Notes to the accounts

FOR THE YEAR ENDED 31 DECEMBER 2004

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Group's financial statements, except for changes arising from the application of UITF 38 (Accounting for ESOP Trusts). This mainly deals with the balance sheet accounting treatment for our shares and does not have a material impact on Group earnings. Comparative figures have been restated accordingly (see note xvii).

ACCOUNTING POLICIES

i Basis of preparation of accounts

The financial statements of International Power plc and its subsidiary undertakings (the Group) are prepared under the historical cost convention and in accordance with applicable accounting standards, except for the departures noted below.

Certain energy-based futures contracts used for proprietary trading purposes are marked to market using externally derived market prices. This is a departure from the general provisions of Schedule 4 of the Companies Act 1985. An explanation of this departure is given in note xv.

ii Basis of consolidation and goodwill

The consolidated financial statements include the financial statements of the Company and all of its subsidiary undertakings up to 31 December 2004. The results of subsidiary undertakings acquired or disposed of in the period are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

An associate is an undertaking in which the Group has a long-term participating interest, usually from 20% to 50% of the equity voting rights, and over which it exercises significant influence. A joint venture is an undertaking in which the Group has a long-term participating interest and over which it exercises joint control. The Group's share of the profits less losses of associates and of joint ventures is included in the consolidated profit and loss account and its interest in their net assets is included in fixed asset investments in the consolidated balance sheet.

Purchased goodwill (both positive and negative) arising on consolidation in respect of acquisitions before 1 April 1998, when FRS 10 (Goodwill and Intangible Assets) was adopted, was set off against reserves in the year of acquisition. When a subsequent disposal occurs any related goodwill previously set off to reserves is taken back through the profit and loss account as part of the profit or loss on disposal.

Purchased goodwill (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) arising on consolidation in respect of acquisitions since 1 April 1998 is capitalised. Positive goodwill is fully amortised by equal annual instalments over its estimated useful life, currently not more than 20 years.

Negative goodwill arising on consolidation in respect of acquisitions since 1 April 1998 is included within fixed assets and released to the profit and loss account in the periods in which the fair values of the non-monetary assets purchased on the same acquisition are recovered, whether through amortisation or sale.

On the subsequent disposal or termination of a business acquired since 1 April 1998, the profit or loss on disposal or termination is calculated after charging/(crediting) the unamortised amount of any related goodwill/(negative goodwill).

In the Company's financial statements, investments in subsidiary undertakings, associates and joint ventures are stated at cost less amounts written off.

iii Income recognition

Turnover from electric power generation is recognised as described below.

Certain power plants sell their output in merchant markets. In these situations, the electricity is sold at market prices through existing power exchanges, pool arrangements or through bilateral contracts with third parties. In these situations, turnover for energy sales is recognised as output is delivered in accordance with the terms of any related hedging or forward contracts or through pool or spot mechanisms.

Other power plants sell their output under long-term power purchase agreements (PPAs). Under such arrangements it is usual for the Group to receive payment for the provision of electrical capacity whether or not the off-taker requests the electrical output (capacity payments) and for the variable costs of production (energy payments). In such situations, turnover is recognised in respect of capacity payments either as finance income in accordance with note x (where the PPA is considered to contain a finance lease) and/or as energy sales in accordance with the contractual terms, to the extent that the capacity has been made available to the contracted off-taker during the period. Energy payments are recognised in turnover as energy sales in all cases as the contracted power is delivered.

Where the PPAs extend over more than one accounting period, turnover for energy sales is recognised in each accounting period at the fair value of the Group's performance under the contract in each period.

Liquidated damages (LDs), in respect of late commissioning, are included in other operating income. Proprietary trading income is recognised on the basis of completed contracts and the mark-to-market value of outstanding contracts at the period end.

iv Pension costs

For defined benefit arrangements, pension contributions are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives. The regular cost is attributed to individual years using the projected unit credit method. Variations in pension costs, which are identified as a result of actuarial valuations, are amortised over the average expected remaining working lives of employees. Differences between the amounts funded and the amounts charged to the profit and loss account are treated as either provisions or prepayments in the balance sheet.

For defined contribution arrangements, contributions are charged to the profit and loss account as they fall due.

v Environmental liabilities

Provision for environmental liabilities is made when expenditure on remedial work is probable and the Group is obliged, either legally or constructively through its environmental policies, to undertake such work. Where the amount is expected to be incurred over the long-term, the amount recognised is the present value of the estimated future expenditure and the unwinding of the discount is included within interest payable and similar charges.

vi Foreign exchange

On consolidation The profits or losses of subsidiary undertakings, associates and joint ventures are translated into sterling at average rates of exchange for the period. The net assets of subsidiary undertakings and net investments in associates and joint ventures are translated at closing rates of exchange ruling at the balance sheet date. Exchange differences which relate to the translation of subsidiaries and net investments in associates and joint ventures and of matching foreign currency borrowings and derivatives are taken directly to group reserves and are shown in the statement of total recognised gains and losses.

Individual company Transactions in foreign currencies are translated into local currencies of individual entities at the exchange rate ruling at the date of transaction unless related or matching forward foreign exchange contracts have been entered into when the rate specified in the contract is used. At the year end, monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date or, where appropriate, at the hedged contracted rate. Any gain or loss arising on the restatement of such balances is taken to the profit and loss account.

vii Interest

Interest on borrowings relating to major capital projects with long periods of development is capitalised during their construction and written-off as part of the total cost over the useful life of the asset. All other interest is charged to the profit and loss account as incurred.

viii Tangible fixed assets

Tangible fixed assets are stated at original cost less accumulated depreciation and any provision for impairment in value. In the case of assets constructed by the Group, related works, commissioning and borrowing costs as defined under FRS 15 (Tangible Fixed Assets) are included in cost. Assets in the course of construction are included in tangible fixed assets on the basis of expenditure incurred at the balance sheet date.

Notes to the accounts continued

Depreciation is calculated so as to write-down the cost of tangible fixed assets to their residual value evenly over their estimated useful lives. Estimated useful lives are reviewed periodically, taking into account commercial and technological obsolescence as well as normal wear and tear, provision being made where the carrying value may not be recoverable.

Tangible fixed assets are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. When a review for impairment is conducted, the recoverable amount is assessed by reference to the net present value of expected future cash flows of the relevant income generating unit or disposal value, if higher. If an asset is impaired, a provision is made to reduce its carrying amount to the estimated recoverable amount. The discount rate applied is based upon the Group's weighted average cost of capital with appropriate adjustment for risks associated with the relevant unit.

The depreciation charge is based on the following estimates of useful lives

	Years
Power plants	20-60
Fixtures, fittings, tools and equipment	3-10
Computer equipment and software	3-5
Civil works	25-80
Combined cycle gas turbine (CCGT) hot gas path parts, on average	2-4
Leasehold improvements	Life of lease

Freehold land is not depreciated.

Project development costs are principally incurred in identifying and developing investment opportunities and typically include feasibility studies, pre-bid costs, legal, professional and other related advisory costs. These costs (including appropriate direct internal costs) are recognised as expenses as incurred, except that directly attributable costs are capitalised from the point that it is both virtually certain that a project will proceed to completion and the net cash inflows will recover the costs capitalised. Such capitalised costs are amortised over the life of the related property or contract.

ix Decommissioning costs

Provision is made for the estimated decommissioning costs at the end of the useful economic life of the Group's power stations and generating assets, if and when a legal or constructive obligation arises, on a discounted basis. The amount provided represents the present value of the expected costs. An amount equivalent to the initial provision is capitalised within tangible fixed assets and is depreciated over the useful lives of the related assets. The unwinding of the discount is included in interest payable and similar charges.

x Leased assets

As lessor Power plants specifically designated to fulfil the requirements of long-term PPAs are classified as either tangible fixed assets or as long-term financial assets depending on the allocation of risks between the Group and the off-taker.

Where the Group has access to the benefits of the power plant and exposure to the risks inherent in those benefits the power plant is capitalised and depreciated over its useful economic life.

Where the off-taker has the principal risks and rewards of ownership of the power plant, through its contractual arrangements with the Group, the power plant is classified as a long-term financial asset. As discussed in note iii, capacity payments are apportioned between capacity repayments relating to the provision of the property, finance income and energy sales. The finance income element of the capacity payment is recognised as turnover, using a rate of return specific to the property to give a constant periodic rate of return on the net investment in each period. The energy sales element of the capacity payment is recognised as turnover as it is earned.

The amounts due from lessees under finance leases are recorded in the balance sheet as financial assets, classified as debtors, at the amount of the net investment in the lease after making provision for bad and doubtful debts receivable.

