	571
Finance leases (note 19)	6	6
Other taxation and social security	22	21
Corporation Tax	20	20
Other creditors	385	469
Accruals and deferred income	714	629
Proposed dividends	70	40
	2,130	1,795

Amounts due to group undertakings are unsecured, interest free and have no fixed date of repayment.

Notes (continued)

18 Creditors: amounts falling due after more than one year

	31 December 2002	31 March 2002 Restated
	£m	£m
Bonds (note 19)	1,748	1,750
Bank loans (note 19)	308	464
Amounts due to immediate parent undertaking	55	24
Finance leases (note 19)	227	227
Other creditors	184	158
Accruals and deferred income	34	30
	<u>2,556</u>	<u>2,653</u>

19 Loans and other borrowings

	31 December 2002	31 March 2002
	£m	£m
Loans and other borrowings		
4 ⁵ / ₈ % Euro Bonds 2004	316	316
8 ³ / ₈ % Euro Sterling Bonds 2006	310	311
6 ¹ / ₄ % Euro Bonds 2008	311	311
7% Sterling Bonds 2011	297	297
8 ¹ / ₈ % Euro Sterling Bonds 2022	217	218
7 ¹ / ₈ % Sterling Bonds 2031	297	297
Bank loans and overdrafts	308	464
Finance leases	233	233
	<u>2,289</u>	<u>2,447</u>

The average interest rate on the group's unsecured bank overdrafts as at 31 December 2002 was related to the prevailing base rate (approximately equivalent to the 3 month LIBOR rate).

	31 December 2002	31 March 2002
	£m	£m
Maturity of debt		
In one year or less, or on demand	6	6
In more than one year, but not more than two years	324	163
In more than two years, but not more than five years	636	954
In more than five years	1,323	1,324
	<u>2,289</u>	<u>2,447</u>

Amount repayable otherwise than by instalments after more than five years

1,122	1,122
-------	-------

Finance leases

Future minimum payments under finance leases are as follows:

	31 December 2002	31 March 2002
	£m	£m
Within one year	6	6
In more than one year, but not more than five years	26	26
After five years	201	201
Total gross payments	<u>233</u>	<u>233</u>

The total value of leases repayable by instalments any part of which falls due after more than five years is £233 million.

Notes (continued)

20 Deferred taxation

	31 December 2002 £m	Restated 31 March 2002 £m
Deferred tax liability		
Accelerated capital allowances	24	65
Pension fund prepayments	84	80
Mark to market spreading	39	49
Other timing differences	(23)	(20)
Losses carried forward	(15)	-
	<u>109</u>	<u>174</u>

21 Provisions for liabilities and charges

	Restated 31 March 2002 £m	Reclassifi- cation £m	Charged/ (credited) £m	Provisions utilised £m	31 December 2002 £m
Rationalisation and restructuring	42	(2)	6	(7)	39
Liability and damage claims	10	2	(1)	2	13
Total	<u>52</u>	<u>-</u>	<u>5</u>	<u>(5)</u>	<u>52</u>
Deferred taxation (note 20)	174	-	(65)	-	109
Total provisions for liabilities and charges	<u>226</u>	<u>-</u>	<u>(60)</u>	<u>(5)</u>	<u>161</u>

Provisions for rationalisation and restructuring are in relation to the expected site costs of closed plant and consist of demolition costs, staff severance costs and grid disconnection costs. The provisions will be utilised over the period of closure.

The liability and damage claims provision relates primarily to the directors unfunded pension requirements. The provision will be utilised over the remaining service life of those directors. The estimation of the liability is based upon an actuarial assessment of current and future claims.

