21 DEFERRED TAXATION

Deferred taxation accounted for in the consolidated balance sheet and the potential amounts of deferred taxation are:

	31 December 2001 £m	31 December 2000 £m
Full potential deferred tax liabilities		
Tangible fixed assets accelerated capital allowances	**(149)**	(163)
Other timing differences	**(21)**	(26)
Dividends of overseas subsidiary undertakings	**(25)**	(23)
Total gross deferred tax liabilities	**(195)**	(212)
Less: deferred tax liabilities not provided	**168**	185
Total deferred tax liabilities provided	**(27)**	(27)
Full potential deferred tax assets		
Provisions	**8**	7
Tax losses	**19**	41
Other timing differences	**11**	41
Total gross deferred tax assets	**38**	89
Less: deferred tax assets not recognised	**(38)**	(89)
Total deferred tax asset recognised	**–**	–
Net deferred tax liability recognised	**(27)**	(27)

Deferred tax liabilities held by subsidiary undertakings at 31 December 2001 are £nil (31 December 2000: £nil).

The analysis of deferred tax assets less deferred tax liabilities not provided is as follows:

	Accelerated capital allowances £m	**Provisions £m**	**Tax losses £m**	**Other timing differences £m**	**Total £m**
As at 1 January 2001	(160)	7	41	16	(96)
Movement in respect of the year ended 31 December 2001	14	1	(22)	(27)	(34)
Total deferred tax not provided at 31 December 2001	**(146)**	**8**	**19**	**(11)**	**(130)**

Overseas subsidiary undertakings

Deferred tax in respect of unremitted earnings of overseas subsidiaries is only provided to the extent that there is an intention that profits will be remitted in the foreseeable future.

22 SHARE CAPITAL

	Authorised Ordinary Shares of 50p	£m	Issued and fully paid Ordinary Shares of 50p	£m
Balance at 1 January 2001	1,700,000,000	850	1,117,461,155	559
Issue of shares under the Sharesave Scheme			87,883	–
Issue of shares under the Executive Share Option Schemes			9,425	–
Balance at 31 December 2001	**1,700,000,000**	**850**	**1,117,558,463**	**559**

Deferred Shares

The Company has 21 Deferred Shares of 1 pence each in issue. These shares were issued to ensure the demerger was effected as efficiently as possible. The holders of Deferred Shares have no rights to receive dividends or to attend or vote at any general meeting.

Employee share schemes

The Company operates a Sharesave Scheme and an Approved and an Unapproved Executive Share Option Plan. The Sharesave Scheme is savings-related and enables eligible employees to invest up to a maximum permitted level of £250 per month.

		Number of Ordinary Shares (million)		
Note		Sharesave Schemes	Executive Share Option Schemes	Total
a)	Outstanding at 1 January 2001	1.9	9.9	11.8
	Granted	1.5	2.2	3.7
b)	Exercised/lapsed	(1.8)	(4.5)	(6.3)
a)	**Total options outstanding at 31 December 2001**	**1.6**	**7.6**	**9.2**

			Number of Ordinary Shares (million)	
	Option price	Date exercisable	31 December 2001	31 December 2000
a) Options outstanding				
Sharesave Schemes	246.01p	2002	**0.1**	1.0
	307.51p	2001	**–**	0.1
	307.51p	2003	**–**	0.2
	282.23p	2002	**–**	0.1
	282.23p	2004	**–**	0.1
	250.00p	2003	**–**	0.2
	250.00p	2005	**–**	0.2
	188.00p	2004	**0.5**	–
	188.00p	2006	**0.3**	–
	200.00p	2004	**0.1**	–
	200.00p	2006	**0.6**	–
Executive Share Option Schemes	297.94p	1996-2003	**–**	0.2
	336.21p	1997-2004	**0.1**	0.3
	306.14p	1998-2005	**0.3**	1.0
	323.23p	1999-2006	**0.6**	1.5
	386.09p	2000-2007	**0.7**	1.7
	352.61p	2001-2008	**0.9**	2.3
	311.75p	2003-2010	**2.8**	2.9
	235.00p	2004-2011	**2.0**	–
	217.00p	2004-2011	**0.2**	–
Total options outstanding			**9.2**	11.8