As lessee Assets leased under finance leases are capitalised and depreciated over the shorter of the lease periods and the estimated operational lives of the assets. The interest element of the finance lease repayments is charged to the profit and loss account in proportion to the balance of the capital repayments outstanding. Rentals payable under operating leases are charged to the profit and loss account on a straight-line basis.

xi Fixed asset investments

Fixed asset investments (other than joint ventures and associates which are discussed in note ii) are stated at cost less provision for any impairment.

xii Current asset investments

Current asset investments are stated at the lower of cost and market value. These are included as liquid resources within the cash flow statement.

xiii Stocks

Plant spares, operating stocks of fuel and consumables are valued at the lower of cost and net realisable value. These are included as current assets.

xiv Deferred taxation

Deferred taxation is provided on timing differences, arising from the different treatment for accounts and taxation purposes of transactions and events recognised in the financial statements of the current year and previous years. Deferred taxation is calculated at the rates at which it is estimated that tax will arise. Deferred tax assets and liabilities are not discounted.

xv Hedging and financial instruments

The Group uses a range of derivative instruments, including interest rate swaps, options, energy-based futures contracts and foreign exchange contracts and swaps. Derivative instruments are used for hedging purposes, apart from energy-based futures contracts, some of which are used for proprietary trading purposes. Interest differentials on derivative instruments are charged to the profit and loss account as interest costs in the period to which they relate. Accounting for foreign currency transactions is described in the foreign exchange policy in note vi. Changes in the market value of futures trading contracts are reflected in the profit and loss account in the period in which the change occurs.

Energy-based futures contracts used for proprietary trading purposes are marked to market using externally derived market prices and subsequent movements in the fair value reflected through the profit and loss account. This is not in accordance with the general provisions of Schedule 4 of the Companies Act 1985, which requires that these contracts be stated at the lower of cost and net realisable value or that, if revalued, any revaluation difference be taken to a revaluation reserve. However, the Directors consider that these requirements would fail to provide a true and fair view of the results for the year since the marketability of energy trading contracts enables decisions to be taken continually on whether to hold or sell them. Accordingly the measurement of profit in any period is properly made by reference to market values. The effect of the departure on the financial statements is to increase the profit for the year by £1 million (2003: reduce the loss for the year by £1 million) and increase the net assets at 31 December 2004 by £3 million (2003: decrease net assets by £4 million).

xvi Debt instruments

New borrowings are stated at net proceeds received after deduction of issue costs. The issue costs of debt instruments are charged to the profit and loss account over the life of the instrument at a constant rate of return on the carrying amount.

xvii New accounting standards UITF Abstract 38 Accounting for ESOP Trusts

This standard requires the assets and liabilities of the Group's ESOP trust to be recognised in the Group's financial statements where there is de facto control of those assets and liabilities. The Company's own shares held by the ESOP trust should be deducted from shareholders' funds until they vest unconditionally with employees. Prior to adoption of UITF 38, the Company's own shares held by the ESOP trust were recognised as an asset on the balance sheet at the lower of cost and estimated net realisable value. The new standard is effective for periods ending on or after 22 June 2004. All primary statements and notes to the accounts have been restated accordingly.

Compliance with UITF 38 has reduced the 2003 investments and shareholders' funds by £2 million (2002: nil). The net profit for 2004 and 2003 was not materially affected.

1 GROUP SEGMENTAL ANALYSIS

	Year ended 31 December 2004			Year ended 31 December 2003		
	Subsidiaries £m	Share of joint ventures and associates £m	Total £m	Subsidiaries £m	Share of joint ventures and associates £m	Total £m
a) By class of business						
Group turnover						
Electricity generation	**768**	**499**	**1,267**	852	421	1,273
Profit/(loss) before interest and taxation (excluding exceptional items)						
Electricity generation	**143**	**177**	**320**	153	160	313
Corporate costs	**(33)**	**–**	**(33)**	(28)	–	(28)
	110	**177**	**287**	125	160	285
b) By geographical area						
Group turnover						
North America	**188**	**72**	**260**	344	70	414
Europe	**308**	**212**	**520**	239	235	474
Middle East	**24**	**30**	**54**	21	12	33
Australia	**223**	**8**	**231**	224	–	224
Asia	**25**	**177**	**202**	24	104	128
	768	**499**	**1,267**	852	421	1,273
Profit/(loss) before interest and taxation (excluding all exceptional items)						
North America	**(29)**	**16**	**(13)**	(13)	15	2
Europe	**52**	**61**	**113**	38	65	103
Middle East	**13**	**16**	**29**	18	5	23
Australia	**98**	**6**	**104**	101	–	101
Asia	**9**	**78**	**87**	9	75	84
	143	**177**	**320**	153	160	313
Corporate costs	**(33)**	**–**	**(33)**	(28)	–	(28)
	110	**177**	**287**	125	160	285

An analysis of exceptional items is given in note 8.

On 17 December 2004, International Power completed the acquisition of the international generation portfolio of Edison Mission Energy (see note 26). During the period since acquisition turnover of £22 million and operating profits of £9 million are included within the consolidated profit and loss account.

On 4 November 2004, International Power completed the acquisition of Turbogás (see note 26). During the period since acquisition turnover of £35 million and operating profit of £7 million are included within the consolidated profit and loss account.

The profit before interest and taxation after exceptional items are for Europe profit of £124 million and Asia profit of £91 million (2003: North America loss of £402 million; Europe profit of £110 million and Asia profit of £139 million).

North America loss before interest and taxation for subsidiaries includes other income in respect of the late commissioning and performance recovery of new power plants amounting to £3 million (year ended 31 December 2003: £27 million).

Sales of electricity generated in each geographic region are made solely to customers in the same geographical area.

With effect from 1 January 2004, we have reverted to equity accounting for our 36% stake in KAPCO and now account for it as an associated undertaking. KAPCO had previously been accounted for as a trade investment with dividend receipts recorded in income from investments. To aid comparability the dividends received in 2003 have been included in the share of joint ventures and associates column for the 2003 comparatives in the above table.

Notes to the accounts continued

1 GROUP SEGMENTAL ANALYSIS continued

	Year ended 31 December 2004			Year ended 31 December 2003 (restated)		
	Subsidiaries £m	**Share of joint ventures and associates £m**	**Total £m**	Subsidiaries £m	Share of joint ventures and associates £m	Total £m
c) Net assets employed by geographical area						
North America	**566**	**182**	**748**	638	33	671
Europe	**1,675**	**323**	**1,998**	326	223	549
Middle East	**144**	**45**	**189**	69	3	72
Australia	**1,704**	**33**	**1,737**	968	8	976
Asia	**60**	**582**	**642**	53	262	315
Corporate and development	**(93)**	**–**	**(93)**	(58)	–	(58)
Net operating assets	**4,056**	**1,165**	**5,221**	1,996	529	2,525
Borrowings	**(3,351)**		**(3,351)**	(1,435)		(1,435)
Cash and short-term deposits	**612**		**612**	743		743
Deferred tax	**(354)**		**(354)**	(205)		(205)
Corporation tax	**(83)**		**(83)**	(86)		(86)
Goodwill on acquisition	**17**		**17**	18		18
Net assets per consolidated balance sheet	**897**		**2,062**	1,031		1,560

To aid comparability the investment in KAPCO in 2003 has been included in the share of joint ventures and associates column for the 2003 comparatives in the above table.

2 OPERATING PROFIT

	Year ended 31 December 2004 £m	Year ended 31 December 2003 £m
Excluding exceptional items:		
Group turnover	**768**	852
Cost of sales	**(672)**	(729)
Gross profit	**96**	123
Other operating costs	**(42)**	(64)
Other operating income	**56**	66
Operating profit	**110**	125

Other operating income includes compensation for the late commissioning of plant, billings in respect of operations and maintenance services and profits on sale of development sites. Exceptional items would reduce other operating costs by £11 million (2003: increase cost of sales by £404 million).

Group turnover includes the following amounts of finance income:

	Year ended 31 December 2004 £m	Year ended 31 December 2003 £m
Group (including share of associated undertakings and joint ventures)	**144**	108
Less: share of associated undertakings and joint ventures	**(138)**	(108)
	6	–

3 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	Year ended 31 December 2004 £m	Year ended 31 December 2003 £m
Profit on ordinary activities before taxation is stated after charging/(crediting):		
Depreciation of tangible fixed assets	**85**	108
Other amortisation	**–**	1
Development costs net of recoveries and amounts capitalised	**3**	14
Operating exceptional items (note 8)	**(11)**	369
Property lease rentals payable (net of recoveries)	**–**	3
Auditors' remuneration – statutory audit:		
Fees due to the lead auditor KPMG Audit Plc	**1.2**	1.0
Fees due to other auditors	**0.6**	0.1
	1.8	1.1
Auditors' remuneration – other fees paid to the lead auditors and their associates for services:		
Audit-related regulatory reporting services (including services to the Company of £0.4 million)	**0.4**	0.3
Further assurance services (including services to the Company of £0.1 million)	**0.2**	0.1

Statutory fees paid to the lead auditor includes £0.7 million (2003: £0.5 million) in respect of the audit of the Company.

Expenditure on audit-related regulatory reporting services in 2004 principally related to review of interim financial statements, US regulatory reporting requirements and transition to IFRS.

