

## Where we're going What is sustainable development?

"Sustainable development is development which meets the needs of the present generation without compromising the ability of future generations to meet their own needs."

(1987 UN World Commission on Environment and Development report, *Our Common Future*)

The key idea within this definition, known as the 'Brundtland Definition', is that business should acknowledge its responsibility for its impact on society and the environment.

A 'sustainable' way of life might be viewed as one where you live off income alone, leaving the base capital untouched, and therefore available for future generations. This model has been proposed by the UK-based non-profit-making organisation, Forum for the Future.



To enable society to live off the income alone, we must maintain or increase stocks of the capital.

- Natural Capital – i.e. renewable and non-renewable resources such as timber, grain, water, oil and coal; and processes such as climate regulation and the carbon cycle.
- Human Capital – health, knowledge, skills, intellectual ability and motivation. Enhancing human capital through health promotion, education, life-long learning, and training is vital to ensure that all people can play an active role in society.
- Social Capital – the value added to any activity or process by human relationships and co-operation. Social capital takes the form of structures or institutions, which enable individuals to maintain and develop their human capital in partnership with others, and includes families, communities, businesses, trade unions, schools, and voluntary organisations.
- Manufactured Capital – material goods – tools, machines, buildings and other forms of infrastructure – which contribute to the production process, but do not become embodied in its output.
- Financial Capital – plays an important role in our economy, enabling the other types of capital to be owned and traded. Unlike the other types, it has no real value itself but is representative of natural, human, social or manufactured capital; e.g. shares, bonds or banknotes.

From a business perspective, sustainable development encompasses a 'triple bottom line' of economic, environmental and social accountability. This envisages that an

organisation's licence to operate in society comes not just from satisfying stakeholders through improved profits (the economic bottom line), but also from improving its environmental and social performance.

These three elements encompass:

- Economic – Profitability, wages and benefits, resource use, labour productivity, job creation, expenditures on outsourcing and human capital, etc.
- Environmental – Impacts of processes, products and services on air, water, land, biodiversity, human health, etc.
- Social – Workplace health and safety, community relations, employee retention, labour practices, business ethics, human rights, working conditions, etc.

In Powergen, we recognise that a sustainable business must embrace environmental performance and social responsibilities, as well as excelling in terms of traditional financial return.



The world business organization

### Corporate Responsibility

In the words of the International Chamber of Commerce (ICC), corporate responsibility is "The voluntary commitment of business to manage its activities in a responsible way."

In Powergen, we view corporate responsibility as the way in which we can contribute to sustainable development. This means acknowledging a range of obligations towards society, reflecting these in the way we work, including:

- fair treatment of employees, customers and suppliers;
- respect for human rights;
- being good corporate citizens of the communities in which we operate;
- conservation of the natural environment.

Powergen is a member of Business in the Community (BITC), a unique movement of companies across the UK committed to continually improving their positive impact on society.

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### Electricity and sustainable development

Electricity has a key role in sustainable development: it powers economic and social progress but also impacts the environment.

From an economic perspective, electricity utilities are part of the commercial matrix that comprises a modern economy. The industry creates economic value through the technical and commercial processes involved in the generation and distribution of electricity, and its subsequent application in end uses. Electricity utilities redistribute this value at the community level and at the broader societal level; for example through remuneration to employees, dividends to owners and taxation to the state. As a relatively large sector in a country's economy, the electricity industry creates a significant number of jobs, both directly in its own operations and indirectly through the procurement of goods and services from other businesses.

From an environmental perspective, different power generation technologies have different implications. For example, fossil-fuelled generation results in emissions to the air; nuclear power raises issues regarding the handling and storage of radioactive waste, and hydropower can have environmental consequences, such as impacts on river systems, wetlands and biodiversity. The transmission and distribution of power also has environmental impacts.

