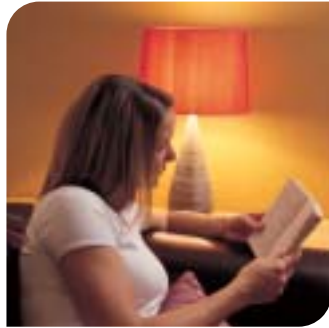




Above and beyond

Energy Efficiency Annual Report 2004



Exceeding expectations

Powergen is part of the E.ON Group, the world's largest investor-owned energy company and is one of the UK's leading energy providers.

Our vision is to become the recognised leader in energy in the UK.

We continually aim to achieve results above the minimum standards and beyond our legal obligations. Energy efficiency is integral to our business. From high-profile marketing campaigns to the widespread distribution of free energy saving packs, we focus our full resources on enabling customers to use energy more efficiently.

Powergen | Power in good hands

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“Our eventual aim is to bring 250,000 homes out of fuel poverty by 2010.”

“By creating and developing new forward-thinking energy efficiency initiatives like HeatStreets, HeatPlant and PPAWS, we’re helping to reduce energy bills and combat climate change while also helping tackle the issue of fuel poverty.”

Chief Executive's statement

I'm pleased to introduce Powergen's Energy Efficiency Annual Report. This report summarises our energy efficiency activities and performance from April 2003 to March 2004 and demonstrates our determination to deliver our Energy Efficiency Commitment (EEC) target.

Even with the considerable growth of our customer base from 2.8 million accounts to 9 million accounts and our increased targets, we've still managed to achieve 66% of our total EEC target and we're well-placed to deliver our overall objective by the end of EEC.

We're integrating energy efficiency into every aspect of our operation. This is the heart of our business philosophy and core products like Age Concern Energy Services and EnergySavingPlan help us achieve this important goal.

Our commitment has not gone unnoticed. We were awarded the first-ever 'Outstanding Contribution Award' at the 2004 Home Energy Rater of the Year (HENRY) Awards, an honour that recognises our commitment to energy efficiency in its broadest form. I'm hugely proud of this outstanding achievement – to be recognised by the industry underlines, once again, our level of dedication and expertise.

We're fully focused on the challenges to come. By creating and developing new forward-thinking energy efficiency initiatives like HeatStreets, HeatPlant and the Powergen Pocket Affordable Warmth System (PPAWS), we're helping to reduce energy bills and combat climate change while also helping tackle the issue of fuel poverty.



Government statistics show that the number of households in fuel poverty is falling. However, many people continue to live in poorly heated and inadequately insulated homes, making them vulnerable to cold related illnesses. As the UK's second largest energy supplier, we have both a desire and a responsibility to tackle fuel poverty head on. Half of our energy savings under EEC need to come from priority groups – customers in receipt of defined benefits and tax credits – but, we're very aware that many people outside of this group are also fuel poor. That's why we've made fuel poverty a crucial element of our corporate responsibility programme.

Of course, actions speak louder than words and, although the Government doesn't impose a fuel poverty target, we've set our own. It's all part of our aim to maintain a leadership position in our

sector and to help eradicate fuel poverty altogether. Our eventual aim is to bring 250,000 homes out of fuel poverty by 2010.

The Warm Front Team is at the heart of the Government's Fuel Poverty Strategy and Powergen Warm Front manages the scheme on behalf of the Department for Environment, Food and Rural Affairs (Defra) in the East Midlands, East Anglia, Yorkshire and Humberside.

We've worked closely with Warm Front to maximise improvements to customers' homes ensuring that the measures provided by the two schemes not only make homes warmer but also help to reduce energy bills and carbon dioxide emissions. As a result, we're improving the health and quality of life for those people who need it most.

While we've managed to achieve a lot, considerable work remains to be done. We never underestimate the scale of the task ahead and we'll continue to go beyond our legal obligations as we strive to hit our self-imposed targets.