Further assurance services in 2004 related principally to due diligence assistance and corporate social responsibility reviews. During 2004, additional fees of £1.3 million were paid to KPMG Audit Plc for assurance services provided in connection with the Group's acquisitions of the international assets of Edison Mission Energy. These fees have been capitalised as part of the costs of acquisition.

The Audit Committee and the firm of external auditors have safeguards to avoid the possibility that the auditors' objectivity and independence could be compromised. These safeguards include the implementation of a policy on the use of the external auditor for non-audit related services. This policy incorporates the provisions of the Sarbanes-Oxley Act 2002 and subsequent Securities and Exchange Commission (SEC) rules.

Where it is deemed that the work to be undertaken is of a nature that is generally considered reasonable to be completed by the auditor of the Group for sound commercial and practical reasons, the conduct of such work will be permissible provided that it has been pre-approved by the Audit Committee. Examples of pre-approved services include the completion of regulatory audits, provision of taxation and regulatory advice, reporting to the SEC and the completion of certain financial due diligence work. All these services are also subject to a predefined fee limit. Any work performed in excess of this limit must be approved by the Chief Financial Officer and the Audit Committee.

4 INTEREST RECEIVABLE AND SIMILAR INCOME

	Year ended 31 December 2004 £m	Year ended 31 December 2003 £m
Group interest receivable and similar income		
Interest receivable and similar income	**30**	23
Foreign exchange gains (net)	**–**	19
Total Group interest receivable and similar income	**30**	42

Notes to the accounts continued

5 INTEREST PAYABLE AND SIMILAR CHARGES

	Year ended 31 December 2004 £m	Year ended 31 December 2003 £m
a) Group interest payable and similar charges		
Interest on:		
Bank loans and overdrafts	**103**	101
Other borrowings	**12**	22
	115	123
Interest capitalised	**(8)**	(2)
Group interest payable and similar charges – ordinary	**107**	121
Exceptional interest (note 8)	**31**	16
Total Group interest payable and similar charges	**138**	137
b) Interest payable of joint ventures and associates		
Share of interest payable of joint ventures	**12**	10
Share of interest payable of associates	**34**	22
Total interest payable of joint ventures and associates	**46**	32

6 DIRECTORS' AND EMPLOYEES' REMUNERATION

a) Directors' remuneration
Details of Directors' remuneration are set out on pages 54 to 66.

b) Employees' remuneration

	Year ended 31 December 2004 £m	Year ended 31 December 2003 £m
Salaries and other staff costs, including Directors' remuneration were as follows:		
Wages and salaries	**82**	68
Social security costs	**4**	4
Pension costs (note 7)	**7**	6
Total employees' remuneration	**93**	78
Less: amounts capitalised as part of assets in the course of construction	**–**	(1)
Total staff costs	**93**	77

Employee numbers	Year ended 31 December 2004 No.	Year ended 31 December 2003 No.
Average number of employees during the financial year, analysed by geographic segment was:		
North America	**201**	212
Europe	**804**	746
Middle East	**639**	342
Australia	**570**	591
Asia	**349**	362
Corporate and development	**187**	163
Total average number of employees	**2,750**	2,416

7 PENSION SCHEME FUNDING

UK: The majority of pensions for UK employees are funded through the industry-wide scheme, the Electricity Supply Pension Scheme (ESPS) which is a defined benefit scheme with assets invested in separate trustee administered funds. The ESPS is divided into sections, and the International Power Group of ESPS was opened to members on 1 April 2002 and employees' past service rights were transferred into the Group later that year.

The majority of employees taken on in First Hydro, as part of the acquisition of the EME portfolio, are members of another section of the ESPS, Energy Mission Energy Group.

Pension costs for 2004 have been calculated using assumptions consistent with those used for the 31 March 2003 funding valuation.

The pension cost for 2004 is £4 million, comprising £3 million regular cost and £1 million variation cost (2003: £3 million).

The principal assumptions used to calculate these pension costs are set out below:

Pre-retirement investment return	6.6% pa
Post-retirement investment return	5.1% pa
Salary increases	4.1% pa
Pension increases in deferment	2.7% pa
Pension increases in payment	2.7% pa

The actuarial value of assets in the International Power section of the ESPS as at 31 March 2004, the date of the latest formal actuarial valuation, was £47 million. The accrued liabilities valued on the projected unit method using assumptions set out below, were £56 million. The market value of assets was, therefore, 84% of accrued liabilities. Arrangements have been made to make good the past service deficit over the average future working lifetime of the membership (calculated to be approximately 12 years).

The principal assumptions used for the 31 March 2004 valuation are:

Pre-retirement investment return	6.7% pa
Post-retirement investment return	5.2% pa
Salary increases	4.4% pa
Pension increases in deferment	3.0% pa
Pension increases in payment	3.0% pa

The actuarial value of assets in the Edison Mission Energy section of the ESPS as at 31 March 2004, the date of the latest formal actuarial valuation, was £30 million. The accrued liabilities valued on the projected unit credit method using assumptions set out below, were £40 million. The market value of assets was therefore 75% of accrued liabilities. Arrangements have been made to make good the past service deficit over the average future working lifetime of the membership (calculated to be approximately 15 years).

The principal assumptions used for the 31 March 2004 valuation are:

Pre-retirement investment return	6.7% pa
Post-retirement investment return	5.2% pa
Salary increases	4.4% pa
Pension increases in deferment	2.9% pa
Pension increases in payment	2.8% pa

AUSTRALIA: Employees at Hazelwood and Loy Yang B participate in a standard Australian superannuation fund called Equipsuper. This plan provides benefits primarily for employees in the electricity, gas and water industry, and was developed from the scheme sponsored by the State Electricity Commission of Victoria. Employees at Synergen participate in the Electricity Industry Superannuation Scheme.

At 31 December 2004, the total market value of assets was 100% of accrued liabilities. The assets were £70 million and liabilities £70 million. The pension cost for 2004 was £2 million (2003: £2 million).

The principal assumptions are set out below:

Valuation date	31 December 2004
Investment return	4.5% pa
Salary increases	4.0% pa
Pensions increases	n/a

In other countries employees are members of local social security schemes and in some cases defined contribution plans. The charge for 2004 in respect of defined contribution plans was £1 million (2003: £1 million).

FRS 17

In accordance with the requirements of FRS 17 (Retirement Benefits), this note discloses the main financial assumptions made in valuing the liabilities of the schemes and the fair value of assets held. However, as permitted by FRS 17, the costs, accruals and prepayments recorded in the financial statements continue to be reported under the requirements of SSAP 24 (Accounting for Pension Costs).

Notes to the accounts continued

7 PENSION SCHEME FUNDING continued

The valuation used for FRS 17 disclosures for the UK schemes has been based on the most recent actuarial valuations at 31 March 2003 and 31 March 2004, and updated by qualified independent actuaries to take account of the requirements of FRS 17 to assess the liabilities of the schemes at 31 December 2004.

The Group operates a number of defined benefit schemes for employees of its overseas businesses. Full actuarial valuations of these schemes have been carried out within the last three years and results have been updated to 31 December 2004 by qualified independent actuaries.

The assumptions used to calculate scheme liabilities under FRS 17 are:

	31 December 2004		31 December 2003		31 December 2002		31 December 2001	
	UK %	**Australia %**	UK %	Australia %	UK %	Australia %	UK %	Australia %
Financial assumptions								
Discount rate	**5.3**	**4.5**	5.4	7.5	5.5	7.0	5.8	7.3
Rate of increase in salaries	**4.4**	**4.0**	4.3	4.0	3.8	4.0	4.0	4.0
Inflation rate	**2.9**	**3.0**	2.8	3.0	2.3	3.5	2.5	3.0
Increase to deferred benefits during deferment	**3.0**	**n/a**	2.9	n/a	2.5	n/a	2.6	n/a
Increases to pensions payments	**2.9**	**n/a**	2.9	n/a	2.5	n/a	2.6	n/a

The amounts required to be disclosed by FRS 17 in respect of the performance statements were:

Analysis of amounts that would have been charged to operating profit in respect of defined benefit schemes

	Group	
	2004 £m	2003 £m
Current service	**(5)**	(5)
Past service cost	**–**	–
Curtailment cost	**(1)**	–
Total operating charge	**(6)**	(5)

Analysis of amounts that would have been credited/(charged) to other finance income

	Group	
	2004 £m	2003 £m
Expected return on schemes' assets	**7**	5
Interest on schemes' liabilities	**(7)**	(5)
Net return	**–**	–

Analysis of amounts that would have been recognised in the consolidated statement of total recognised gains and losses

	Group	
	2004 £m	2003 £m
Actual return less expected return on schemes' assets	**9**	5
Experience gains/(losses) arising on schemes' liabilities	**–**	(3)
Changes in the assumptions underlying the present value of schemes' liabilities	**(11)**	(7)
Currency translation adjustment	**–**	1
Actuarial loss recognised in the consolidated statement of total recognised gains and losses	**(2)**	(4)