b) Options exercised	Option price	Number of options	Nominal value £	Consideration £
Sharesave Schemes	246.01p	80,318	40,159	197,590
	307.51p	1,902	951	5,849
	282.23p	5,663	2,832	15,983
Executive Share Option Schemes	180.40p	9,425	4,712	17,003
Total options exercised during the year		**97,308**	**48,654**	**236,425**

c) Profit Sharing Share Scheme

In addition to the above, the Company operates an Inland Revenue Approved Profit Sharing Share Scheme. No further appropriations have been made in respect of this scheme. On 31 December 2001, a total of 800,072 shares in International Power plc were held by the Trustee on behalf of 3,201 present and former employees of the Group.

d) Restricted Share Plan

At the EGM of the Company held on 29 September 2000, shareholders approved the establishment of the Restricted Share Plan. Participants in the Plan are full-time Executive Directors who are required to devote substantially the whole of their working time to the duties of the Company and any subsidiaries of the Company (as designated by the Directors). Only Peter Giller participates in this Plan. The Company acquired 677,564 shares in International Power plc for a consideration of £1.7 million in the nine months ended 31 December 2000. On 2 October 2001, 225,854 shares were released to Peter Giller, the balance of shares remaining in trust.

e) Demerger Share Plan

At demerger, the Board of the Company established the Demerger Share Plan to provide an incentive to those employees (other than Executive Directors) who were remaining in continuous full-time employment with the Company. On 3 October 2000, the Board made conditional awards of 288,359 shares to 181 employees of the Company. No specific purchases of shares have been made in respect of this Plan to date as the Company is utilising the balance of shares unallocated from two former employee share plans that ceased operation at demerger (the total number of unallocated shares at 31 December 2001 was 269,923), to meet the vesting of conditional awards under the Demerger Share Plan. Conditional awards will normally vest to participants on the third anniversary of the demerger. During the year, a total of 9,002 shares have been released to individuals ceasing employment with the Company in accordance with their entitlement under the rules of the Demerger Share Plan.

23 RESERVES

a) The Group	Share capital £m	Share premium account £m	Capital redemption reserve £m	Capital reserve £m	Profit and loss account £m	Total shareholders' funds – equity £m
Balance at 1 January 2001	559	289	140	422	273	1,683
Profit for the financial year	–	–	–	–	144	144
Other recognised gains and losses relating to the year (net)	–	–	–	–	(2)	(2)
Balance at 31 December 2001	**559**	**289**	**140**	**422**	**415**	**1,825**

b) The Company	£m	£m	£m	£m	£m	£m
Balance at 1 January 2001	559	289	140	415	240	1,643
Profit for the financial year	–	–	–	–	86	86
Balance at 31 December 2001	**559**	**289**	**140**	**415**	**326**	**1,729**

The share premium account, capital redemption reserve and capital reserve are not distributable.

The cumulative amount of goodwill set off to reserves prior to the adoption of FRS 10, on acquisition of subsidiary undertakings, is £95 million, net of exchange differences (nine months ended 31 December 2000: £95 million).