Notes (continued)

22 Called Up Share Capital

	31 December 2002 £m	31 March 2002 £m
Authorised		
115,000,000 ordinary shares at £1 each	115	115
108,930,000 preference shares at £1 each	109	109
	<u>224</u>	<u>224</u>
Allotted and fully paid		
100,000 ordinary shares of £1 each	<u>-</u>	<u>-</u>

23 Reserves

	Share premium £m	Profit and loss £m	2002 Total £m
1 April 2002 as previously reported	129	364	493
Prior year adjustment (note 2)	-	(27)	(27)
	<u>129</u>	<u>337</u>	<u>466</u>
1 April 2002 as restated	-	(210)	(210)
Loss for the financial period	-	(83)	(83)
Dividends	-	4	4
Foreign exchange	<u>-</u>	<u>48</u>	<u>177</u>
31 December 2002	<u>129</u>	<u>48</u>	<u>177</u>

24 Reconciliations of movements in shareholders' funds

	31 December 2002 £m	31 March 2002 Restated £m
Profit for the financial period	(210)	(251)
Dividends	(83)	(40)
Foreign exchange	4	-
Net deduction from shareholders' funds	<u>(289)</u>	<u>(291)</u>
Opening shareholders' funds as previously reported	493	484
Prior year adjustments (note 2)	(27)	273
Opening shareholders' funds as restated	<u>466</u>	<u>757</u>
Closing shareholders' funds	<u>177</u>	<u>466</u>

Note (continued)

25 Net debt

	31 March 2002 £m	Other non- cash movements £m	9 Months (inflow)/ outflow £m	31 December 2002 £m	March 2002 (inflow)/ Outflow £m
Cash					
Cash at bank	328	-	(207)	121	232
Bank overdrafts repayable on demand	(13)	-	13	-	(13)
Net cash	315	-	(194)	121	219
Liquid resources					
Current asset investments	1	(1)	-	-	-
Debt financing					
4 ⁵ / ₈ % Euro Bonds 2004	(316)	-	-	(316)	(316)
8 ³ / ₈ % Euro Sterling Bonds 2006	(311)	1	-	(310)	-
6 ¹ / ₄ % Euro Bonds 2008	(311)	-	-	(311)	(311)
7% Euro Sterling Bonds 2011	(297)	-	-	(297)	(297)
8 ¹ / ₈ % Euro Sterling Bonds 2022	(218)	1	-	(217)	-
7 ¹ / ₈ % Sterling Bonds 2031	(297)	-	-	(297)	(297)
West LB facility (drawdown)	(155)	-	155	-	(155)
8.02% EIB Loan 2006	(309)	1	-	(308)	-
Finance leases: less than one year	(6)	-	-	(6)	5
more than one year	(227)	-	-	(227)	-
Total debt financing	(2,447)	2	155	(2,289)	(1,371)
Net debt	(2,131)	2	(39)	(2,168)	(1,181)

Notes (continued)

26 Financial instruments

(a) Short-term debtors and creditors

Short-term debtors and creditors (other than bank and other borrowings) have been excluded from all the following disclosure tables because they do not meet the definition of financial assets and liabilities. The fair value of short-term debtors and creditors approximates to the carrying value because of their short maturity.

(b) Interest rate risk profile of financial liabilities

The interest rate profile of the financial liabilities of the Company as at 31 December 2002, after taking account of the interest rate and currency swaps used to manage the interest and currency profile of financial liabilities, was:

Currency	31 December 2002			31 March 2002		
	Total	Floating rate financial liabilities	Fixed rate financial liabilities	Total	Floating Rate Financial Liabilities	Fixed rate financial liabilities
	£m	£m	£m	£m	£m	£m
Sterling	2,289	541	1,748	2,460	712	1,748

The floating rate financial liabilities comprise lease obligations bearing interest rates adjusted in arrears and bank borrowings bearing interest rates fixed in advance, for various time periods up to 12 months, by reference to LIBOR for that time period. There are no material financial liabilities on which interest is not paid.

The effect of the Company's interest rate swaps as at 31 December 2002 was to classify £311 million of fixed rate debt in the above table as floating rate debt (31 March 2002: £311 million).

The effect of the Company's currency swaps as at 31 December 2002 was to increase sterling borrowings by £627 million (€1,000 million) and reduce Euro borrowings by the same amount (31 March 2002: £627 million).