History of experience gains and losses

	Group		
	2004	2003	2002
Difference between the actual and expected return on schemes' assets:			
Amount (£m)	**9**	5	(11)
Percentage of schemes' assets	**6%**	5%	15%
Experience gains and losses on schemes' liabilities:			
Amount (£m)	**–**	(3)	(1)
Percentage of the present value schemes' liabilities	**0%**	3%	1%
Total amount recognised in the consolidated statement of total recognised gains and losses:			
Amount (£m)	**(2)**	(4)	(17)
Percentage of the present value of schemes' liabilities	**1%**	4%	22%

	31 December 2004		31 December 2003		31 December 2002		31 December 2001	
	UK %	**Australia %**	UK %	Australia %	UK %	Australia %	UK %	Australia %
The assets in the schemes and expected rates of return (weighted averages) were:								
Long-term rate of return expected								
Equities	**7.5**	**7.3**	7.8	7.6	7.0	7.5	7.4	7.5
Bonds	**4.9**	**4.8**	5.1	4.8	4.5	5.5	4.9	5.5
Other	**6.0**	**5.5**	6.6	6.1	4.8	5.5	–	5.5

	UK £m	**Australia £m**	**Total £m**	UK £m	Australia £m	Total £m	UK £m	Australia £m	Total £m	UK £m	Australia £m	Total £m
Assets in schemes												
Equities	**66**	**44**	**110**	36	35	71	27	24	51	19	23	42
Bonds	**11**	**16**	**27**	5	14	19	4	12	16	16	12	28
Other	**12**	**10**	**22**	4	5	9	3	4	7	–	5	5
Total market value of assets	**89**	**70**	**159**	45	54	99	34	40	74	35	40	75
Present value of scheme liabilities	**(114)**	**(70)**	**(184)**	(58)	(50)	(108)	(43)	(36)	(79)	(39)	(25)	(64)
(Deficit)/surplus in the scheme	**(25)**	**–**	**(25)**	(13)	4	(9)	(9)	4	(5)	(4)	15	11
Related deferred tax asset/(liability)	**8**	**–**	**8**	4	(1)	3	3	(1)	2	1	(5)	(4)
Net pension (liability)/asset	**(17)**	**–**	**(17)**	(9)	3	(6)	(6)	3	(3)	(3)	10	7

Other assets principally comprise property and cash.

If the above amounts had been recognised in the financial statements, the Group's net assets and profit and loss reserve at 31 December would be as follows:

				Group
	2004 £m	2003 (restated) £m	2002 (restated) £m	2001 £m
Net assets				
Net assets excluding pension (liability)/asset	**2,062**	1,560	1,769	1,697
FRS 17 pension (liability)/asset	**(17)**	(6)	(3)	7
Amounts recognised on acquisition	**10**	–	–	–
Net assets including FRS 17 pension (liability)/asset	**2,055**	1,554	1,766	1,704
Reserves				
Profit and loss reserve excluding net pension (liability)/asset	**129**	111	330	260
Net pension (liability)/asset	**(17)**	(6)	(3)	7
Profit and loss reserve including FRS 17 pension (liability)/asset	**112**	105	327	267

		Group
	2004 £m	2003 £m
Movement in deficit during the year:		
Deficit in the schemes at the beginning of the year	**(9)**	(5)
Current service cost	**(5)**	(5)
Curtailment	**(1)**	–
Contributions	**6**	5
Past service cost	**–**	–
Other finance income	**–**	–
Acquisitions	**(14)**	–
Actuarial loss	**(2)**	(4)
Deficit in the schemes at the end of the year	**(25)**	(9)

Notes to the accounts continued

8 EXCEPTIONAL ITEMS

	Year ended 31 December 2004 £m	Year ended 31 December 2003 £m
Net operating exceptional items credited/(charged):		
Release of a guarantee on sale of Elcogas	11	–
Impairment of US plant	–	(404)
Reversal of HUBCO impairment	–	35
Net operating exceptional items	**11**	(369)
Non-operating exceptional items credited:		
Profit on partial disposal of holding in HUBCO	4	17
Profit on disposal of a Czech fixed asset investment	–	7
Release of provision raised for sale of Chinese operations	–	3
Non-operating exceptional items	**4**	27
Exceptional interest charges:		
US swap termination costs	(15)	–
Other refinancing costs	(16)	–
Write off of unamortised finance charges	–	(16)
Exceptional interest payable and similar charges	**(31)**	(16)
Total exceptional items before attributable taxation	**(16)**	(358)
Taxation on exceptional items	–	26
Total exceptional items after attributable taxation	**(16)**	(332)

9 TAX ON PROFIT ON ORDINARY ACTIVITIES

	Year ended 31 December 2004 £m	Year ended 31 December 2003 £m
a) Analysis of charge in year		
Current taxation		
UK corporation tax (credit)/charge at 30% (year ended 31 December 2003: 30%)	(2)	26
Foreign taxation	18	13
Share of joint ventures' taxation	4	2
Share of associates' taxation	13	16
Total current taxation charge for year	**33**	57
Deferred taxation		
Origination and reversal of timing differences	12	(30)
Share of joint ventures' deferred taxation	–	1
Total deferred taxation charge/(credit) for year	**12**	(29)
Total taxation for the year	**45**	28

Included in the tax on profit are the following amounts relating to exceptional items:		
Operating exceptional items (deferred tax)	–	(27)
Non-operating exceptional items (current tax)	–	2
Exceptional interest charges (current tax)	–	(1)
Taxation credit on exceptional items	–	(26)

b) Reconciliation of current tax rate

The tax charge for the year on ordinary activities varied from the standard rate of UK corporation tax as follows:

	Year ended 31 December 2004			Year ended 31 December 2003		
	Current tax £m	**Deferred tax £m**	**Total £m**	Current tax £m	Deferred tax £m	Total £m
Corporation tax at 30%	**49**	**–**	**49**	52	–	52
Permanent differences	**18**	**–**	**18**	6	–	6
Origination or reversal of timing differences	**(12)**	**12**	**–**	2	(2)	–
Tax holidays	**(12)**	**–**	**(12)**	(10)	–	(10)
Adjustment in relation to prior years	**(3)**	**–**	**(3)**	–	–	–
Effect of tax rate applied to overseas earnings	**(7)**	**–**	**(7)**	6	–	6
Tax charge for the year before exceptional items	**33**	**12**	**45**	56	(2)	54
Exceptional items	**–**	**–**	**–**	1	(27)	(26)
Tax charge for the year	**33**	**12**	**45**	57	(29)	28

10 DIVIDENDS

	Year ended 31 December 2004 £m	Year ended 31 December 2003 £m
Proposed final dividend of 2.5p per Ordinary Share payable on 8 July 2005	**37**	–

11 PROFIT OF THE PARENT COMPANY

The profit of the parent company for the financial year amounted to £83 million (year ended 31 December 2003: profit of £121 million). By virtue of Section 230(4) of the Companies Act 1985, the Company is exempt from presenting a separate profit and loss account.

12 EARNINGS/(LOSS) PER SHARE

	Year ended 31 December 2004 pence	Year ended 31 December 2003 (restated) pence
a) Earnings per share – basic		
Before exceptional items	**8.3**	9.1
After exceptional items	**7.2**	(17.6)
b) Earnings per share – diluted		
Before exceptional items	**8.2**	9.0
After exceptional items	**7.1**	(17.6)

c) Basis of calculation – earnings	**£m**	£m
Profit attributable to shareholders before exceptional items	**108**	113
Exceptional items	**(14)**	(332)
Profit/(loss) attributable to shareholders after exceptional items	**94**	(219)

d) Basis of calculation – number of Ordinary Shares	**Million**	Million
Weighted average number of issued Ordinary Shares	**1,308.3**	1,247.8
Weighted average number of shares held by Employee Share Ownership Plans (ESOPs)	**(2.8)**	(3.6)
	1,305.5	1,244.2
Dilutive potential Ordinary Shares:		
Employee share schemes	**10.9**	10.3
Convertible bond	**3.0**	–
Weighted average number of Ordinary Shares taking account of applicable dilutive instruments	**1,319.4**	1,254.5

Notes to the accounts continued

12 EARNINGS PER SHARE continued

On 30 July 2004, the Company announced a Rights Issue and, following approval of the required resolutions at the subsequent Extraordinary General Meeting, 366 million shares were issued at 82p per share on the basis of 33 new Ordinary Shares for every 100 Ordinary Shares then held.

The actual cum rights price on 20 August 2004, the last day of quotation cum rights, was 147p per share and the theoretical ex rights per price for an Ordinary Share was therefore 131p per share. The comparative earnings per share are shown after applying the factor 131/147 to the published figures for 2003.

FRS 14 requires presentation of diluted earnings per share when a company could be called upon to issue shares that would decrease net profit or increase net loss per share. A net loss per share would only be increased by the exercise of out-of-the-money share options. Since it seems inappropriate to assume that option holders would act irrationally, no adjustment has been made for out-of-the-money options and hence in 2003 diluted EPS (after exceptional items) equals basic EPS (after exceptional items).