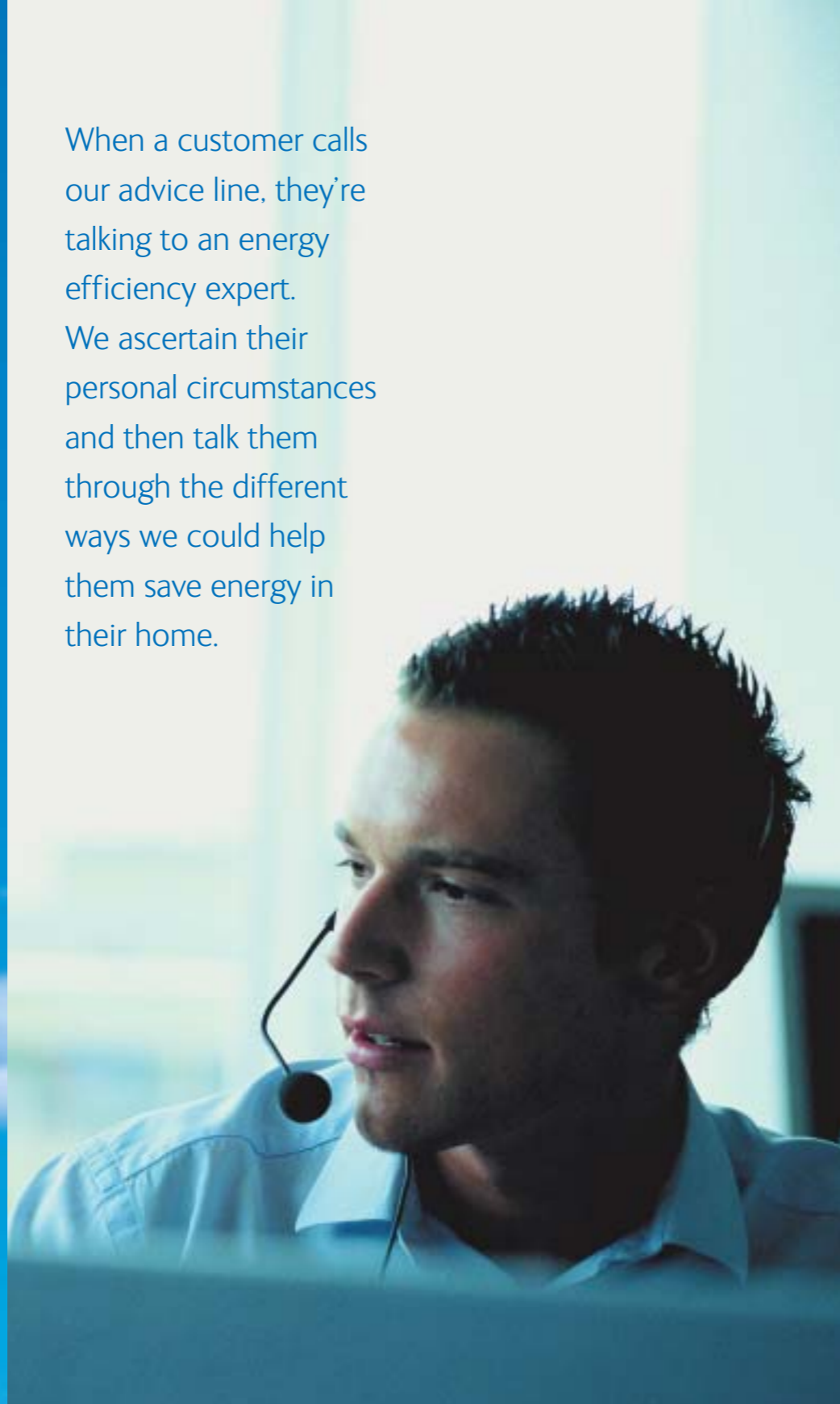
A handwritten signature in blue ink that reads "Paul Golby". The signature is written in a cursive style and is positioned above a thin horizontal line.

Paul Golby – Chief Executive

“The rain could have been falling on every roof when I was speaking to the helpful person on the advice line. But by the end of the call, the sun was shining on mine.”

**Mr Price, Powergen customer,
Nottingham**

When a customer calls our advice line, they're talking to an energy efficiency expert. We ascertain their personal circumstances and then talk them through the different ways we could help them save energy in their home.



