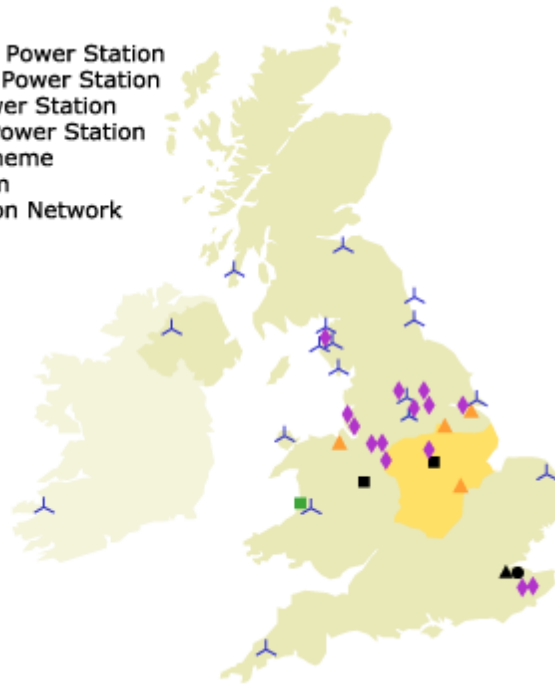


Where we are

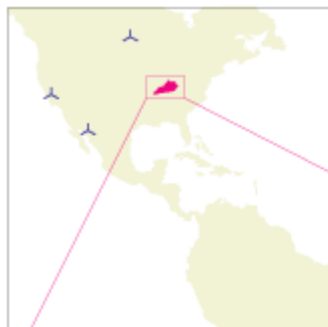
Shown below are maps of our main locations within the UK and the US.

In the UK

- ◆ CHP Plant
- Coal-fired Power Station
- ▲ Dual Fuel Power Station
- ▲ CCGT Power Station
- Oil-fired Power Station
- Hydro Scheme
- ⋈ Wind Farm
- ⬢ Distribution Network



In the US



- Coal-fired Power Station
- ▲ Combustion Turbines
- Hydro Scheme
- ⋈ Wind Farm
- LG&E
- KU
- Western Kentucky Energy



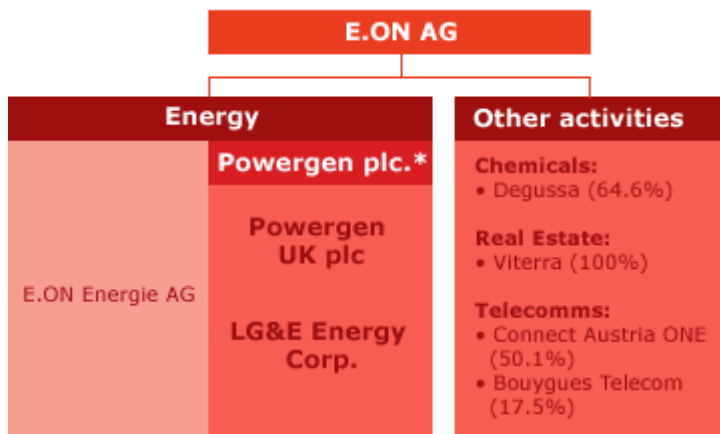
E.ON

Powergen is now part of E.ON, Europe's largest investor-owned energy service provider, with an annual turnover of roughly €80 billion in sales and more than 150,000 employees.



The Group and the E.ON brand were created in June 2000 by the merger of VEBA AG and VIAG AG, to create the fourth largest industrial group in Germany, based on market capitalization at year-end, 2002.

As of July 2002, following E.ON's acquisition of Powergen, the E.ON Group structure was as shown below:



* now Powergen Ltd.

With effect from 1 March 2003, following an internal restructuring, LG&E Energy Corp., its immediate parent and its subsidiaries, were transferred out of the Powergen Group of companies to E.ON US Holding GmbH, a direct subsidiary of E.ON AG.