13 INTANGIBLE FIXED ASSETS

The Group	Goodwill £m	Negative goodwill £m	Total £m
Cost			
At 1 January 2004	11	(11)	–
Exchange rate differences	1	–	1
At 31 December 2004	**12**	**(11)**	**1**
Amortisation			
At 1 January 2004	(4)	5	1
(Charged)/credited in the year	–	–	–
At 31 December 2004	**(4)**	**5**	**1**
Net book value at 31 December 2004	**8**	**(6)**	**2**
Net book value at 31 December 2003	7	(6)	1

Goodwill arising on the acquisition of joint ventures and associated undertakings is set out in note 15 – fixed asset investments.

14 TANGIBLE FIXED ASSETS

a) The Group	Freehold land and buildings £m	Plant, machinery and equipment £m	Assets in course of construction £m	Total £m
Cost				
At 1 January 2004	89	3,013	23	3,125
Additions	7	44	188	239
Subsidiary undertakings acquired	80	1,416	–	1,496
Reclassifications and transfers	–	43	(46)	(3)
Disposals	–	(2)	–	(2)
Exchange rate differences	(2)	(71)	(4)	(77)
At 31 December 2004	**174**	**4,443**	**161**	**4,778**
Depreciation and diminution in value				
At 1 January 2004	22	1,055	–	1,077
Provided during the year	3	82	–	85
Disposals	–	(2)	–	(2)
Exchange rate differences	–	(36)	–	(36)
At 31 December 2004	**25**	**1,099**	**–**	**1,124**
Net book value at 31 December 2004	**149**	**3,344**	**161**	**3,654**
Net book value at 31 December 2003	67	1,958	23	2,048

Interest capitalised in the year was £8 million. On a cumulative basis, the net book value of interest capitalised is £84 million (2003: £85 million). The total value of land that is not depreciated included within freehold land and buildings is £47 million (31 December 2003: £27 million).

b) The Company	Freehold land and buildings £m	Plant, machinery and equipment £m	Total £m
Cost			
At 1 January 2004	1	5	6
Additions	1	1	2
At 31 December 2004	**2**	**6**	**8**
Depreciation and diminution in value			
At 1 January 2004	1	4	5
Provided during the year	–	1	1
At 31 December 2004	1	5	6
Net book value at 31 December 2004	**1**	**1**	**2**
Net book value at 31 December 2003	–	1	1

15 FIXED ASSET INVESTMENTS

a) The Group	Joint ventures: Share of net assets £m	Joint ventures: Loans £m	Associated undertakings: Share of net assets £m	Associated undertakings: Loans £m	Associated undertakings: Goodwill £m	Other investments £m	Total £m
At 1 January 2004 (as originally stated)	126	–	298	–	17	97	538
Prior year adjustment	–	–	–	–	–	(2)	(2)
At 1 January 2004 (as restated)	126	–	298	–	17	95	536
Share of post-tax profit	24	–	89	–	(2)	–	111
Additions	16	11	–	37	–	3	67
On acquisition of investments	127	17	248	173	–	79	644
Distribution and loan repayments	(14)	–	(59)	–	–	–	(73)
Disposals	–	–	(13)	–	–	(3)	(16)
Reclassifications and transfers	–	–	88	–	–	(88)	–
Exchange rate differences	5	–	(25)	2	–	–	(18)
At 31 December 2004	**284**	**28**	**626**	**212**	**15**	**86**	**1,251**

Included within the Group's share of net assets of joint ventures and associated undertakings is net debt of £1,452 million (31 December 2003: £712 million). These obligations are generally secured by the assets of the respective joint venture or associate borrower and are not guaranteed by International Power plc or any other Group company.

The prior year adjustment is explained in note xvii in the notes to the accounts on page 76.

Group share of associated undertakings' net assets	31 December 2004 £m	31 December 2003 £m
Share of fixed and long-term assets	**1,890**	821
Share of current assets	**432**	226
	2,322	1,047
Share of liabilities due within one year	**(274)**	(79)
Share of liabilities due after more than one year	**(1,210)**	(670)
	(1,484)	(749)
Share of net assets	**838**	298

Group share of joint ventures' net assets	31 December 2004 £m	31 December 2003 £m
Share of fixed and long-term assets	**554**	302
Share of current assets	**88**	35
	642	337
Share of liabilities due within one year	**(50)**	(37)
Share of liabilities due after more than one year	**(280)**	(174)
	(330)	(211)
Share of net assets	**312**	126

Notes to the accounts continued

15 FIXED ASSET INVESTMENTS continued

At 31 December 2004 the Group investments that are listed on a recognised stock market are those in The Hub Power Company Limited (HUBCO) and Malakoff Berhad. Both are associated undertakings. The Group's share of HUBCO was valued at £54 million (2003: £90 million) on the major Pakistan stock markets and the Group's share in Malakoff Berhad was valued at £159 million (2003: £128 million) on the Kuala Lumpur stock market. Market values for Group shareholdings in these investments were in excess of the respective book values at the year end.

A subsidiary, Al Kamil, is listed on the Muscat Securities Market and was valued at £14 million on 31 December 2004 (2003: not listed).

	Subsidiary undertakings			
b) The Company	**Investment £m**	**Loans £m**	**Other investments £m**	**Total £m**
At 1 January 2004 (as previously stated)	1,428	419	3	1,850
Prior year adjustment	–	–	(2)	(2)
At 1 January 2004 (as restated)	1,428	419	1	1,848
Additions	1,110	209	2	1,321
Capitalisation of loan due from subsidiary undertaking	99	–	–	99
Distribution and loan repayments	–	(33)	–	(33)
Disposals	–	–	(1)	(1)
Exchange rate differences	–	(18)	–	(18)
At 31 December 2004	**2,637**	**577**	**2**	**3,216**

Details of the principal subsidiary undertakings, associates and joint ventures are provided in note 33.

The prior year adjustment is explained in note xvii in the notes to the accounts on page 76.

16 STOCKS

	Group		Company	
	31 December 2004 £m	31 December 2003 £m	**31 December 2004 £m**	31 December 2003 £m
Plant spares	**13**	18	**–**	–
Fuel stocks	**40**	18	**–**	–
Consumables	**34**	29	**–**	–
Total stocks	**87**	65	**–**	–

17 DEBTORS

	Group		Company	
	31 December 2004 £m	31 December 2003 £m	**31 December 2004 £m**	31 December 2003 £m
Amounts falling due within one year:				
Trade debtors	**106**	50	**–**	–
Due from subsidiary undertakings	**–**	–	**111**	217
Amounts receivable under finance leases	**11**	–	**–**	–
Other debtors	**65**	54	**73**	27
Prepayments and accrued income	**52**	53	**2**	3
Total amounts falling due within one year	**234**	157	**186**	247
Amounts recoverable after more than one year:				
Amounts receivable under finance leases	**484**	–	**–**	–
Amounts due from associates	**27**	–	**–**	–
Other debtors	**70**	3	**–**	–
Total amounts falling due after more than one year	**581**	3	**–**	–
Total debtors	**815**	160	**186**	247

	31 December 2004 £m	31 December 2003 £m
Net investment in finance leases comprises:		
Total amounts receivable	**978**	–
Less: interest allocated to future periods	**(483)**	–
	495	–

Rentals receivable under finance leases by the Group during the year amounted to £6 million (2003: nil). The cost of assets acquired by the Group during the year for onwards finance leasing was £487 million (2003: nil).

18 CURRENT ASSET INVESTMENTS

	Group		Company	
	31 December 2004 £m	31 December 2003 £m	31 December 2004 £m	31 December 2003 £m
Current asset investments	**201**	70	**–**	–

Current asset investments are primarily short-term money market deposits used for fund management and treasury purposes. These balances are generally restricted, primarily to secure amounts required for debt payments and letter of credit expenses.

19 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Company	
	31 December 2004 £m	31 December 2003 £m	31 December 2004 £m	31 December 2003 £m
Trade creditors	**104**	71	**5**	1
Amounts due to subsidiary undertakings	**–**	–	**1,448**	814
Other creditors	**108**	58	**14**	14
Proposed dividend	**37**	–	**37**	–
Other taxation and social security	**–**	–	**1**	1
Corporation tax	**83**	86	**15**	19
Accruals and deferred income	**139**	100	**52**	41
Bank loans (secured)	**71**	531	**–**	–
2% Convertible US Dollar Bonds 2005	**29**	–	**–**	–
Total creditors: amounts falling due within one year	**571**	846	**1,572**	890

The bank loans are secured by fixed and floating charges over the assets of certain subsidiary undertakings. Substantially all of the Group's power stations, generating assets and other operating assets are financed under non-recourse facilities.

Secured bank loans
Secured bank loans are those where the obligation to repay lies solely with the subsidiary and are secured solely on the assets of the subsidiary concerned.

At 31 December 2003, we were in discussions with bank groups in relation to claimed technical defaults on the non-recourse debt for the US merchant portfolio. In July 2004, the US debt facility was successfully refinanced and the debt has been reclassified to long-term.