Handled by the experts

As experts in energy efficiency, our dedicated team of specialists has excellent knowledge and a diverse range of experiences to share. And now we have even more to offer. Our energy efficiency team has expanded to support our ongoing commitment to energy efficiency.

Constantly in demand, our energy efficiency advice line is the hub of our operation. Providing low-cost and no-cost energy saving tips to householders, qualified advisors are ready to help with down-to-earth advice and useful information about relevant schemes. Our advisors don't just sit around waiting for calls; they proactively contact existing customers to offer valuable assistance. This service has been expanded and is now available for our commercial customers too. The business energy helpline helps small and medium sized commercial organisations to identify and tackle energy waste issues. We have specialist engineers to answer these queries.

In addition to our advice line, we have a team of home visitors who help to reduce the energy bills of our customers, particularly those on low incomes. This face-to-face personal service has recently been



extended and now operates throughout England, Scotland and Wales.

Our team of community energy advisors support local energy efficiency events and national conferences and are on hand to help communities understand and take advantage of our energy efficiency advice.

Promotion of our schemes and services is undertaken by a team of key account managers. As well as forging new relationships and links with businesses and social housing providers throughout Great Britain, the team works closely with our project managers to create and implement innovative schemes that promote the installation of energy saving measures throughout the home. Many of the ideas for our most successful energy saving schemes come from these close working relationships.

Our team of National Home Energy Rating (NHER) assessors offer a complete NHER service to national housing providers and surveyors including assessor training courses and a home energy rating service that helps identify essential improvements to housing stock.

New roles, new insights, new possibilities.