Currency	31 December 2002 Fixed rate financial liabilities		31 March 2002 Fixed rate financial liabilities	
	Weighted average interest rate %	Weighted average period for which rate is fixed Years	Weighted average interest rate %	Weighted average period for which rate is fixed Years
Sterling	7.45%	10	7.45%	11

(c) Interest rate risk profile of financial assets

The Company had the following financial assets as at 31 December 2002:

Currency	31 December 2002			31 March 2002		
	Total	Floating rate financial assets	Fixed rate financial assets	Total	Floating rate financial assets	Fixed rate financial assets
	£m	£m	£m	£m	£m	£m
Sterling	121	121	-	329	328	1

These assets are mainly holdings of cash and listed investments.

Notes (continued)

26 Financial instruments (continued)

(d) Currency exposures

All of the Company trading activities are located in the United Kingdom. Accordingly the majority of the Company's transactions are denominated in sterling and do not give rise to a foreign currency exposure. Some equipment, spares and fuel are purchased in non-sterling currencies. Forward foreign currency contracts are used to hedge these exposures.

(e) Maturity of financial liabilities

The maturity profile of the Company's financial liabilities as at 31 December was as follows:

	31 December 2002 £m	31 March 2002 £m
In one year or less, or on demand	6	19
In more than one year but not more than two years	324	73
In more than two years but not more than five years	636	1,044
In more than five years	1,323	1,324
Total	2,289	2,460

(f) Borrowing facilities

Following the acquisition by the RWE Group of Innogy on the 27 May 2002, the £2,000 million Euro medium term note programme has not been renewed and the Company's two syndicated facilities have been reduced to a single tranche of £130 million to support the Company's trading, primarily under NETA. The facility matures in August 2005. At 31 December 2002 letters of credit to the value of £160 million had been issued.

(g) Fair values of financial assets and liabilities

Set out below is a comparison by category of book values and fair values of all the Company's financial assets and liabilities as at 31 December:

	31 December 2002	31 March 2002
Primary financial instruments held or issued to finance the Company's operations	Book Value £m	Fair value £m
Assets		
Cash and short-term deposits	121	121
Investments	-	-
Liabilities		
Short-term borrowings	(6)	(6)
Long-term borrowings	(2,283)	(2,492)

The Company has a number of guarantees in place as set out in note 28, these liabilities are contingent and therefore have no book value. It is not practical to estimate their fair value.

Notes (continued)

26 Financial instruments (continued)

Derivative financial instruments held to manage the interest rate and currency profile	31 December 2002		31 March 2002	
	Notional Book value £m	Notional Fair value £m	Notional Book value £m	Notional Fair value £m
Interest rate swaps and similar instruments	928	990	928	917
Forward foreign currency contracts	(190)	(215)	(145)	(144)

The methods and assumptions used to estimate fair values of financial instruments are as follows:

- (i) The book value of cash, short-term deposits and short-term borrowings approximates to their fair value because of their short maturity.
- (ii) The fair value of investments has been estimated using quoted market prices.
- (iii) The fair value of long-term borrowings and interest rate swaps has been calculated using market prices when available or the net present value of future cash flows arising.
- (iv) The fair value of the Company's foreign currency contracts has been calculated using the market rates in effect at the balance sheet date.

(h) Interest rate and currency hedges

The Company's policy is to hedge interest rate and currency risk using a mixture of derivative instruments including interest rate swaps, options and forward currency contracts. Unrecognised gains and losses on instruments used for hedging are as follows:

	Gains £m	Losses £m
Gains and (losses) on hedges at 1 April 2002	8	(18)
Transfers from losses to gains	(18)	18
Gains and (losses) arising before 1 April 2002 that were recognised in 2002	8	-
Gains and (losses) not recognised in 2002		
Arising before 1 April 2002	(18)	-
Arising in 2002	80	(25)
Unrecognised gains and (losses) on hedges at 31 December 2002	62	(25)
Of which:		
Gains /(losses) expected to be recognised in 2003	13	(18)
Gains /(losses) expected to be recognised in 2004 or later	49	(7)

(i) Trading and Energy risk management

The Company uses its energy trading and risk management capabilities in order to maximise value from its existing assets whilst minimising risk and to provide products and services to customers which enable them to access energy markets and manage risks within a wider portfolio.