From a social perspective, in addition to conventional economic value, electric utilities are providers of a commodity that is different from any other, yet has come to be regarded as an essential service to the public. Electricity supply is even a factor in maintaining national and global stability and peace. While electricity cannot be stored for later use, a consistent, reliable supply of electricity is a prerequisite for economic development, social security and public welfare. In many developing countries, where access to electricity remains low, social services such as health and education are constrained. Those electricity utilities that are engaged in extending electrification are making an important contribution to alleviating poverty, both in the individual household and at the societal level, as well as having a positive effect on the environment.

Sustainable development applied to electricity includes maximising its contribution to economic and social development, whilst minimising its environmental impact. This can be achieved through:

- promotion of available, accessible and affordable electricity to benefit the economy, the environment and society;
- using electricity wisely;
- making economical end-use of energy sources;
- maximising economic use of low- and zero-carbon emitting electricity generation options;
- maximising the efficiency and minimising the environmental impacts of the generation, transmission, distribution and use of electricity in a cost-effective manner.



World Business Council for  
Sustainable Development

In 2002, the World Business Council for Sustainable Development (WBCSD), of which Powergen is a member, published the report of a recent project to determine how electricity needs might be met in a sustainable manner, and how socially responsible corporate practices can co-exist and flourish alongside economic growth.

Eleven power companies from around the world participated in the project, including Powergen. The report outlined strategies within each of the three dimensions of sustainable development for moving the electric utility industry closer to sustainable development objectives.

## Where we're going Corporate responsibility reporting

Our reporting reflects our commitment to openly communicating and engaging stakeholders on our approach to sustainable development and our performance.

Corporate responsibility reporting is the 'evaluation of corporate performance in economic, environmental and social terms', or how we communicate openly about our values, objectives, principles and performance in relation to sustainable development.



World Business Council for  
Sustainable Development

The World Business Council for Sustainable Development (WBCSD) identifies a range of direct and indirect benefits arising from corporate responsibility reporting. These include:

- Transparency to stakeholders – reporting communicates to, and encourages dialogue with, our stakeholders, which enhances corporate visibility and helps to demonstrate transparency;
- Maintaining a 'licence to operate' – through the dialogue and discussion with stakeholders that it encourages, reporting helps to maintain and strengthen our 'licence to operate';
- Raising awareness, motivating and aligning staff, and attracting talent – reporting allows us to demonstrate internally and on the external labour market how we live up to our business values and principles;
- Improving management systems – reporting encourages and facilitates the implementation of more rigorous, robust and effective management systems to better handle our economic, environmental and social impacts;
- Risk awareness – reporting mirrors how a company manages risk;
- Encouraging innovation – leading-edge thinking and performance may be stimulated through reporting, so helping us to remain competitive;
- Continuous improvement – reporting supports continuous improvement and learning and should prompt senior management to take action for further progress, which will be reported the following year;
- Enhancing reputation – reporting helps to build and support our reputation, which over the long-term, will contribute to increased brand value, market share and customer loyalty.

Now that Powergen is part of E.ON, it is not listed on the London or New York Stock Exchanges. For publicly-quoted companies, however, two additional benefits of managing and reporting corporate responsibility are identified:

- Creating financial value – reporting tends to reflect the ability and readiness of companies to enhance long-term shareholder value of their intangible assets;

- Attracting long-term capital and favourable financing conditions – reporting helps to attract 'patient' shareholders with a long-term horizon and may help to justify lower risk premiums from financiers and insurers.

## Where we're going Our approach to reporting

Openness, relevance, completeness and responsiveness drive our approach to reporting. The Business in the Community (BITC) *Winning with Integrity* model helps to structure it.

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We want our Corporate Responsibility Report to be a key means of communicating and stimulating dialogue and engagement with our stakeholders about our approach to corporate responsibility and sustainable development.

There is currently no common understanding or agreement about how a corporate responsibility report can best satisfy the majority of stakeholders: some information may be valuable to some, while useless to others. An overload of information makes it difficult to assess its merit and value.