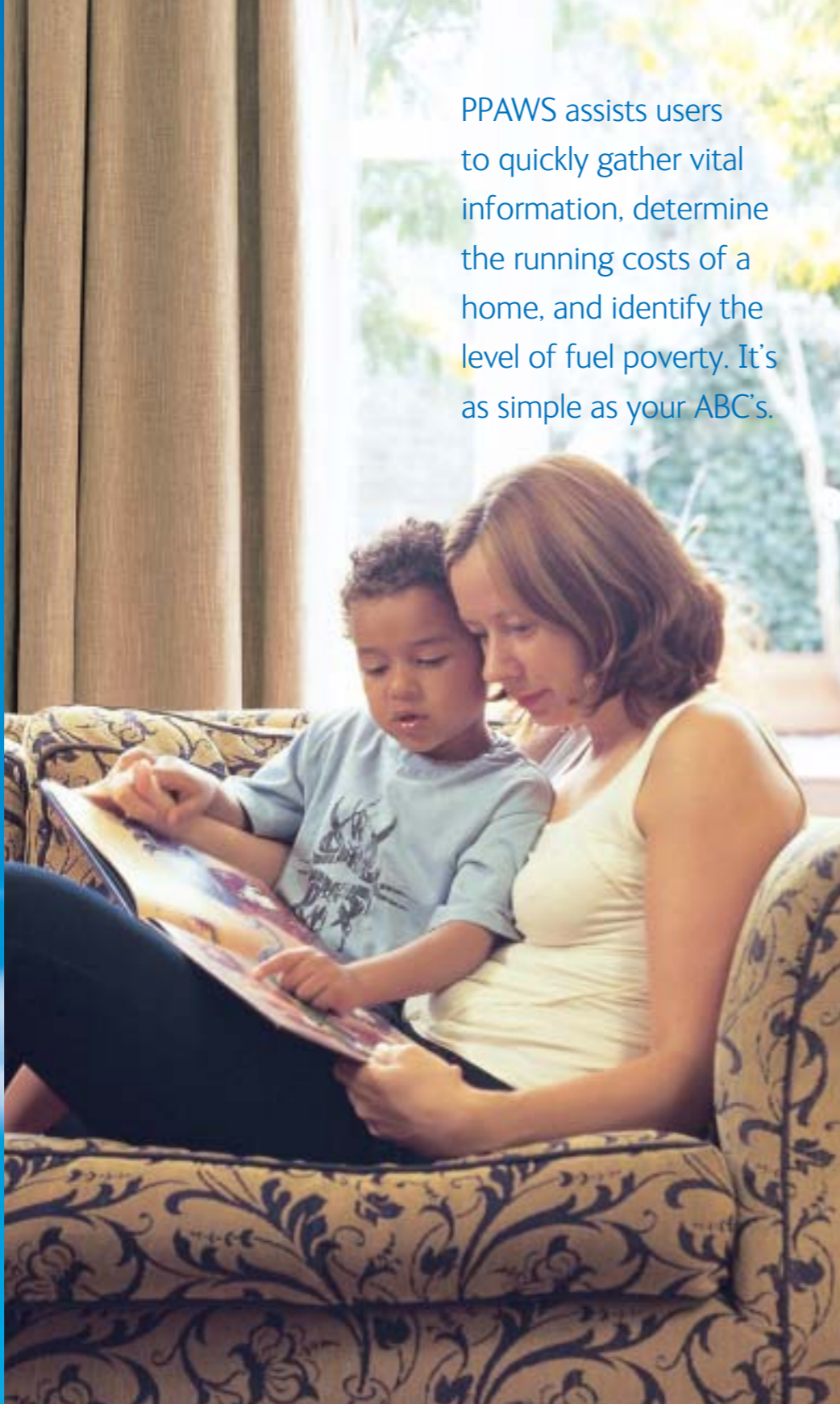
The service that goes further

- Our advice line offers practical energy saving advice – helping 22,033 customers in 2003.
- Since the beginning of EEC, we've put in place energy saving measures that could help customers save an estimated £202 million over the lifetime of the measures.
- The community energy advisors attended 95 events during 2003.

“Identifying fuel poor households is one of the biggest challenges we face. PPAWS enables us to do this on the doorstep and offer appropriate help to those that need it.”

Bruce Pittingale
Energy Manager, Fenland DC,
National HECA Chair

PPAWS assists users to quickly gather vital information, determine the running costs of a home, and identify the level of fuel poverty. It's as simple as your ABC's.



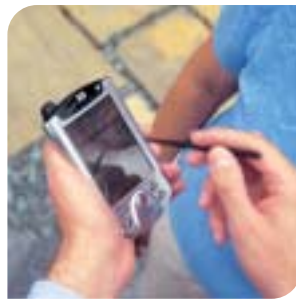
Reaching out to everyone

Many households can't afford to keep adequately warm at a reasonable cost. Fuel poverty – where occupants spend more than 10% of their income on heating their home – affects an estimated 2.5 million UK households. We believe it's 2.5 million too many.

Nobody should have to worry about staying warm. That's why we've developed schemes and products to help these vulnerable households.

Tackling fuel poverty is a key component of our corporate social responsibility programme – that's why we've set ourselves the challenging target of removing 250,000 households from fuel poverty by 2010. In addition, we proactively support the Government-sponsored Fuel Poverty Advisory Group (FPAG) and activity at a local level.

Of course, this is a serious challenge but our approach reflects the complexity of the task. We use a multidimensional strategy; from implementing our own innovative cost-effective schemes like HeatStreets, to our continued support of the Warm Front programme.



Another good example of our commitment in action is the revolutionary PPAWS system – jointly developed with NHER, this innovative software application tool enables local authorities, housing associations, energy companies and other professionals to identify fuel poor households during a five-minute doorstep assessment.

PPAWS assists users to quickly gather vital information, determine the running costs of a home, and identify the level of fuel poverty. This enables more targeted referrals and grant allocations to be made.

We're making excellent progress and, above all, we're making a major contribution to Government targets.

We really are helping the people that need it most.

Going beyond our responsibilities

- We recognised the need for a fast, accurate doorstep method of assessing fuel poverty.
- PPAWS was jointly developed with NHER to identify fuel poor households.
- We've set ourselves the challenging target of removing 250,000 households from fuel poverty by 2010.