Convertible bonds

2% Convertible US Dollar Bonds 2005
On 24 November 2000, International Power (Cayman) Limited, a wholly-owned subsidiary company incorporated in the Cayman Islands, issued US$357 million 2% convertible notes due 2005, convertible into preference shares of International Power (Cayman) Limited at the holder's option, exchangeable for Ordinary Shares of, and unconditionally guaranteed on a senior unsecured basis by, International Power plc.

The notes are convertible into Ordinary Shares of International Power plc at a conversion price of 300p at any time between 4 January 2001 and 23 November 2005. Each US$1,000 principal amount of notes will entitle the holder to convert into a US$1,000 paid up value of preference shares of International Power (Cayman) Limited. Investors may elect to receive their Ordinary Shares in the form of American Depositary Receipts.

The 'unput' convertible unsecured notes will be redeemed on 24 November 2005 at a redemption price of 112.4% of its principal amount. Accordingly the convertible bond is now shown within short-term liabilities.

Notes to the accounts continued

20 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Group		Company	
	31 December 2004 £m	31 December 2003 £m	**31 December 2004 £m**	31 December 2003 £m
Other creditors	**133**	5	–	–
Bank loans (secured):				
Between one and five years	**1,330**	262	–	–
Over five years	**1,638**	442	–	–
Total bank loans	**2,968**	704	–	–
Preferred equity facility	**154**	–	–	–
2% Convertible US Dollar Bonds 2005	**–**	62	–	–
3.75% Convertible US Dollar Bonds 2023	**129**	138	–	–
Total bonds	**129**	200	–	–
Total creditors: amounts falling due after more than one year	**3,384**	909	–	–

The bank loans are secured by fixed and floating charges over the assets of certain subsidiary undertakings. Substantially all of the Group's power stations, generating assets and other operating assets are financed under non-recourse facilities.

Preferred equity facility

The preferred equity facility comprises US$300 million in preference shares issued by Impala Magpie Limited to Mitsui Power Ventures Limited for the purposes of financing the acquisition of the EME portfolio.

Impala Magpie Limited is a 70% owned subsidiary of International Power plc and Mitsui Power Ventures Limited is a wholly-owned subsidiary of Mitsui & Co of Japan. Mitsui Power Ventures Limited is International Power's partner in IPM Eagle LLP, which is the new owner of the acquired EME portfolio.

The preference shares entitle the holder to a preferred dividend coupon of USD LIBOR plus 2%. The preference shares are redeemable from 16 December 2008 and may also be redeemed if funds become available following the sale of certain assets.

International Power (Impala) Limited, a wholly-owned subsidiary of International Power plc has granted Mitsui Power Ventures Limited a put option to sell 70% of the Preference Shares it holds on the date of exercise. The put option is exercisable in certain circumstances, including where Impala Magpie Limited fails to redeem the Preference Shares on maturity.

International Power plc has agreed to guarantee International Power (Impala) Limited's obligations to Mitsui & Co of Japan and Mitsui Power Ventures Limited.

Convertible bonds

3.75% Convertible US Dollar Bonds

On 22 August 2003, International Power (Jersey) Limited, a wholly-owned subsidiary company incorporated in Jersey, issued US$252.5 million 3.75% convertible notes due 2023, convertible into preference shares of International Power (Jersey) Limited at the holder's option, immediately exchangeable for Ordinary Shares of, and unconditionally guaranteed by, International Power plc.

The notes are convertible into Ordinary Shares of International Power plc at a conversion price of 200p at any time between 2 October 2003 and 12 August 2023. Each US$1,000 principal amount of notes will entitle the holder to convert into a US$1,000 paid up value of preference shares of International Power (Jersey) Limited.

The notes may be redeemed at the holder's option at their principal amount, together with accrued interest, to the date fixed for redemption.

If the conversion option is not exercised, the convertible unsecured notes will be redeemed on 22 August 2023 at a redemption price equivalent to their principal amount.

Premium on redemption of convertible bonds

Provision is made for the possible premium on redemption of the 2005 and 2023 convertible bonds. This is included within the carrying amount of the bonds. At 31 December 2004, the amount accrued was £1 million (31 December 2003: £4 million). The finance cost charged in the profit and loss account comprises the aggregate of the coupon on the convertible unsecured notes and the proportion of the premium on redemption that relates to the financial year.

21 PROVISIONS FOR LIABILITIES AND CHARGES

a) The Group	Deferred tax £m	Rationalisation and restructuring £m	Other £m	Total £m
At 1 January 2004	205	9	24	238
On acquisition of subsidiary undertakings	130	–	17	147
Charged to profit and loss	15	–	1	16
Credited to profit and loss	(3)	(1)	–	(4)
Transfer to corporation tax	(2)	–	–	(2)
Foreign exchange	9	–	–	9
At 31 December 2004	**354**	**8**	**42**	**404**

The majority of the rationalisation and restructuring provision relates to liabilities in respect of onerous property leases and employee-related compensation. Other provisions primarily comprise amounts provided for long service and annual leave liabilities and for mine site restoration. These liabilities are not expected to arise in the short-term.

b) The Company	**Deferred tax £m**	**Rationalisation and restructuring £m**	**Total £m**
At 1 January 2004	30	8	38
Credited to the profit and loss account	(1)	(1)	(2)
At 31 December 2004	**29**	**7**	**36**

22 DEFERRED TAXATION

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

	31 December 2004 £m	31 December 2003 £m
Full potential deferred tax liabilities		
Tangible fixed assets accelerated capital allowances	**(297)**	(175)
Other timing differences	**(108)**	(21)
Dividends of overseas subsidiary undertakings	**(16)**	(16)
Total gross deferred tax liabilities	**(421)**	(212)
Less: deferred tax liabilities not provided	**–**	–
Total deferred tax liabilities provided	**(421)**	(212)
Full potential deferred tax assets		
Provisions	**8**	3
Tax losses	**166**	86
Other timing differences	**20**	35
Total gross deferred tax assets	**194**	124
Less: deferred tax assets not recognised	**(127)**	(117)
Total deferred tax asset recognised	**67**	7
Net deferred tax liability recognised	**(354)**	(205)

Deferred tax assets would be offset against suitable taxable profits when they arise.

23 SHARE CAPITAL

	Authorised Ordinary Shares of 50p	**£m**	**Issued and fully paid Ordinary Shares of 50p**	**£m**
At 1 January 2004	1,700,000,000	850	1,107,091,994	554
Increase in authorised share capital	566,000,000	283	–	–
Issue of shares	–	–	365,540,834	183
Issue of shares under the Sharesave Scheme	–	–	33,077	–
Issue of shares under Executive Share Option Scheme	–	–	603,161	–
At 31 December 2004	**2,266,000,000**	**1,133**	**1,473,269,066**	**737**

Rights Issue
The Company's Rights Issue closed on 14 September 2004. A total of 366 million Ordinary Shares were issued at 82p per share in a 33 for 100 Rights Issue. Of the total £286 million raised net of £14 million expenses, £183 million was credited to share capital and £103 million to the share premium account.

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.

Unclassified Share
Further to the redemption of the Special Share in August 2000, the Company's authorised share capital includes one unclassified share of £1.

Notes to the accounts continued

23 SHARE CAPITAL continued

Employee Share Plans

a) Share Options Plans

The Company operates the following employee share plans for which shares may be issued by the Company out of authorised but unissued share capital upon exercise of options: the 2002 Performance Share Plan; the UK Approved and Unapproved Executive Share Option Plans; the Global Executive Share Option Plan; the UK Approved Sharesave Plan and the Global Sharesave Plan. The UK Approved Sharesave Plan and the Global Sharesave Plan are savings related and enable employees to invest up to a maximum of £250 per month.

Note		Sharesave Schemes	Executive Share Option Schemes	Performance Share Plan	Total
		Number of Ordinary Shares (millions)			
i)	Outstanding at 1 January 2004	6.0	22.7	3.8	32.5
	Adjusted post Rights Issue	0.3	3.3	0.5	4.1
	Granted	–	6.4	–	6.4
	Exercised (ii)/lapsed	(0.3)	(2.7)	–	(3.0)
i)	**Total options outstanding at 31 December 2004**	**6.0**	**29.7**	**4.3**	**40.0**

i) Options outstanding	Option price	Date exercisable	Number of Ordinary Shares 31 December 2004	31 December 2003
Sharesave Schemes	250.00p	2003	–	775
	188.00p	2004	–	12,159
	167.37p	2006	10,082	8,976
	178.06p	2004	7,496	6,780
	178.06p	2006	6,631	7,592
	80.12p	2005	1,100,049	1,076,670
	80.12p	2007	2,693,549	2,492,950
	97.93p	2006	119,227	291,557
	97.93p	2008	72,817	216,667
	70.33p	2006	888,915	875,724
	70.33p	2008	780,259	748,259
	97.93p	2006	128,354	118,400
	97.93p	2008	156,103	151,834
Executive Share Option Schemes	297.94p	1996-2003	–	52,935
	336.21p	1997-2004	–	101,858
	272.55p	1998-2005	294,581	290,736
	287.76p	1999-2006	489,158	472,639
	343.73p	2000-2007	574,892	555,541
	313.92p	2001-2008	776,425	761,052
	331.42p	2002-2007	–	33,206
	277.55p	2003-2010	2,864,320	2,689,810
	209.22p	2004-2011	2,044,424	1,935,593
	193.19p	2004-2011	186,197	165,778
	174.50p	2005-2012	4,050,234	4,038,393
	62.32p	2006-2013	11,354,245	11,609,290
	123.53p	2007-2014	7,136,359	–
Performance Share Plan 2002	74.79p	2005-2006	4,276,215	3,807,057
Total options outstanding			**40,010,532**	32,522,231