In common with the approach taken in our 2001 Corporate Responsibility Report, we have once again elected to structure the reporting of our activities and performance across the four main areas of:

- Marketplace;
- Environment;
- Workplace;
- Community.

These reflect the reporting structure outlined by Business in the Community in its 'Winning with Integrity' report. The report was the result of a two-year business-led taskforce, and summarises the best business case arguments for corporate social responsibility, identifies quality of management for the various areas of activity, and recommends a set of core sustainability indicators by which a company's impact on society can be measured.

Powergen now comprises two main businesses: Powergen UK in the UK and LG&E Energy in the US. More information concerning Powergen as a company is given in 'Who we are'.

Since Powergen UK and LG&E Energy operate within very different business and regulatory environments, with differing commercial and regulatory pressures, and stakeholder concerns and interests, it makes sense to report the activities and performance in the areas above separately for each of the two businesses. For this reason, this year we have structured our Report to have a 'corporate overview' and explanation of Powergen as a whole, and where we fit into E.ON, followed by two separate reporting 'streams' – one for Powergen UK and one for LG&E Energy.

Although we have structured our Report using the BITC framework, we are aware of the influence increasingly exerted by the Global Reporting Initiative (GRI). The GRI Sustainability Reporting Guidelines 2002 are recognised as the leading guidelines aimed at creating a generally accepted disclosure framework for sustainability reporting. The Guidelines seek to define real, usable parameters for sustainable development and corporate responsibility performance.

We have sought to use the GRI 2002 Guidelines and apply their principles to help ensure that our Report is balanced and the content designed to reflect the unique nature of our organisation and the context in which it operates. We have made use of GRI guidance on report content and sustainability indicators, which provide information on our performance across the economic, environmental and social dimensions of sustainable development.

View table showing the content of a 'sustainability report' as specified by the GRI Guidelines, showing the extent to which this has been met in this Report, with links to where the information can be found.

This Report covers Powergen's Corporate Responsibility over 2002 in the UK, the US and Indonesia. It follows our previous Corporate Responsibility Report, which covered activities and performance in 2001, and was issued in the summer of 2002.

We have not sought external verification or assurance of the full report, although the UK environmental technical information has been externally verified. Full details of this and the verification statement are found within UK Environment – Environmental Data.

## Where we're going Stakeholders

As part of our commitment to communicating and engaging our stakeholders – or anyone who is affected by, or may affect, Powergen and what we do – we have defined key stakeholder groupings and identified their particular interests and needs.



### E.ON

As our parent company, E.ON is a key stakeholder group, whose overall strategy and business plans impact directly upon Powergen, and in turn, is impacted by our activities and overall performance.

### E.ON Investors

Although Powergen is no longer a publicly-quoted company, E.ON, our parent company is. As described above, our activities and performance impact upon those of E.ON, and thus on E.ON's shareholders. These investors are providers of risk capital, and they and their advisors, are concerned with the risk inherent in, and return provided by, their investment. They need information to help them determine whether they should buy, hold or sell, or attempt to influence the company's direction.

### Government and Energy Regulators

The interests of the governments of the countries in which we operate, and their agencies and regulators are broad. Government authorities require information to use in the regulation of our activities, and to determine policies for competition, taxation, consumers and social affairs. We maintain an active dialogue with government and energy regulators in the UK, US and in Indonesia.

### Environmental Regulators

We have developed a close working relationship with the Environment Agency (EA) in the UK, the US Environmental Protection Agency and the Indonesian Environmental Impact Management Agency, BAPEDAL. As with the other Government regulators (above), these bodies also require information for use in the environmental regulation of our activities.

### Employees

We recognise that our employees are a key stakeholder group. Employees increasingly want to work for a company that contributes to society and demonstrates a high standard of environmental and health & safety performance. Employees want to know about levels of remuneration, retirement benefits and the nature and extent of their employment opportunities. The effectiveness of our business relies on us attracting and retaining high quality, well trained employees, who want to work for Powergen.