E.ON AG is the Group's Düsseldorf-based holding company. E.ON's subsidiaries are responsible for managing day-to-day business. The Group pursues a value-oriented management approach that aims to boost competitiveness and achieve profitable growth.

E.ON's strategic focus is on its core energy business, and its expansion into wider Europe and the US have put it in an extremely strong position as a global player. E.ON is well on the way to becoming one of the world's leading providers of energy services. This is being pursued through a strategy of:

- Concentrating exclusively on core energy services business;
- Pursuing accretive acquisitions to cement a leading position in Europe and to establish a solid position worldwide;
- Disposing of non-utility activities;
- Continually cutting costs and restructuring throughout the Group.

In the UK E.ON's objective is to further consolidate Powergen's leading market positions in electricity and natural gas. With the acquisition of TXU's retail business, Powergen UK is now better balanced between its generation and retail operations, helping to reduce the impact of wholesale price movements. E.ON intends to enhance the profitability of its UK operations by further improving Powergen's cost position. Two key components of this programme are the closure of uneconomic power stations and the centralization of service functions.

E.ON's acquisition of LG&E Energy as part of the Powergen transaction provided a potential platform for further growth in the world's largest electricity market, the US. The US energy market is in a transitional phase, opening the door to opportunities to expand existing operations, with an eye towards creating value.

On 14 August 2003, E.ON announced the first results of its on•top project. This stated E.ON's strategy to be an integrated power and gas group with clear European focus and proposed a change in organisation for E.ON's power and gas business, along the lines of a single pan-European market for up and mid-stream gas, together with predominantly regional markets for gas distribution and supply and for electricity (Central Europe, the UK, the Nordic region, and the Midwestern US).

Within E.ON, there is a clear commitment to the principles of corporate responsibility. Given below are details of arrangements to ensure corporate governance within E.ON AG, environmental protection measures undertaken by E.ON Energie in mainland Europe, and some of the social initiatives, or corporate citizenship, undertaken by E.ON AG.

E.ON Corporate governance

Corporate governance refers to the entire system of management and supervision of a company, including its organisation and its business principles, as well as its internal and external control mechanisms.



E.ON AG has a Board of Management (Vorstand) consisting of five members.

During 2002, The Board of Management consisted of:

- Ulrich Hartmann (Chairman and co-CEO) – Corporate Communications, Corporate and Public Affairs, Investor Relations, Supervisory Board Relations;
- Prof. Dr. Wilhelm Simson (Chairman and co-CEO) – Group Strategy, Executive Development, Audit;
- Dr Hans Michael Gaul – Controlling/Corporate Planning, M&A, Legal Affairs;
- Dr Manfred Krüper – Labour Relations, Personnel, General Administration, Procurement, Organisation;
- Dr Erhard Schipporeit – Finance, Accounting, Taxes, IT, Insurance.

The E.ON Board of Management has in place policies and procedures for the business it conducts, with all its members bearing joint responsibility for its decisions. The Board establishes the group's objectives, sets its fundamental strategic direction, and is responsible for corporate policy and group organization. This includes, in particular:

- the management of the group and its financial resources;
- the development of its human resources strategy;
- the appointment of persons to management posts within the group;
- the development of its managerial staff;
- the presentation of the group to the capital markets and to the public at large.

In addition, the Board is responsible for co-ordinating and supervising the group's business units in accordance with the group's established strategy.

The Board of Management reports regularly to a Supervisory Board (Aufsichtsrat), on all issues of corporate planning, business development, risk assessment and risk management.

The Supervisory Board oversees the management of E.ON and advises the Board of Management. It appoints and removes the members of the Board of Management and is responsible for concluding, changing and terminating employment contracts of Board members. Transactions or measures taken by the Board of Management that materially affect the company's assets, finances, or earnings require the Supervisory Board's prior approval.