ii) Options exercised (pre Rights Issue)	Option price	Number of options	Nominal value £	Consideration £
Executive Share Option Schemes	70.00p	603,161	301,580	422,213
Sharesave Schemes	90.00p	28,275	14,138	25,448
	79.00p	3,493	1,746	2,759
Total options exercised during the year		**634,929**	**317,464**	**450,420**

b) 2002 Performance Share Plan

At the AGM in May 2002, shareholders approved the establishment of the 2002 Performance Share Plan. In respect of the 2003 award, the Company granted to the Trustee an option to acquire 3,807,057 Ordinary Shares in the Company at an option price of 84 pence per share. Following the Rights Issue the number of shares under option was increased to 4,276,215 and the option price was adjusted to 74.79 pence per share. This option can only be exercised to the extent required to satisfy conditional awards made on 10 March 2003 under the Performance Share Plan. These conditional awards can only vest after the end of the relevant performance period and only to the extent to which the performance conditions have been achieved. The performance period ends on 31 December 2005. No shares were released in respect of this share plan during 2003.

c) Managers' share bonus arrangements

During 2004 a total of 571,710 shares in International Power were acquired in respect of a project incentive arrangement for staff (excluding Executive Directors) for a consideration of £887,497. These shares have been placed in an Employee Share Ownership Trust.

d) Employee Share Schemes

The Group takes advantage of the exemption granted under UITF 17 (revised) (Employee Share Schemes) whereby no compensation expense need be recorded for SAYE employee schemes.

24 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
At 1 January 2004 – as previously stated	554	289	145	422	113	1,523
Prior year adjustment	–	–	–	–	(2)	(2)
At 1 January 2004 – restated	554	289	145	422	111	1,521
Rights Issue	183	103	–	–	–	286
Profit for the financial year	–	–	–	–	94	94
Exchange differences on retranslation of net investments	–	–	–	–	(39)	(39)
Dividend proposed	–	–	–	–	(37)	(37)
At 31 December 2004	**737**	**392**	**145**	**422**	**129**	**1,825**

b) The Company	£m	£m	£m	£m	£m	£m
At 1 January 2004 – as previously stated	554	289	145	415	245	1,648
Prior year adjustment	–	–	–	–	(2)	(2)
At 1 January 2004 – restated	554	289	145	415	243	1,646
Rights Issue	183	103	–	–	–	286
Profit for the financial year	–	–	–	–	83	83
Dividend proposed	–	–	–	–	(37)	(37)
At 31 December 2004	**737**	**392**	**145**	**415**	**289**	**1,978**

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

The application of UITF 38 (Accounting for ESOP trusts) has required the investment in International Power's own shares to be reclassified in the balance sheet as a deduction from shareholders' funds.

A number of International Power plc Ordinary Shares are held in Employee Share Ownership Trusts (ESOTs). These shares are held by the ESOTs to meet awards made under a number of employee share plans (see note 23). At 31 December 2004, the ESOTs held a total of 3,607,734 International Power plc Ordinary Shares (2003: 3,003,312). At 31 December 2004, the market value of these shares was £5,492,775 (2003: £3,709,090). The maximum number of shares required to meet all outstanding awards (assuming full vesting of those awards) as at 31 December 2004 was 7,772,077 (2003: 4,649,228).

The cumulative amount of goodwill set off to reserves prior to the adoption of FRS 10 on acquisition of subsidiary undertakings is £95 million (31 December 2003: £95 million). £124 million (2003: £143 million) of the Company's profit and loss reserve is not distributable as it arose from unrealised gains on intra-group transfers.

Notes to the accounts continued

25 NOTES TO THE CASH FLOW STATEMENT

Note	a) Reconciliation of operating profit to net cash inflow from operating activities	Year ended 31 December 2004 £m	Year ended 31 December 2003 £m
	Operating profit/(loss)	**121**	(279)
	Impairment	**–**	404
	Release of guarantee on sale of Elcogas	**(11)**	–
		110	125
14	Depreciation	**85**	108
	Other amortisation	**–**	1
	Movement in working capital:		
	Increase in stocks	**(6)**	(5)
	Decrease/(increase) in debtors	**8**	(25)
	Increase/(decrease) in creditors	**1**	(13)
	Decrease in provisions	**–**	(7)
	Net cash inflow from operating activities	**198**	184

b) Dividends received from joint ventures and associates		
Dividends from joint ventures	**10**	10
Dividends from associates	**59**	91
Total dividends received from joint ventures and associates	**69**	101

To aid comparability dividends from KAPCO have been included in the share of associates' dividends for 2003 in the above table.

c) Returns on investments and servicing of finance		
Other interest and dividends received	**29**	26
Debt and loan interest paid	**(105)**	(105)
Debt issue costs paid	**(30)**	(3)
Dividends paid to minority shareholders	**(3)**	(2)
Returns on investments and servicing of finance – ordinary	**(109)**	(84)
Returns on investments and servicing of finance – exceptional:		
Refinancing and swap termination costs	**(26)**	(4)
Net cash outflow from returns on investments and servicing of finance	**(135)**	(88)

d) Capital expenditure and financial investment		
Purchase of tangible fixed assets:		
Maintenance	**(59)**	(64)
Growth	**(158)**	(57)
Purchase of tangible fixed assets	**(217)**	(121)
Receipts from sale of fixed assets	**–**	1
Compensation for long-term performance shortfalls	**5**	56
Investment in joint ventures and associates	**(64)**	(8)
Return on investment in joint venture	**4**	–
Other financial investment	**(1)**	(2)
Net cash outflow from capital expenditure and financial investment – ordinary	**(273)**	(74)
Net cash outflow from capital expenditure and financial investment – exceptional:		
Receipts from sale of fixed asset investment	–	11
Net cash outflow from capital expenditure and financial investment	**(273)**	(63)

Note	e) Acquisitions and disposals		
26	Purchase of the EME portfolio	**(1,060)**	–
26	Purchase of Turbogás	**(135)**	–
26	Net cash acquired with subsidiaries	**52**	–
	Acquisitions and disposals – ordinary	**(1,143)**	–
	Receipts from partial disposal of investment in HUBCO	**17**	21
	Receipts from sale of subsidaries	**–**	3
	Acquisitions and disposals – exceptional	**17**	24
	Net cash (outflow)/inflow from acquisitions and disposals	**(1,126)**	24
	f) Financing activities		
23	Share buyback	**–**	(13)
	Proceeds from share issue	**286**	–
	Funding from minorities	**165**	–
27	Bank loans	**617**	(247)
	Net cash inflow/(outflow) from financing activities	**1,068**	(260)

26 ACQUISITIONS

a) Edison Mission Energy

On 17 December 2004, International Power completed the acquisition of the international generation portfolio of Edison Mission Energy (the EME portfolio), in a 70:30 partnership with Mitsui Power Ventures Limited, a subsidiary of Mitsui & Co of Japan, for a consideration of US$2,079 million. The acquisition method of accounting has been adopted for the acquisition and the results have been consolidated since 17 December 2004. The completed acquisition includes all the EME portfolio, as detailed in the Shareholders' Circular dated 5 November 2004, except for: CBK, a 396 MW (net) hydro scheme in the Philippines; Tri Energy, a 175 MW (net) gas fired plant in Thailand and Doga, a 144 MW (net) gas fired plant in Turkey.

The details of the transaction, results and provisional fair value adjustments arising from the change in ownership are shown below:

		Fair value adjustments		
	Book value £m	**UK GAAP and accounting policy alignment £m**	**Revaluations £m**	**Fair value to the Group £m**
Intangible fixed assets	169	(169)	–	–
Tangible fixed assets	1,457	(162)	196	1,491
Investments	494	36	114	644
Stocks	9	–	–	9
Debtors: amounts due within one year	78	(11)	–	67
Debtors: amounts due after more than one year	15	28	37	80
Current investments	98	–	–	98
Cash at bank and in hand	31	–	–	31
Creditors: amounts falling due within one year	(93)	2	–	(91)
Creditors: amounts falling due after more than one year	(1,269)	39	98	(1,132)
Provisions for liabilities and charges	(207)	149	(62)	(120)
Minority shareholders' interests	(2)	(1)	(1)	(4)
Total assets acquired	780	(89)	382	1,073
Consideration (including acquisition costs)				**1,073**

Satisfied by:	
Cash consideration paid at balance sheet date	1,060
Cash consideration not yet paid at balance sheet date	13
Cash at bank and in hand acquired	(31)
Net cash outflow to the Group	**1,042**

Notes to the accounts continued

26 ACQUISITIONS continued

a) Edison Mission Energy continued

The EME portfolio generated a net cash inflow from operating activities of £7 million from 17 December 2004 to 31 December 2004.