24 NOTES TO THE CASH FLOW STATEMENT

Note	a) Reconciliation of operating profit/(loss) to net cash inflow/(outflow) from operating activities	Year ended 31 December 2001 £m	Continuing Nine months ended 31 December 2000 £m	Discontinued Nine months ended 31 December 2000 £m	Group Nine months ended 31 December 2000 £m
	Operating profit/(loss)	**163**	59	(109)	(50)
14	Depreciation	**95**	40	56	96
	Other non-cash movements	**–**	–	22	22
13	Goodwill amortisation	**(1)**	–	14	14
	Profit on disposal of fixed assets	**1**	–	–	–
	Movement in working capital:				
	Decrease/(increase) in stocks	**7**	(10)	(31)	(41)
	Increase in debtors	**(21)**	(36)	(47)	(83)
	Increase/(decrease) in creditors	**48**	(15)	119	104
	Movement in provisions	**(18)**	(48)	(313)	(361)
	Net cash inflow/(outflow) from operating activities	**274**	(10)	(289)	(299)
	b) Dividends received from joint ventures and associates				
	Dividends from joint ventures	**7**	10	–	10
	Dividends from associates	**52**	11	–	11
	Total dividends received from joint ventures and associates	**59**	21	–	21
	c) Returns on investments and servicing of finance				
	Other interest and dividends received	**24**	74	1	75
	Debt and loan interest paid	**(97)**	(118)	(36)	(154)
	Debt issue costs paid	**(32)**	–	–	–
	Net cash outflow from returns on investments and servicing of finance	**(105)**	(44)	(35)	(79)
	d) Capital expenditure and financial investment				
	Purchase of tangible fixed assets	**(406)**	(579)	(114)	(693)
15	Repayment of debt by associates	**–**	3	–	3
	Net cash outflow from capital expenditure and financial investment	**(406)**	(576)	(114)	(690)
	e) Acquisition and disposals				
25	Purchase of subsidiary undertakings	**(68)**	(47)	(10)	(57)
	Cash proceeds on sale of subsidiary undertakings	**14**	5	–	5
26	Receipts from sale of investment in associate	**372**	–	–	–
	Other fixed asset investments	**–**	–	(2)	(2)
	Net cash inflow/(outflow) from acquisitions and disposals	**318**	(42)	(12)	(54)
	f) Financing activities				
	Gas swap liability and other hedging activities	**–**	(38)	(140)	(178)
27	Bank loans	**406**	(126)	–	(126)
27	Convertible bond	**–**	250	–	250
23	Share issues	**–**	4	–	4
	Net cash inflow/(outflow) from financing activities	**406**	90	(140)	(50)

Included within the net cash inflow/(outflow) is an outflow of £13 million (nine months ended 31 December 2000: £56 million) in respect of exceptional items.

25 ACQUISITIONS

On 13 July 2001, the Group acquired Rugeley Power Limited, which has been accounted for by the acquisition method of accounting. The assessment of net assets acquired and the consideration payable are given below:

	Book value £m	Fair value adjustments £m	Fair value £m
Tangible fixed assets	197	–	197
Stocks	7	–	7
Debtors	5	–	5
Creditors	(9)	–	(9)
Total net assets acquired	200	–	200
Negative goodwill			(3)
Consideration			**197**

Consideration comprises:	
Cash	68
Deferred consideration	129
Total consideration	**197**

26 DISPOSALS

On 25 July 2001, the Group sold its 25% equity stake in Unión Fenósa Generacion SA. The net assets disposed of and profit on disposal are detailed below:

	£m
Cash consideration	372
Less: investment in associated undertaking	(342)
Profit on disposal	**30**

During the year the Group disposed of the majority of its remaining investments in China for net consideration of £14 million.

27 NET DEBT

	1 January 2001 £m	Exchange differences £m	Other non-cash movements £m	Cash flow £m	31 December 2001 £m
Cash					
Cash at bank and in hand	107	(8)	–	497	**596**
Liquid resources					
Current asset investments	–	(1)	–	48	**47**
Debt financing					
Loans due within one year	(88)	–	–	(24)	**(112)**
Loans due after more than one year	(855)	33	24	(382)	**(1,180)**
Convertible bond	(235)	(7)	(6)	–	**(248)**
Total debt financing	(1,178)	26	18	(406)	**(1,540)**
	(1,071)	17	18	139	**(897)**

28 FINANCIAL INSTRUMENTS

A discussion of the Group's objectives and policies with regard to risk management and the use of financial instruments can be found in the Operating and financial review and prospects. Financial instruments comprise net debt (see note 27) together with other instruments deemed to be financial instruments including long-term debtors and creditors and provisions for liabilities and charges.

a) Short-term debtors and creditors

Short-term debtors and creditors have been excluded from all the following disclosures other than the currency risk disclosures as relevant. The fair value of short-term debtors and creditors approximates to the carrying value because of their short maturity. In accordance with FRS 13 deferred tax has been excluded from the following disclosures.

b) Interest rate risk profile of financial liabilities

The interest rate profile of the financial liabilities of the Group as at 31 December 2001 was:

	31 December 2001			31 December 2000		
Currency	**Total £m**	**Floating rate financial liabilities £m**	**Fixed rate financial liabilities £m**	Total £m	Floating rate financial liabilities £m	Fixed rate financial liabilities £m
Sterling	**12**	**12**	**–**	47	47	–
US dollar	**1,050**	**318**	**732**	545	286	259
Australian dollar	**474**	**104**	**370**	573	144	429
Czech koruna	**65**	**12**	**53**	24	10	14
Others	**18**	**–**	**18**	–	–	–
Total	**1,619**	**446**	**1,173**	1,189	487	702

All the Group's creditors falling due within one year (other than bank and other borrowings) are excluded from the above tables either due to the exclusion of short-term items or because they do not meet the definition of financial liabilities. There are no material financial liabilities on which interest is not paid.

The effect of the Group interest swaps was to classify £370 million of floating rate Australian dollar borrowings as fixed rate, £443 million of floating rate US dollar borrowings as fixed rate and £15 million of variable rate Czech koruna borrowings as fixed rate, in the above table.

In line with policy on translation exposure hedging, the Group has entered into cross currency swaps from sterling into Czech koruna of £38 million.

In addition to the above, the Group's provisions are considered to be floating rate financial liabilities as, in establishing the provisions, the cash flows have been discounted.

The floating rate financial liabilities comprise bank borrowings bearing interest rates fixed in advance for various time periods up to 12 months by reference to LIBOR for that time period. The figures in the tables below take into account interest rate and currency swaps used to manage the interest rate and currency profile of financial liabilities and financial assets.

	31 December 2001 Fixed rate financial liabilities		31 December 2000 Fixed rate financial liabilities	
Currency	**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	**–**	**–**	–	–
US dollar	**6.01**	**4**	4.94	4
Australian dollar	**9.86**	**5**	7.28	6
Czech koruna	**13.02**	**1**	13.02	2
Others	**7.25**	**16**	–	–
Weighted average	**7.38**	**4**	6.53	5

c) Interest rate risk of financial assets

The Group had the following financial assets as at 31 December 2001:

	31 December 2001			31 December 2000		
Currency	**Total £m**	**Floating rate financial assets £m**	**Fixed rate financial assets £m**	Total £m	Floating rate financial assets £m	Fixed rate financial assets £m
Sterling	**71**	**71**	**–**	18	18	–
US dollar	**138**	**138**	**–**	15	15	–
Euro	**398**	**398**	**–**	–	–	–
Australian dollar	**71**	**71**	**–**	47	47	–
Czech koruna	**7**	**7**	**–**	27	26	1
Others	**6**	**6**	**–**	–	–	–
Total	**691**	**691**	**–**	107	106	1

The cash deposits comprise deposits placed in money market funds, and a variety of investments with maturities up to three months. All investments are in publicly quoted stocks or treasury instruments. Letters of credit totalling £250 million are supported on a cash collateral basis at 31 December 2001.

d) Currency exposures

As explained on pages 18 and 19 of the Operating and financial review and prospects, the Group's objectives in managing the currency exposures arising during the normal course of business (in other words, its structural currency exposures) is to fully hedge all known contractual currency exposures, where possible. As at 31 December 2001 and 31 December 2000, these exposures were not considered to be material.

Currency exposures comprise the monetary assets and monetary liabilities of the Group that are not denominated in the operating (or 'functional') currency of the operating unit involved, other than certain non-sterling borrowings treated as hedges of net investments in overseas operations. For major currencies, it is not Group policy to hedge currency translation through forward contracts or currency swaps.

e) Maturity of financial liabilities

The maturity profile of the Group's financial liabilities, other than short-term creditors and accruals, was as follows:

	31 December 2001 £m	31 December 2000 £m
In one year or less, or on demand	**127**	88
In more than one year but not more than two years	**390**	319
In more than two years but not more than five years	**749**	298
In more than five years	**353**	484
Total	**1,619**	1,189

f) Borrowing facilities

The Group has substantial borrowing facilities available to it. The committed facilities available at 31 December 2001 in respect of which all conditions precedent have been met at that date amount to £1,502 million. The undrawn element of these were as follows:

	31 December 2001			31 December 2000	
	Facility £m	**Undrawn £m**	**Available £m**	Undrawn £m	Available £m
US$540 million Corporate revolving credit facility (October 2004)	**371**	**321**	**321**	–	–
US$1,650 million and £235 million working capital facility (October 2001)	**–**	**–**	**–**	1,032	1,032
US$1,215 million ANP Funding 1 construction and term loan (June 2006)	**835**	**161**	**161**	–	–
US$120 million ANP Funding 1 revolving credit facility (June 2006)	**82**	**82**	**82**	–	–
US$40 million ANP Funding 1 letter of credit facility (June 2006)	**28**	**15**	**15**	–	–
Czk 2,000 million EOP term facility (February 2004)*	**38**	**13**	**–**	12	–
Czk 1,000 million EOP revolving credit facility (February 2004)	**19**	**19**	**19**	17	17
US$99 million Al Kamil term facility (April 2017)	**68**	**3**	**3**	–	–
£43 million Corporate letter of credit facility	**43**	**13**	**13**	–	–
£18 million Subsidiary facilities in various currencies	**18**	**11**	**6**	1	1
Total	**1,502**	**638**	**620**	1,062	1,050

* This can only be drawn once.

28 FINANCIAL INSTRUMENTS continued

Uncommitted facilities available at 31 December 2001 were:

Facility	31 December 2001 Total £m	31 December 2001 Drawn £m	31 December 2001 Undrawn £m	31 December 2000 Total £m	31 December 2000 Drawn £m	31 December 2000 Undrawn £m
Bank borrowing and overdraft facilities	**44**	**–**	**44**	56	–	56
Pelican Point working capital facility	**3**	**–**	**3**	4	–	4
	47	**–**	**47**	60	–	60

Bank borrowing facilities are normally reaffirmed by the banks annually although they can theoretically be withdrawn at any time. These facilities include a £43 million letter of credit facility which becomes committed for any letters of credit that have been drawn. At 31 December 2001, £30 million of letters of credit had been drawn from this facility.

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 Group's financial assets and liabilities as at 31 December 2001.

Primary financial instruments held or issued to finance the Group's operations	31 December 2001 Book value £m	31 December 2001 Fair value £m	31 December 2000 Book value £m	31 December 2000 Fair value £m
Short-term borrowings and current portion of long-term borrowings	**(127)**	**(127)**	(88)	(88)
Long-term borrowings	**(1,492)**	**(1,497)**	(1,101)	(1,103)
Cash deposits and current asset investments	**691**	**691**	107	107

Derivative financial instruments held to manage the interest rate, currency profile and exposure to energy prices	Notional book value £m	Carrying value £m	Fair Value £m	Gain/ (loss) £m	Year ended 31 December 2001 Gross gain £m	Year ended 31 December 2001 Gross (loss) £m	Nine months ended 31 December 2000 Gross gain £m	Nine months ended 31 December 2000 Gross (loss) £m
Interest rate swaps and similar instruments	**829**	**–**	**(17)**	**(17)**	**–**	**(17)**	–	(31)
Currency swaps	**(38)**	**–**	**(2)**	**(2)**	**–**	**(2)**	3	(1)
Forward foreign currency contracts	**(74)**	**–**	**(2)**	**(2)**	**1**	**(3)**	1	(3)
Energy derivatives	**–**	**–**	**6**	**6**	**17**	**(11)**	–	(2)

In addition to the above, debtors include £1 million (31 December 2000: £nil) in respect of the fair value of energy derivatives arising from proprietary trading.

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

i) For investments of up to three months, trade debtors, other debtors and prepayments, trade creditors, other current liabilities, long-term and short-term borrowings, the book value approximates to fair value because of their short maturity.

ii) The fair value of investments maturing after three months 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 Group's forward exchange contracts, foreign currency swaps and foreign currency options has been calculated using the market rates in effect at the balance sheet dates.

v) The fair value of energy derivatives is measured using value at risk and other methodologies that provide a consistent measure of risk across diverse energy products. Within the above fair values, only the financial assets and liabilities have been marked-to-market as defined by the requirements of the accounting standard.

h) Hedges

As explained on pages 18 and 19 of the Operating and financial review and prospects, the Group's policy is to hedge the following exposures:

i) Interest rate risk – using interest rate swaps, options and forward rate agreements.

ii) Structural and transactional currency exposures – using currency borrowings, forward foreign currency contracts, currency options and swaps.

iii) Currency exposures on future expected sales – using currency swaps, forward foreign currency contracts, currency options and swaps.

iv) Energy price fluctuations – using physical hedges through the operation of energy supply and trading activities together with financial products.