Executive management and the Supervisory Board work closely together for the benefit of the company in order to assure responsible management and control of the corporation aimed at value creation through effective Corporate Governance. Essential aspects of continuous and intensive dialogue between the two bodies are openness and transparency in corporate communications, attention to the shareholders' interests and assurance of clear responsibilities. In this way confidence in the management and supervision of the company is promoted among national and international investors, the financial markets, the public and our business partners and employees.

E.ON Environmental protection

The German energy industry's voluntary commitment to cut greenhouse gas emissions has been a success and has made an important contribution to meeting the country's emissions target under European Union (EU) agreements and the Kyoto accords.

E.ON invested €500 million in environmental protection in 2002 and continues to have substantial operating costs associated with environmental stewardship.

Within E.ON, E.ON Energie is one of the largest privately owned European power companies, in terms of electricity sales. E.ON Energie's core business consists of the ownership and operation of power generation facilities, the transmission, distribution and supply of electric power, gas and heat and the supply of water and water-related services in Germany and continental Europe.

E.ON Energie is committed to reducing both its consumption of primary resources and its emission of pollutants. To achieve these objectives, the company implements measures and deploys technologies that optimise environmental protection, but that also make economic sense.

With an average emission rate of roughly 330 g of CO₂ for every kWh of electricity produced, E.ON Energie's emissions are below the German utility average. The company is able to achieve this performance because of its balanced energy resource portfolio. E.ON Energie is Europe's largest investor-owned operator of nuclear power plants and Germany's biggest hydro-electric power generator. In 2002, 63% of E.ON Energie's proprietary generation did not produce any CO₂. The company's energy mix enables it to prevent 93 million tonnes of CO₂ from entering the atmosphere each year (equivalent to more than half of the CO₂ produced by road traffic in Germany each year).

By enhancing the efficiency of its power stations, E.ON Energie is today able to produce more electricity, emit less CO₂, and consume less fuel. One example is the company's coal-fired power station in Wilhelmshaven, in northwest Germany. This 750 MW generating unit, one of the company's largest, underwent a comprehensive upgrade programme in 2002, during which it was retrofitted with additional turbines. After the upgrade, the Wilhelmshaven facility produces the same amount of electric energy but now burns 80,000 tonnes less coal each year. This reduces CO₂ emissions by 210,000 tonnes.

E.ON Energie is also active in biomass generation. The company currently operates several smaller biomass facilities and plans to construct several 20 MW biomass power plants. Some of these will co-generate heat.

Nearly half of all wind-generated electricity in Germany is fed into E.ON Energie's transmission grid. This has led to higher expenditures in two areas. First, the company must extend its grid system to accommodate wind farms built in its grid control area. Second, it must increasingly supply balancing power to compensate for the continual fluctuations in the amount of power fed in from wind farms. As a

supplementary energy source, wind facilities can make an important contribution to climate protection. E.ON Energie's projects in this area include the development of two offshore wind farms, one in the North Sea and one in the Baltic.

E.ON Corporate citizenship

As the world's largest investor-owned energy services provider, E.ON is committed to being a responsible corporate citizen. E.ON supports charitable activities, institutions of learning, scientific projects, culture and the arts.

Charitable Activities – E.ON supports a number of charitable organisations in and outside Germany, with a special emphasis on organisations that help disadvantaged youth and children with illnesses. These include the Deutscher Kinderschutzbund, an organisation that serves as an important advocate for children's issues in Germany, and Save a Child's Heart, an organisation based in Israel that specialises in providing state-of-the-art medical care to children who suffer from severe congenital heart problems.

E.ON also supports the Peres Centre for Peace, founded by Nobel Laureate and former Israeli Prime Minister, Shimon Peres. Headquartered in Tel Aviv, the Peres Centre is a non-partisan, non-governmental organisation whose mission is to build an infrastructure of peace by and for the people of the Middle East.