### Customers

Our customers are vital to the success of our businesses, wherever we operate. We aim to foster a close and long-term relationship with our customers, and recognise that those who have a long-term involvement or are dependent on us, have a vested

interest in our continuing prosperity. Customers also expect to know about the values and principles that underpin our activities, and many want to know about the environmental and social credentials of our products and activities.

#### Communities

As a large company with a major presence where we operate, we know that it is extremely important to give something back to the communities where we live and work. We work hard in collaboration with many organisations in the UK, the US and in Indonesia to support and contribute to these communities.

#### External Bodies

By external bodies we mean non-governmental organisations (NGOs), as well as organisations with which we are involved in our business, or with whom we have relationships or associations. The wide variety of NGOs represents a broad range of interests and concerns including those associated with environmental protection, human rights and consumer issues. Many NGOs – and other external bodies – use reports such as this as a basis for understanding our values, principles, attitudes, performance and objectives.

#### The Media

We recognise the importance of the media – in all its forms – and the speed with which information can now be transmitted throughout our “CNN world”. We aim to manage our activities and reporting with this in mind.

#### Joint Venture Partners

Our sustainability performance will be of direct interest to organisations with which we may wish to develop and manage joint ventures.

#### Trade Unions

In the same way that we recognise our employees as a key stakeholder group, so too, are our employees’ representative groups – like trade unions. These bodies have a direct involvement in levels of employee remuneration, retirement benefits and the nature and extent of their employment opportunities.

#### Contractors and Suppliers

Supply chain issues are becoming an increasingly important component of sustainable development – or corporate responsibility. It is important to us that we know about the supply chain of the materials and services we use, and that we are not associated with any questionable business practices. It is important that our suppliers and contractors know about our values and standards, and the consequent demands made on them by us. In some cases, where we are a supplier’s or contractor’s major customer, that supplier or contractor may be dependent upon us.

From our knowledge of these groups and interaction and engagement that we have had with them, we have mapped the issues upon which we report our performance within the areas of Marketplace, Workplace, Environment and Community.

## Where we're going Sustainability indicators

Sustainability indicators provide information about economic, environmental and social impacts. Such indicators should inform both us and our stakeholders of our performance. We recognise that performance cannot be defined only in terms of internal management targets and intentions, but must also reflect the broader external context within which we operate

We have established a number of characteristics, or criteria, for the indicators we use. They are:

- Relevant to the nature of our business;
- Measurable over time;
- Fully under the control of our business;
- Appropriate in number and therefore able to be managed;
- Flexible enough to move in the face of emerging issues;
- Helpful to our business and to our Stakeholders.

The Global Reporting Initiative (GRI) 2002 Guidelines specify 97 separate indicators of sustainability performance across the economic, environmental and social dimensions, of which 50 are identified as 'core', meaning that they are of significance to most companies and of interest to most stakeholders, and therefore, considered generally applicable. The remaining 47 indicators are termed 'additional', and are intended to be applicable in company-specific circumstances.

We have not attempted to use all the GRI indicators – either core or additional. We have, however, reviewed them all, and considered their usefulness and value both to us and to our stakeholders, using the criteria above. We have also reviewed and considered indicators suggested by BITC through their Business Impact Review Group (BIRG), of which we are a member. The BIRG was formed following publication BITC's *Winning with Integrity* report in November 1999.

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In December 1999 the UK Government Department for Environment, Farming and Rural Affairs (DEFRA) published in '*Quality of life counts*' a core set of about 150 indicators of sustainable development which will be used in future to monitor national progress. We have also reviewed these indicators along with those of GRI and BITC, and have compiled an Indicators Comparison Table, showing these indicators and those used by us in this Report, with links to where within the Report they can be found.

You tell us

We are keen to encourage active dialogue with as many of our stakeholders and stakeholder groups as possible. Throughout this Report we give you the opportunity – as a stakeholder – to be part of this process. Your views are important to us in how



we, as a company, move forward.