Gains and losses on instruments used for hedging are not recognised until the exposure that is being hedged is itself recognised. Unrecognised gains and losses on instruments used for hedging, and the movements therein, are as follows:

	Debt £m	Foreign exchange £m	Energy derivatives £m	Total net gain/(loss) £m
Unrecognised gains and (losses) on hedges at 1 January 2001	**(31)**	**–**	**(2)**	**(33)**
Gains and (losses) arising in previous periods that were recognised in the year ended 31 December 2001	**(22)**	**2**	**–**	**(20)**
Gains and (losses) arising in the year ended 31 December 2001 that were not recognised in the year	**(8)**	**(2)**	**8**	**(2)**
Unrecognised gains and (losses) on hedges at 31 December 2001	**(17)**	**(4)**	**6**	**(15)**
Of which:				
Gains and (losses) expected to be recognised in the year ended 31 December 2002	**–**	**(3)**	**9**	**6**
Gains and (losses) expected to be recognised in the year ended 31 December 2003 or later	**(17)**	**(1)**	**(3)**	**(21)**

The hedging of structural currency exposures associated with foreign currency net investments are recognised in the balance sheet.

29 COMMITMENTS

		Group		Company	
a) Lease and capital commitments		**31 December 2001 £m**	31 December 2000 £m	**31 December 2001 £m**	31 December 2000 £m
Capital commitments: contracted but not provided		**166**	314	**–**	–
Property leases (annual commitment):	expiring within one year	**1**	1	**–**	–
	expiring between one and five years	**1**	1	**–**	–
	expiring after five years	**5**	5	**5**	5

b) Fuel purchase and transportation commitments

The Group has contracts with fuel suppliers for the supply and transportation of fuel to its power stations. The expiry of these contracts ranges from 2002 to 2021.

30 CONTINGENT LIABILITIES

a) Legal proceedings against the Company

The Company is aware of the following matters, which involve or may involve legal proceedings against the Group:

i) Claims and potential claims by or on behalf of current and former employees, including former employees of the Central Electricity Generating Board (CEGB), and contractors in respect of industrial illness and injury.

Innogy has agreed to indemnify the Company on an after-tax basis to the extent of 50% of any liability that we may incur whether directly or indirectly as a consequence of those proceedings to the extent such liability is not insured by Electra Insurance Limited.

ii) In June 1994 a complaint was made by the National Association of Licensed Opencast Operators (NALOO) to the European Commission against the Company, PowerGen plc, British Coal Corporation and HM Government. The complaint alleges violations of EU Competition law arising out of the coal purchasing arrangements entered into by the CEGB prior to 1 April 1990 and requests the Commission to find that the CEGB's practices violated EU law. NALOO alleges that such a finding would be grounds for a claim for damages in the English courts by members of NALOO. The European Court has ruled that the Commission is under an obligation to investigate the complaint by NALOO. The Company, PowerGen plc, British Coal Corporation and the Commission are appealing against the ruling. It is not practicable to estimate legal costs or possible damages, at this stage.

Innogy has agreed to indemnify the Company on an after-tax basis to the extent of 50% of any liability that the Company may incur whether directly or indirectly as a consequence of those proceedings.

The Directors are of the opinion, having regard to legal advice received, the Group'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 Group's financial position, results of operations, and liquidity.

b) Bonds and guarantees

Various growth and expansion projects are supported by bonds and letters of credit issued by the Company totalling £384 million.

The Company has issued guarantees totalling £74 million. £10 million of this is in respect of the loan facilities of its Elcogas investment. This facility is repayable by Elcogas in 2003. The guarantee relating to Elcogas was provided for in the year ended 31 December 2001.