Flood Relief in 2002 – A key focus of E.ON's charitable activities in 2002 was to help victims of the floods that swept across many regions of Germany and Europe. E.ON companies together donated €4 million to aid flood victims in eastern Germany, Bavaria and the Czech Republic. By providing financial aid and other forms of assistance, E.ON wanted to help those in need and to show its solidarity.

Education and Science – E.ON is a co-founder of the European School of Management and Technology (ESMT) in Berlin. ESMT, whose mission is to become one of the world's top business schools, is scheduled to open its doors to students in the autumn of 2004.

With support from E.ON Energie, in 2002, the International University, Bremen created an endowed professorship for multi-utility management. This endowed chair will oversee an undergraduate degree programme in which students will learn leading-edge management theories and acquire the technical and economic knowledge that is specific to the utility industry.

Through its support for the Rudolf v. Bennigsen-Foerder Foundation, E.ON further demonstrates its commitment to education by endowing a chair in corporate management at Berlin's Humboldt University and a chair in corporate finance and capital markets at the European Business School. E.ON also funds a professorship at the Robert Schumann School of Music in Düsseldorf.

Arts and Culture – With public funding on the decline in recent years, the business community has become an indispensable partner to artistic and cultural institutions.

Society is enriched by the achievements of individuals who devote their lives to developing their exceptional talents. That's why E.ON supports the young artists programmes of two of Germany's great orchestras, the Berlin Philharmonic and the Munich Philharmonic. E.ON also supports the Bavarian Elite Academy, an institute

devoted to developing the leadership qualities of promising graduate students in Germany and the Rudolf v. Bennigsen–Foerder Assistance Fund, which provides supplementary education to young people in Germany's Ruhr region.

E.ON's flagship project in the fine arts is its long-term public-private partnership with the city of Düsseldorf, which resulted in the foundation of the museum kunst palast. Since the museum opened two years ago, E.ON has sponsored a number of projects, including the critically acclaimed Miró exhibition. E.ON has for several years also been a sponsor of the Whitney Museum of American Art in New York, which houses the most complete overview of contemporary American art of any museum in the world.

E.ON is a major supporter of the Robert Schumann School of Music. E.ON also supports Munich's Prince Regent Theatre, an institution renowned for its commitment to training young actors. The sponsorship programme also includes funding for the annual Ruhr Piano Festival.

Our business

Our principles

Powergen recognises that its actions can have a great effect on the lives of many different groups of people. We therefore try to ensure that our business is conducted in a way that complies, as a minimum, with the laws of each country in which we operate and is seen as responsible by those with whom we interact.

With this aim in mind, we endeavour to enhance our interaction with our stakeholders through established principles, values and policies.

Our values

The values of an organisation serve as the cornerstone to the actions of the organisation.

Within Powergen, our values are based on:

- Safety – Our most valuable assets are our people;
- Integrity – Everything we do must stand the test of honesty and sincerity that leads to trust between all of us, regardless of position;
- Teamwork – The product created when people work together far exceeds the sum of their individual efforts;
- Innovation and continuous improvement – In everything we do, we improve on what works well and change those practices that are no longer effective in today's environment;
- Openness – Understanding can only come with openness and honesty. Openness to new thinking, to other views and to other cultures allows us to build relationships with customers and colleagues;
- Stewardship – We must always take account of the future in what we do today, recognising our impacts on the environment and working to minimise them;
- Citizenship – We are an important part of the communities in which we work and serve;
- Commitment – Our success is dependent on everyone being committed to Powergen and its values.