Notes (continued)

26 Financial instruments (continued)

Commodity Sales and Services

The Company provides reliable delivery and pricing to its customers through forward contracts. This activity includes the purchase, sale, marketing and delivery of natural gas, electricity, coal and other commodities, as well as the management of the Company's own portfolio of contracts. The Company supports this activity through the optimisation of its generation and storage assets held by Asset Management and Retail.

The Company markets, transports and provides energy commodities as reflected in the following table (excluding intra Company amounts):

	31 December 2002	31 March 2002
Physical volumes traded (billion therm gas)	10.5	14.3
Electricity volumes marketed (TWh)	535.0	377.0
Coal volumes traded (m/tonne)	22.2	37.7

In achieving the above objectives, the Company uses a variety of derivative instruments, including physical forward purchase and sale agreements, exchange-traded futures and options, over-the-counter options and financial swaps.

The Company manages its risk through a focal trading business that consolidates the Group's exposures to energy-related commodity markets through the operation of an internal market. Risks are transferred from operational divisions into the Trading desk and managed within an appropriate portfolio.

Market risk is the risk that changes in commodity price will affect the Company's profits. The use of derivative instruments in the Company's businesses may expose the Company to market risk resulting from adverse changes in commodity prices.

Energy market risk on the Company's portfolio is measured using value at risk (VAR) and other methodologies. The quantification of market risk using VAR provides a consistent measure of risk across diverse energy products. VAR provides a fair estimate of the net gains or losses in earnings, which could be recognised on the Company's portfolios assuming hypothetical movements in future market prices. It does not provide an indication of actual results. It is routinely checked for accuracy against actual movements in the portfolio value.

The Company has performed value at risk analysis of virtually all of the Company's energy assets and liabilities. Value at risk incorporates numerous variables that could impact the fair value of the Company's investments, including commodity prices. The Company estimates value at risk for commodity and foreign exchange exposures using an analytic model which captures the exposure, related to open positions.

To provide comparative results a one-day holding period and a 95% confidence level have been used. The following table illustrates the value at risk for each component of market risk:

	Period Ending 31 December 2002			Low (a) £m
	£m	Average (a) £m	High (a) £m	
Commodity price	4	5	8	3
Foreign currency exchange (b)	1	1	2	0
	Year Ending 31 March 2002			Low (a) £m
	£m	Average (a) £m	High (a) £m	
Commodity price	5	5	11	3
Foreign currency exchange (b)	2	2	3	0

a) The average value present a twelve-month average of the week-end values. The high and low valuations for each market risk component represent the highest and lowest week-end value during the financial period.

b) Includes the related underlying hedged item.

Notes (continued)

26 Financial instruments (continued)

The use of value at risk models allows management to aggregate risks across the Company, by comparing risk on a consistent basis and identifying the driver of risk. Because of the inherent limitations to value at risk, including subjectivity in the choice of liquidation period and reliance on historical data to calibrate the models, the Company relies on value at risk as only one component in its risk control process. In addition to using value at risk measures, the Company performs regular stress and scenario analyses to estimate the economic impact of sudden market moves on the value of its portfolio as a result of this stress testing. This type of stress and scenario analysis is used with the professional judgement of experienced business and risk managers. Stress tests are used to supplement the value at risk methodology and capture additional market-related risks, including regulatory event, concentration and correlation risks.

Credit Risk

The commodity contracts and financial derivatives used by the Company to manage its price risk in turn give rise to a counterparty risk, this is, the risk that a counterparty will not fulfil its part of a forward or other contract, or that a potential gain will not be realised. To reduce this exposure, master netting agreements are established with each counterparty where possible. The credit exposure in contracts is represented by the positive fair value – the potential gain on these contracts – and the outstanding amount owed in settlement of the contract when expired. The risk exposure is calculated weekly.