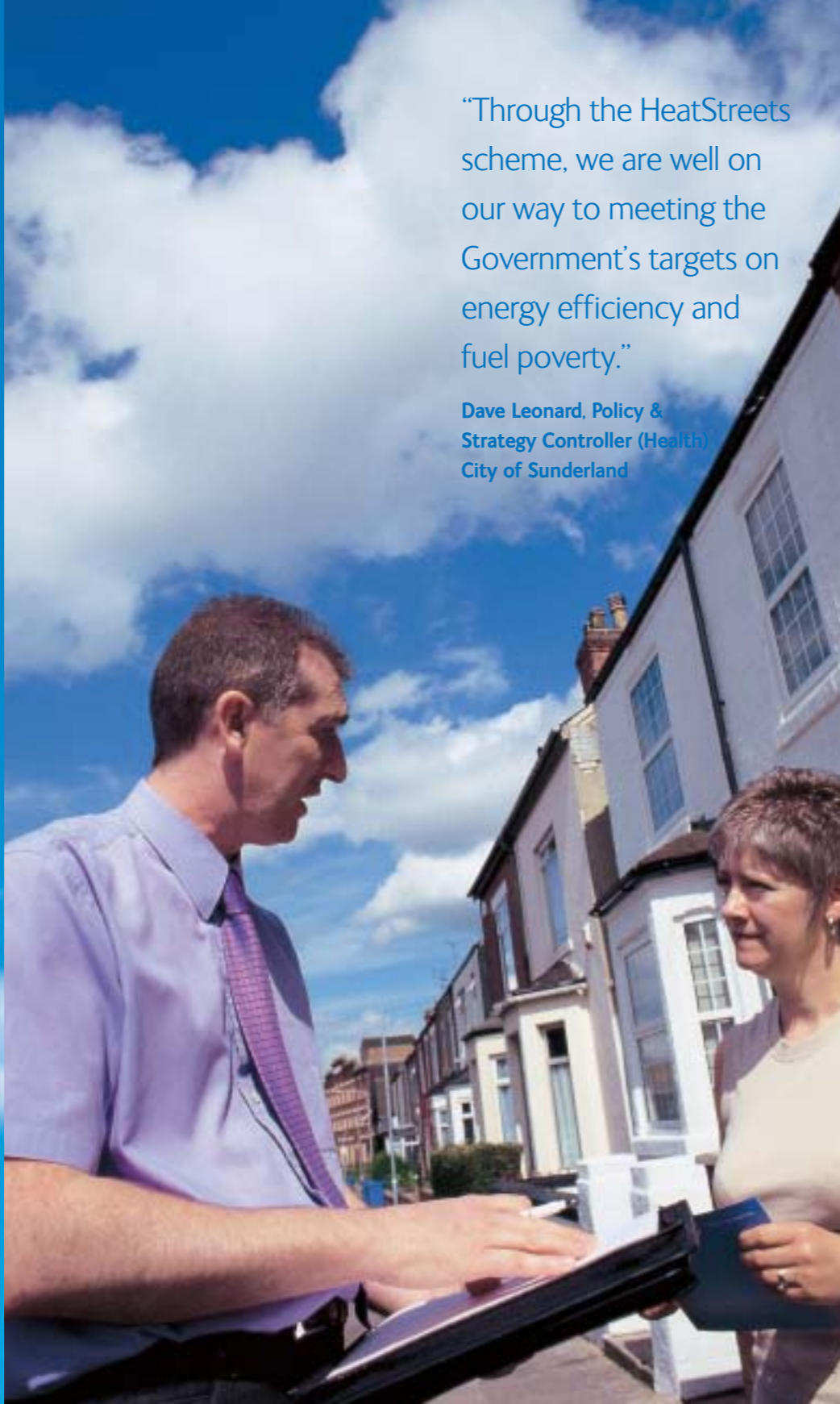
Please note: Our full Corporate Responsibility Report is available online at www.powergenplc.com/crreport

We've introduced HeatStreets to:

- Sunderland
- The Wirral
- Bolsover
- Bradford
- Knowsley

“Through the HeatStreets scheme, we are well on our way to meeting the Government’s targets on energy efficiency and fuel poverty.”

Dave Leonard, Policy & Strategy Controller (Health)
City of Sunderland



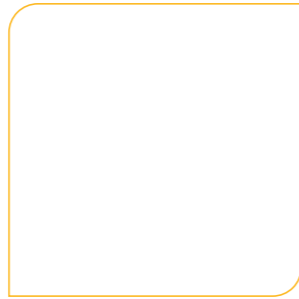
Door to door service

Persuading customers of the benefits of installing energy efficiency measures in their homes requires a personal touch. That’s why we’ve developed a street by street programme to communicate the message.

