

## Chief Executive Officer's statement

Dear fellow shareholder

**At demerger we promised to manage our assets for value and grow our business. Now, at the end of our first full year as an independent company, I think it is right that we should review our progress against these commitments.**

- We promised to maximise the value of our portfolio by optimising the operation of our power plants. Last year, Hazelwood (Australia) generated record amounts of electricity and our Deeside plant (UK) achieved a record high level of reliability. These are just some examples of strong performance throughout our operational fleet of power plants during 2001. As an asset-based merchant generator, well-run, reliable plant performance is one of the principal keys to our success.
- We have built an energy marketing and trading business around our power plants in our core markets in Australia, the US and the UK. This enables us to understand these markets better in order to help enhance returns from our assets. Where possible, we invest in assets with a power off-take agreement and we forward contract a significant proportion of our output to improve visibility of earnings and to balance our merchant market exposures – examples of this include Rugeley (UK), Hazelwood (Australia) and EOP (Czech Republic).
- We have created a more balanced fuel mix in both the UK and Australia with the acquisition of Rugeley (coal-fired) and completion of Pelican Point (CCGT) respectively.
- We restructured the financing of our existing assets to create value – we have separately refinanced our US portfolio, Hazelwood, Rugeley and our Thai assets. This all helps improve our cash flow and increase our returns on these assets.
- We sold assets on occasion to maximise value – in July 2001 we sold our stake in Unión Fenósia Generación (UFG) in Spain for £372 million. This sale has rebalanced our European asset base and strengthened our balance sheet without diluting our earnings.
- We have expanded our business in the UK and Australia and have started to create a substantial business in the Middle East. All these growth initiatives give the economic returns we demand, are in suitable markets and have the degree of control necessary for us to maximise our performance.
- Outside our core markets, we have actively managed our portfolio asset base to maximise value. We have made good progress in settling the disputes in Pakistan so that we now expect a healthy return from these assets. We have sold assets in China and are close to completing the sale of our Kazakhstan shareholding.
- We have created and preserved financial flexibility by increasing earnings while maintaining a strong balance sheet with a debt capitalisation of only 33%. This is in sharp contrast to many of our competitors who are much more highly geared. Several of them have announced plans to sell assets in order to improve their liquidity, and this may create growth opportunities for us.
- With our comparative advantage of financial flexibility, we will seek to grow the Company with earnings enhancing acquisitions. We will also continue our international greenfield development programme in markets that will yield good returns for our investments.

These strong results would not have been possible were it not for the dedication of our employees in North America, Europe, Middle East, Asia and Australia. It was their decisiveness in making decisions and subsequent energetic execution which delivered these terrific results.

I want to reassure you that as we pursue our business strategy, we will stay disciplined in our approach and focused on economic performance. We will treat shareholder funds as a precious commodity to be put to work carefully.



Peter Giller, Chief Executive Officer  
18 March 2002



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Chief Executive Officer