Our board

The Powergen Board of Directors ensures that the company is run effectively and with an eye to the future. In 2002, from July, the Board was comprised of:

Chairman of the Board of Powergen:
Ulrich Hartmann, CEO of E.ON

Deputy Chairman and Chief Executive Officer (CEO) of Powergen:
Ed Wallis

Chief Executive Officer, Powergen UK:
Dr Paul Golby

President and Chief Executive Officer, LG&E Energy Corp:
Victor A. Staffieri

Chief Financial Officer, Powergen:
Michael Söhlke, Executive Vice President at E.ON, responsible for Corporate Planning and Controlling

Dr. Hans Michael Gaul, Member of the Board of Management at E.ON AG

Dr. Hans-Dieter Harig, Chairman of the Board of Management at E.ON Energie

Dr. Frank Elsässer, Member of the Board of Management at E.ON Energie

Tom Oates, Non-executive Director

Peter Wilson, Non-executive Director

In April 2003 Ulrich Hartmann stepped down from the management board of E.ON AG. His place as CEO for E.ON AG and Board Chairman of Powergen was taken by Dr Wulf Bernotat.

In July 2003 the Board of Powergen changed, with Ed Wallis, Deputy Chairman and CEO, Hans Michael Gaul, Hans-Dieter Harig, Frank Elsässer, Tom Oates and Peter Wilson leaving the Board. Members continuing on the Powergen board are: Dr Wulf Bernotat, who serves as Chairman and Non-executive Director, Chief Financial Officer (CFO) Michael Söhlke, Powergen UK CEO Paul Golby and LG&E Energy CEO Victor A. Staffieri, all of whom are Executive Directors.

Our policies

We recognise that in managing our business we must have regard to the risks inherent in it and ensure that we operate in an ethical manner in all our activities.

This has led to the development of a suite of Powergen Group policies that aims to encourage responsible corporate and individual behaviour through strong governance.

These policies provide guidance in all our key areas of business and risk management. Areas with their own policy include:

- Competition;
- Delegated Powers of Authority;
- Disclosure;
- Engineering;
- Environment;
- Finance;
- Group Business Conduct;
- Health & Safety;
- Human Resources;
- Information Technology;
- Open Communications.

Michael Söhlke, Chief Financial Officer, is responsible at Board level for Corporate Responsibility within Powergen. He is supported by Sara Vaughan, Director Group Regulatory and Sustainable Development and by the Head of Corporate Sustainable Development, Dr Bill Kyte OBE.

Where we're going

"From environmental emissions to our local communities, we have to strive to be the best – it's that simple."

Ed Wallis, Deputy Chairman and CEO, Powergen, talks to Steve Connor, corporate responsibility specialist and director of Creative Concern, an issues-based communications consultancy.

SC: For a utilities company like Powergen, with a large footprint and significant impact, corporate responsibility raises some unique challenges, doesn't it?

EW: Well it does, but utilities are unique anyway. When the company was created over 10 years ago we faced severe challenges to meet improved SO₂, NO_x and CO₂ emissions levels. The UK was under tremendous pressure from Scandinavia and our own environmentalists. My executive team faced the enormous task at the time of how to improve our emissions dramatically and in the most effective way. Our solution was to move away as quickly as possible from our dependence on coal burning and to develop the burning of gas as an alternative, up to a level of about 30% of our energy requirements. At the time the greatest pressure was to reduce SO₂ but with gas, CO₂ would also be reduced – and this was perceived to be the next pressure point. These considerations led to an investment of around £1.5 billion in 3,000 MW of new gas-fired plant and in flue gas desulphurisation (FGD) at Ratcliffe. It should be remembered that FGD reduces only SO₂ emissions – but regrettably, also efficiency. For these reasons, the balance in investment between gas and FGD was tilted towards gas, and over the following years the reductions in our emissions were of course dramatic.

SC: I'm interested in the ways in which Powergen has confronted these challenges. Clearly, the strongest approach to corporate responsibility is when you fuse a partnership with your stakeholders with good, level headed, business sense.

EW: Companies have many stakeholders, including shareholders, government agencies, customers and employees. I believe that over the years we have achieved a good balance by being good neighbours where we operate, by increasing our market share of electricity production, by reducing our emissions, and at the same time by increasing the efficiency of production.

My view has always been that in whatever we do, we must behave as a trusted blue chip company which is seen as a responsible member of the community, sensitive to all the impacts of our business.