HeatStreets aims to bring energy efficiency and lower energy bills to homes, particularly vulnerable households, in specifically targeted areas.

But we can’t achieve this alone. HeatStreets is all about working together. Everyone from local authorities, Energy Services, Energy Saving Partnership and local installers have their own vital roles to play.

HeatStreets is unique. It provides bespoke solutions that meet local community needs. It differs from other similar schemes by focusing on the actual house rather than the household (recognising that individuals move and circumstances change). We can offer advice and, in many cases, fund the implementation of a range of energy efficiency measures, from cavity wall and loft insulation to low energy light bulbs.



HeatStreets delivers significant results. In fact, one in four homes contacted through the scheme directly benefit from the measures available. It's no wonder that, following its initial success in Sunderland, we've now expanded the scheme to cover several major new areas, including London and the Midlands.

Above all, HeatStreets demonstrates our total commitment to energy efficiency. By developing a community approach, we can deliver a complete service to encourage energy efficiency – together.

Streets ahead

- During the last year, over 6,000 homes have had insulation measures installed as part of the HeatStreets programme.
- On average, customers that have had measures installed in their home under this programme are saving around £113 per year.

“I was impressed by the scheme and would recommend people to have the work done.”

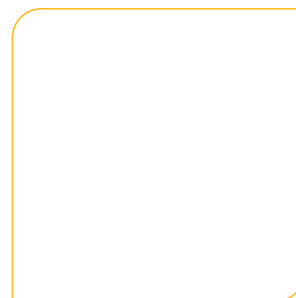
Mrs Crawford, Huyton



During the last year, over 6,000 homes have had insulation measures installed as part of the HeatStreets programme.

Taking the honours

When it comes to energy rating, Powergen leads the field. At the 2004 HENRY Awards, we were awarded the first-ever 'Outstanding Contribution Award'. This prestigious honour recognises our achievements in delivering and promoting higher standards of energy efficiency in private and public sector homes.



The awards are organised by National Energy Services who run the NHER scheme to promote energy efficiency in domestic properties.

Presenting the award, Dr Mary Archer, President of the National Energy Foundation, commented: "Powergen has been one of the most tireless champions of energy efficiency that we have had the pleasure of working with since the NHER scheme was formed almost 15 years ago."

In 1990, we became the first member of the NHER scheme. Today we're the only energy supplier to offer the complete range of NHER services. Our team of professional home energy rating specialists offer

assessor training in addition to an energy rating stock profiling service. This service enables us to offer improvement options to housing providers to raise the energy rating of the housing stock and help improve the living conditions of residents.

Meanwhile, we remain at the cutting edge of technology. In association with NHER, we've developed a pocket survey that provides a doorstep affordable warmth assessment for vulnerable households within five minutes.

Winning awards is great. But genuine achievements in improving energy efficiency is the real prize.



Award-winning service

- During 2003, we energy rated over 60,000 homes and trained 15% of the UK's NHER assessors.
- This year, for the first time, NHER presented us with an 'Outstanding Contribution Award' in recognition of our commitment to delivering a high standard of service.
- We stood out from the other nominees for our achievements and our commitment to energy efficiency.

“Powergen has been one of the most tireless champions of energy efficiency that we have had the pleasure of working with...”

Dr Mary Archer,
President of the National
Energy Foundation



This year, for the first time, NHER presented an '**Outstanding Contribution Award**' to Powergen. Powergen stood out from the rest of the nominees for its achievements in its commitment to energy efficiency.

NHER HENRY Awards

Pioneering innovation

Pushing the boundaries. Challenging conventions. Thinking outside the box. It's all second nature to us. HeatPlant, state-of-the-art solar heating technology pioneered by us, is just one example of our innovative approach to energy efficiency.



HeatPlant is a groundbreaking technological advance that heralds a new era of low-cost, low-carbon emission heating systems. At the hub of this innovative process is the ground source heat pump, a simple device that collects solar energy stored naturally in the ground.