Operational risk

Operational risk relates to the risk that processes, controls or competencies affect the Company's profits. The Board oversees its energy risk management activities through an Energy Risk Management Committee, chaired by a member of the Board. The Energy Risk Management Committee must approve the types of financial instrument used for risk management purposes. The Committee establishes limits, in terms of positions which can be held with respect to our market risk, and a control framework within which energy risk management activities are conducted.

27 Commitments

(a) Annual lease commitments

The Company has annual commitments under non-cancellable operating leases expiring as follows:

	31 December 2002			31 March 2002		
	Land and buildings £m	Other operating Leases £m	Total £m	Land and buildings £m	Other operating Leases £m	Total £m
Within one year						
Within two to five years	2	-	2	-	-	-
After five years	7	-	7	4	-	4
	9	-	9	4	-	4

(b) Capital commitments

	31 December 2002 £m	31 March 2001 £m
Contracted but not provided	13	5

Notes (continued)

27 Commitments (continued)

(c) Physical fuel purchase and transportation commitments

(i) Coal

At 31 December 2002 the estimated minimum commitment for the supply of coal and limestone from all sources was £0.1 billion (31 March 2002: £0.2 billion).

(ii) Gas

The Company has entered into a series of contracts with UK gas suppliers for the supply of gas to its CCGT power stations. The longest of such contracts extends to the year 2020.

The Company has entered into gas transportation arrangements, primarily with Transco plc, to transport gas to the Group's CCGT power stations.

At 31 December 2002 the estimated minimum commitment for the supply and transportation of gas amounted to approximately £1.96 billion (31 March 2002: £1.7 billion).

28 Contingent liabilities

Bonds and guarantees

The Company has provided bank guarantees in relation to operational renewable energy projects, totalling £37 million.

HM Customs and Excise hold a £12 million guarantee from the Company in relation to VAT.

UK trading arrangements for Npower, our retail business, and our Trading and Asset Management business are supported by indemnities and letters of credit totalling £179 million.

Performance bonds of £2 million have been issued in connection with overseas contracts.

29 Legal proceedings against the company

The company is aware of the following claims and potential claims which involve or could involve legal proceedings against the company or International Power plc (formerly National Power PLC). The company has agreed to indemnify International Power plc on an after-tax basis in respect of any liabilities or losses which they may incur in relation to the claims to the extent set out in the relevant paragraphs below:

- (i) In June 1994, a complaint was made by the National Association of Licensed Opencast Operators to the European Commission against International Power plc, PowerGen plc, British Coal Corporation and HM Government. The complaint alleged violations of EU competition law arising out of the coal purchasing arrangements entered into by the CEGB prior to 1 April 1990 and requested the European Commission to find that the CEGB's practices violated EU law. The National Association of Licensed Opencast Operators alleged that such a finding would be grounds for a claim for damages in the English courts by its members against International Power plc. In 1998 the Commission decided that it had no power to investigate the alleged violations of EU competition law by CEGB prior to 1 April 1990. The National Association of Licensed Opencast Operators appealed to the European Court of First Instance ('CFI') seeking an annulment of the Commission's decision not to investigate the complaint. In February 2001 the CFI ruled that the Commission did have the power to investigate the complaint. International Power plc together with

Notes (continued)

29 Legal proceedings against the company (continued)

PowerGen plc, British Coal Corporation and the Commission appealed the CFI judgement to the European Court of Justice. The appeal was heard in February 2003 and judgement is expected to be delivered in either July or September 2003. This complaint has never been quantified. The company has agreed to indemnify International Power plc on an after-tax basis to the extent of 50% of any liability that International Power plc may incur whether directly or indirectly as a consequence of those proceedings. A similar action is being pursued by a second group of independent coal producers – the South Wales Small Mines Association.

- (ii) International Power plc is subject to claims and potential claims by or on behalf of current and former employees, including former employees of the CEGB, and contractors in respect of industrial illness and injury. The company has agreed to indemnify International Power plc on an after-tax basis to the extent of 50% of any liability that International Power plc may incur whether directly or indirectly or as a consequence of those proceedings to the extent that such liability is not insured by Electra Insurance Limited. A total reserve of £46m is currently held in subsidiary companies in respect of all such claims that are outstanding or incurred but not received.