SC: The pressures you've mentioned have derived from regulators, government, stakeholders, shareholders, local communities and environmental impacts – all influencing the strategic decisions that you make. Do you think your stakeholders recognise just how many factors you are having to balance in the name of responsibility?

EW: Probably not, although we recognise that for some stakeholders some factors are more important than others, and that all these are inter-linked. Our task is to try

to understand the factors that are important to our stakeholders and to effectively manage these.

SC: Do you think for the utilities sector and indeed for power generation specifically, this is one area where government has proved difficult recently with the Energy White Paper? Is the future policy clear enough, and how do you see Powergen leading into the latter-half of this century in terms of power generation?

EW: I believe that government, industry and other bodies should pursue continuing dialogue to try and find the right and most sensible solutions. We haven't achieved an overall solution yet. Wave and wind power and biomass may have their places as marginal solutions, but our national energy needs will involve a combination of complementary approaches.

We have the problem that we're still living with a situation of surplus generation, which is still being met largely by fossil fuels, which will need replacing shortly. Biomass, wind and wave power haven't the potential to do that, so we have to find some other solution. This may be through research or technology, or just a change of mind and attitude to present technology. In any event, what will be required is a very open and public debate. We don't need an immediate solution, but within five or ten years we certainly will.

SC: At Powergen, which elements of the responsibility 'mix' do you find most challenging? Which ones fire you up the most?

EW: For me, these are our environmental obligations, industry structure and commercial arrangements.

Our environmental obligations were a tremendous challenge for us ten years ago. We were trying to move from a nationalised, institutionalised industry to being an independent company that engaged with its neighbourhoods, communities, opinion-formers and governments. Our challenge then was to become a more responsible business. That shift caused a lot of angst at the time. Was our future coal-fired? How much coal-fired generation should we keep? What were the implications of leaving coal in the ground? If we used gas, could we build these plants on time? Could we get the gas? For four or five years meeting future environmental targets was our biggest problem and challenge in terms of corporate responsibility.

After that there was the need to change the structure of the industry. From the outset, we could see that the industry's structure was wrong. Vertical integration was the only model that would satisfy shareholder and business needs into the future. So another major challenge at that time was to persuade government, regulators and opinion formers that such an approach was acceptable and wouldn't lead to frustration of competition and abuse of customers. We succeeded eventually, but it

took 5 years and it ensured our commercial stability and survival.

Then there were the commercial arrangements required to meet the needs of the marketplace, where you have regulators driving the price down and potentially putting companies out of business. And they did drive the price down, and businesses did go bust, but fortunately not Powergen.

At the moment, corporate governance, commercial and environmental pressures don't present the same problems they have over the last ten years, since we have become more accustomed to dealing with them, but of course, we are still committed to trying to improve our performance in all these areas.

SC: I've been fascinated to watch corporate responsibility's transition from environmental reporting, which has very much been lead by the utilities sector, to today where the emphasis is on more than the environment, and all of sudden public affairs are very engaged...

EW: Yes, that's very true. The point is that if you really alienate society, neighbourhoods, government and opinion formers they have the ability to take away your licence to operate and your shareholders aren't going to be too happy about that are they? It is a very powerful reality and you have to deal with it responsibly and properly or you're in big trouble.

SC: And as you move ahead, out of the indicators and targets that are going to be in your corporate responsibility report is there one that you would choose in particular, as a personal success measure?

EW: What I feel is that we have to be careful not to create a whole raft of bureaucracy just to prove that we're better than someone else. I think the danger is that we'll tend to overlook the fact that really we have to operate the business as properly and effectively as we can in every way. My emphasis would always be that you must report on performance to show people that you are truly socially and environmentally responsible, which is obviously a good thing. Ultimately, though, we mustn't forget that actually achieving the results that prove that you are one of the world's best is still the key thing. From environmental emissions to our local communities, we have to strive to be the best – it's that simple.