HeatPlant delivers 25% lower yearly running costs than conventional gas boiler systems, and 50% less carbon dioxide. It's great news for customers and great news for the environment.

As the first UK energy supplier to offer HeatPlant, we're delighted that others have subsequently followed our lead. In fact, even Gordon Brown has recently recognised the importance of the scheme – the Chancellor intends to apply a reduced rate of VAT for ground source heat pumps in 2005.

HeatPlant is an environmentally friendly, cost-effective and reliable alternative to conventional gas boiler systems.

Powergen is the only energy supplier to offer this innovative form of home and water heating.

We're now taking this another step forward. Our aim is to deliver this sustainable heating system to new and existing social housing in Great Britain. We're particularly focusing on areas that are not connected to the mains gas network.

By tackling costs and carbon dioxide emissions, HeatPlant is playing a key role in our overall commitment to reduce energy bills and combat climate change.

We're not ones to follow. We like to take the lead. Unique thinking, development and implementation of new technologies is the only way forward for us.

Innovation at a glance

- HeatPlant can provide full space and water heating for an average of £175 per property per year.
- Since the beginning of EEC, Powergen has installed heat pumps that will save over 400 tonnes of carbon dioxide per year.



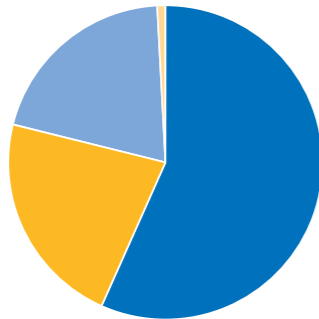
SCHEME CODE	SCHEME TITLE	STATUS	SCHEME OBJECTIVE
PGEN02M01	Social housing	Approved	Funding cavity wall and loft insulation measures installed through social housing providers
PGEN02M02	Private sector insulation	Approved	Funding a range of insulation measures installed in private households
PGEN02M03	DIY loft insulation	Approved	Offering discounted loft insulation to private households
PGEN02L04	Free low energy lamps for partners	Approved	Distributing low energy light bulbs to vulnerable households through partners
PGEN02M05	Ground source heat pump	Approved	Offering grant support for the installation of new low carbon technology heat pumps in social housing
PGEN02L06	Sale of low energy lamps (non direct mail)	Approved	Offering discounted low energy light bulbs to private households through events and partners
PGEN02H07	Condensing boilers and heating controls	Approved	Offering grant support for the installation of condensing boilers and energy saving controls to both private and social housing providers
PGEN02L09	Sale of low energy lamps (direct mail)	Approved	Offering a range of discounted low energy light bulbs to private households
PGEN02O13	Intelligent Mains Panel for PC's	Approved	Subsidising the cost of Intelligent Mains Panels for use with personal computers in the home
PGEN02L17	Lampholder	Submitted	Subsidising the cost of dedicated low energy light fittings installed in social housing refurbishments and in a child's bedside lamp
PGEN03I18	Radiator panels	Approved	Providing subsidised radiator panels to project partners and private households
PGEN03L19	Co-op retail CFL scheme	Approved	Offering discounted low energy light bulbs through the Co-op
PGEN03A20	Trade in appliance scheme	Approved	Offering discounted 'A' rated Bosch, Siemens and Neff appliances through retail outlets
PGEN03A22	'A' rated appliance retail scheme 2	Approved	Offering discounted 'A' rated appliances through Currys
PGEN03M23	Powergen Warm Front link	Approved	The purchase of insulation and lighting measures delivered through Warm Front
PGEN03M36	Powergen Fridgesavers	Approved	Offering discounted 'A' rated fridges and fridge-freezers to priority customers
PGEN03I37	Sempatap	Submitted	Providing funding for internal wall insulation to social housing providers
PGEN03O38	Fuel switching	Approved	Offering grant support to social housing providers to switch heating fuels
PGEN03L39	Consumer CFL's	Approved	Offering free low energy light bulbs to Powergen customers
PGEN03O40	Heat recovery	Approved	Providing funding for the installation of heat recovery systems in domestic properties through local councils and direct to private households
PGEN03O41	Rutherford House community heating	Submitted	Providing funding to Durham Aged Mineworkers Homes Association (DAMHA) to facilitate the replacement of a coal-fired community heating scheme with a high-efficiency gas-fired system
PGEN04M42	Handiman scheme	Submitted	Providing funding for low energy light bulbs, TRV's, draught proofing kits, cylinder jackets and radiator panels to relevant partners
PGEN04I44	DIY cylinder jackets	Submitted	Providing cylinder jackets to project partners

EEC results

At the end of the second year of this three year EEC programme, we've achieved two thirds of our target which means we're on track to deliver our overall objective.