The Directors are of the opinion, having regard to legal advice received, the company's insurance arrangements and provisions carried in the balance sheet, that it is unlikely that the matters referred to above will, in aggregate, have a material effect on the company's financial position, results of operations, and liquidity.

30 Ultimate parent undertaking

The immediate parent undertaking is Innogy Holdings plc. The ultimate parent undertaking and controlling party is RWE AG, a Company incorporated in Germany, which is the parent undertaking of the smallest and largest group to consolidate these financial statements. Copies of RWE AG consolidated financial statements can be obtained from RWE AG, Opernplatz 1, 45128 Essen, Germany.

31 Related party transactions

The aggregate loans to associates and joint ventures are shown in note 15.

32 Post balance sheet events

On 22 May 2003 an offer was made by RWE Finance BV to the holders of the Innogy securities listed below to exchange these securities for certain securities issued by RWE Finance BV.

£300 million 8.375% note due 2006
€500 million 6.25% note due 2008
£300 million 7% note due 2011
£200 million 8.125% note due 2022
£300 million 7.125% note due 2031

Details of principal subsidiary undertakings, associates and joint ventures

SUBSIDIARY UNDERTAKINGS			
Name and nature of business	Country of incorporation, registration and operation	Percentage shareholding	
Electra Insurance Limited (insurance)	Bermuda	Ordinary Shares	100%
Innogy Cogen Limited (power generation)	England & Wales	Ordinary Shares	100%
Innogy Cogen Trading Limited (power generation)	England & Wales	Ordinary Shares	100%
Npower Limited (electricity and gas supplier)	England & Wales	Ordinary Shares	100%
Npower Gas Limited• (gas supplier)	England & Wales	Ordinary Shares	100%
Npower Commercial Gas Limited• (gas supplier)	England & Wales	Ordinary Shares	100%
Npower Communications Limited• (telecommunications)	England & Wales	Ordinary Shares	100%
Npower Direct Limited• (electricity supplier)	England & Wales	Ordinary Shares	100%
Npower Energy Sales Limited• (electricity supplier)	England & Wales	Ordinary Shares	100%
Npower Metering Limited• (meter reading services)	England & Wales	Ordinary Shares	100%
Npower Northern Limited (electricity and gas supplier)	England & Wales	Ordinary Shares	100%
Npower Renewables and Consolidation Services Limited• (electricity trading)	England & Wales	Ordinary Shares	100%
Npower Yorkshire Limited (electricity and gas supplier)	England & Wales	Ordinary Shares	100%
National Wind Power Limited (wind farm development and power generation)	England & Wales	Ordinary Shares	100%
Regenesys Technologies Limited (technology development)	England & Wales	Ordinary Shares	100%
Scarcroft Insurance Limited• (insurance)	Guernsey	Ordinary Shares	100%
YE Gas Limited• (gas supplier)	England & Wales	Ordinary Shares	100%
Yorkshire Energy Limited• (electricity supplier)	England & Wales	Ordinary Shares	100%
Electrosynthesis Research Triangle, Inc (technology development)	US	Ordinary Shares	100%
Innogy America LLC• (operations and engineering)	US	Ordinary Shares	100%
Innogy Technology Ventures Limited America• (technology development)	US	Ordinary Shares	100%
• These subsidiaries are held through an intermediate subsidiary undertaking.			

ASSOCIATES		Percentage shareholding	
Name and nature of business	Country of incorporation, registration and operation		
Transpower Limited• (cogeneration)	Ireland	Ordinary Shares	50%
JOINT VENTURES		Percentage shareholding	
Name and nature of business	Country of incorporation, registration and operation		
Bears Down Windfarm Limited (wind farm power generation)	England & Wales	Ordinary Shares	50%
Windy Standard Limited• (wind farm power generation)	Scotland	Ordinary Shares	50%
• Held by an intermediate subsidiary undertaking.			