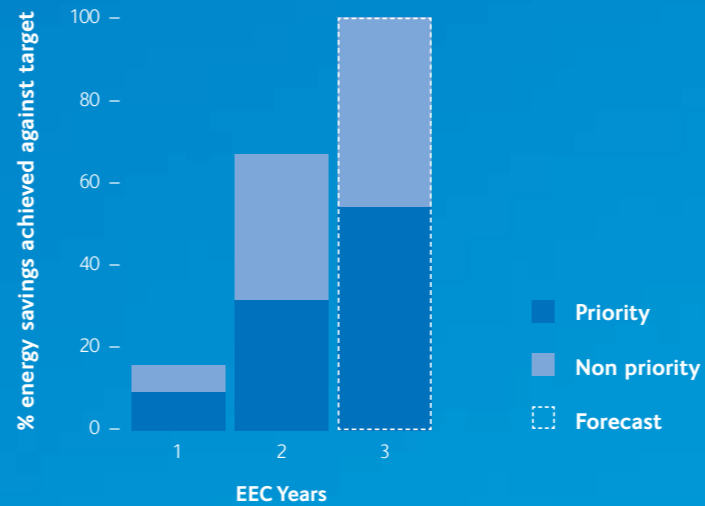
We run a wide range of schemes covering heating, insulation, appliances and lighting to help make homes more energy efficient. This pie chart shows our EEC results to date, split by measure.

- Heating – 0.46%
- Insulation – 56.53%
- Appliances – 22.05%
- Lighting – 20.96%



We realise we still have a lot of work to do. In the final year of EEC, we need to:

- distribute 6 million low energy light bulbs or
- install 280,000 gas condensing boilers or
- insulate 78,000 cavity walls or
- insulate 350,000 lofts.



“We’ve achieved 66% of our EEC target and we’re well-placed to deliver our overall objective by the end of EEC.”

Paul Golby
Chief Executive

EEC and beyond

The Government's energy efficiency implementation plan provides a direction for our future energy efficiency commitments. With an estimated saving of 1.4MtC required during 2005–2011, our energy efficiency activity must increase to an unprecedented level.

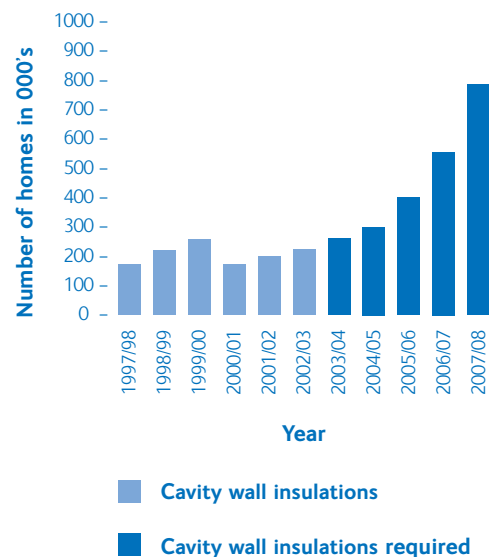


To fulfil these aims, a fully co-ordinated approach needs to include financial incentives, commitment from the energy efficiency industry and new consumer attitudes towards energy efficiency investment.

However, energy suppliers can only deliver targets in line with industry capabilities. For example, the projected number of cavity walls to be insulated for EEC 2005–2008 may be beyond the industry's capacity and any realistic growth projections.

The graph opposite shows the increase in the industry's capacity required in order to meet the Government's future objectives.

Of course, if the targets are realistic and achievable, we're ready and willing to face all the challenges ahead. That's why we continue to strive to achieve beyond the minimum standards required.





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