Mitsui Power Ventures Limited has a 30% minority interest in the total assets acquired net of the acquisition debt used to acquire the EME portfolio.

EME prepares its accounts under US GAAP. The fair value adjustments for the alignment of accounting policies reflect the adoption of Group accounting policies, principally in respect of eliminating historical acquisition goodwill, eliminating historical step up adjustments to the carrying value of tangible fixed assets at acquisition, capitalisation and depreciation of outage costs, changing the asset recognition of certain power plants which sell their output under long-term PPAs from tangible fixed assets to finance lease debtors, taking derivatives for hedging off balance sheet and providing for deferred tax on timing differences rather than temporary differences.

The revaluation adjustments are made to reflect the fair value of the net assets acquired and principally represent for tangible fixed assets the recognition of plant at the lower of depreciated replacement cost and value in use, the revaluation of debt instruments to market value, the recognition of unprovided amounts in respect of onerous contracts and other liabilities. The revaluation of investments comprises the Group's share of those revaluation adjustments outlined above applicable to the joint ventures and associates in which the Group has acquired an interest. No goodwill arises on the acquisition.

Due to the proximity of the acquisition to the balance sheet date, the fair values attributed to the EME portfolio are provisional and may be revised.

The unaudited results of the EME portfolio, based on EME's accounting policies under US GAAP prior to the acquisition and excluding fair value adjustments arising from the acquisition, for the year ended 31 December 2003 and from 1 January 2004 to 16 December 2004 are shown below, expressed in US dollars. Therefore the numbers presented do not take account of the impact of the adjustments outlined above.

Results	**Period from 1 January 2004 to 16 December 2004 (unaudited) US$m**	Year ended 31 December 2003 (unaudited) US$m
Turnover	**666**	646
Operating profit	**198**	163
Profit on ordinary activities before taxation	**233**	162
Taxation	**(31)**	(40)
Profit on ordinary activities after taxation	**202**	122
Minority interests	**(6)**	(6)
Profit for the financial year	**196**	116

b) Turbogás

On 4 November 2004, International Power completed the acquisition of a 75% shareholding in the Turbogás 990 MW CCGT power station in Portugal, for a consideration of €195 million. The results of Turbogás have been consolidated from this date using the acquisition method.

The details of the transaction and fair value adjustments arising from the change in ownership are shown below:

		Fair value adjustments		
	Book value £m	**UK GAAP and accounting policy alignment £m**	**Revaluations £m**	**Fair value to the Group £m**
Tangible fixed assets	328	(323)	–	5
Stocks	6	–	–	6
Debtors: amounts due within one year	13	11	(2)	22
Debtors: amounts due after more than one year	–	432	66	498
Cash at bank and in hand	21	–	–	21
Creditors: amounts falling due within one year	(35)	–	–	(35)
Creditors: amounts falling due after more than one year	(320)	–	–	(320)
Provisions for liabilities and charges	–	–	(27)	(27)
Total assets acquired	13	120	37	170
Minority shareholders' interests				(35)
Share of assets acquired				**135**

Satisfied by:	
Cash consideration	135
Cash at bank and in hand acquired	(21)
Net cash outflow to the Group	**114**

In the period from 4 November 2004 to 31 December 2004, Turbogás contributed £7 million to the Group's net operating cash flows, paid £2 million in respect of net returns on investments and servicing of finance and paid £1 million in respect of taxation.

Turbogás prepares its accounts under Portuguese GAAP. The fair value adjustments for the alignment of accounting policies reflect the adoption of Group accounting policies, principally in respect of changing the asset recognition of the power plant, which sells its output under a long-term PPA, from a tangible fixed asset to a finance lease debtor.

The revaluation adjustments are made to reflect the fair value of the net assets acquired and principally represent the revaluation of the finance lease debtor to fair value and the recognition of unprovided amounts in respect of tax liabilities. No goodwill arises on the acquisition.

In the year ended 31 December 2003 the unaudited profit after tax of Turbogás (based on its accounting policies prior to the acquisition) was £4 million. In the period from 1 January 2004 to 3 November 2004 Turbogás recorded profit after tax of £14 million. No minority interests were reflected in these Turbogás results.

27 NET DEBT

	1 January 2004 £m	Exchange differences £m	On acquisition of subsidiaries (excluding cash) £m	Other non-cash movements £m	Cash flow £m	31 December 2004 £m
Cash						
Cash at bank and in hand	**673**	(11)	–	–	(251)	**411**
Liquid resources						
Current asset investments	**70**	1	98	–	32	**201**
Debt financing						
Loans due within one year	**(531)**	34	(39)	466	(1)	**(71)**
Loans due after more than one year	**(704)**	(5)	(1,330)	(437)	(646)	**(3,122)**
Convertible bonds	**(200)**	13	–	(1)	30	**(158)**
Total debt financing	**(1,435)**	42	(1,369)	28	(617)	**(3,351)**
Total net debt	**(692)**	32	(1,271)	28	(836)	**(2,739)**

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. 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 (Derivatives and Other Financial Instruments), 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 2004 was:

	31 December 2004			31 December 2003		
Currency	**Total financial liabilities £m**	**Floating rate financial liabilities £m**	**Fixed rate financial liabilities £m**	Total financial liabilities £m	Floating rate financial liabilities £m	Fixed rate financial liabilities £m
Sterling	**542**	**22**	**520**	91	7	84
US dollar	**1,171**	**706**	**465**	767	128	639
Australian dollar	**1,330**	**638**	**692**	554	117	437
Euro	**424**	**388**	**36**	–	–	–
Czech koruna	**52**	**12**	**40**	46	9	37
Others	**15**	**1**	**14**	15	–	15
Total	**3,534**	**1,767**	**1,767**	1,473	261	1,212

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 £692 million of floating rate Australian dollar borrowings, £103 million of floating rate US dollar borrowings, £71 million of floating rate sterling borrowings, £40 million of floating rate Czech koruna borrowings and £36 million of floating rate Euro borrowings all at fixed rate in the above table.

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 following tables take into account interest rate and currency swaps used to manage the interest rate and currency profile of financial liabilities and financial assets.

Notes to the accounts continued

28 FINANCIAL INSTRUMENTS continued

b) Interest rate risk profile of financial liabilities continued

Currency	31 December 2004 Fixed rate financial liabilities Weighted average interest rate %	31 December 2004 Fixed rate financial liabilities Weighted average period for which rate is fixed Years	31 December 2003 Fixed rate financial liabilities Weighted average interest rate %	31 December 2003 Fixed rate financial liabilities Weighted average period for which rate is fixed Years
Sterling	**8.74**	**15**	7.09	5
US dollar	**5.82**	**11**	6.16	2
Australian dollar	**7.92**	**4**	8.01	6
Euro	**6.82**	**3**	–	–
Czech koruna	**3.98**	**2**	3.98	3
Others	**7.25**	**2**	7.25	3
Weighted average	**7.49**	**9**	6.84	4

c) Interest rate risk profile of financial assets

The Group had the following financial assets as at 31 December 2004:

Currency	31 December 2004 Total £m	31 December 2004 Floating rate financial assets £m	31 December 2004 Fixed rate financial assets £m	31 December 2003 Total £m	31 December 2003 Floating rate financial assets £m	31 December 2003 Fixed rate financial assets £m
Sterling	**246**	**246**	**–**	412	412	–
US dollar	**139**	**139**	**–**	147	147	–
Australian dollar	**208**	**198**	**10**	157	157	–
Euro	**578**	**104**	**474**	2	2	–
Czech koruna	**4**	**4**	**–**	21	21	–
Others	**18**	**18**	**–**	7	7	–
Total	**1,193**	**709**	**484**	746	746	–

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 £97 million are supported on a cash collateral basis at 31 December 2004.

The above table includes finance lease receivables which are analysed as follows:

	31 December 2004 Fixed rate financial assets Weighted average interest rate %	31 December 2004 Fixed rate financial assets Weighted average period for which rate is fixed Years	31 December 2003 Fixed rate financial assets Weighted average interest rate %	31 December 2003 Fixed rate financial assets Weighted average period for which rate is fixed Years
Australian dollar	**7.15**	**3**	–	–
Euro	**7.89**	**14**	–	–
Weighted average	**7.87**	**14**	–	–

d) Currency exposures

As explained on page 29 of the Operating and Financial Review, the Group's objective 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 2004 and 31 December 2003, 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 2004 £m	31 December 2003 £m
In one year or less, or on demand	**100**	531
In more than one year but not more than two years	**106**	97
In more than two years but not more than five years	**622**	249
In more than five years	**2,706**	596
Total	**3,534**	1,473

f) Borrowing facilities

The Group has substantial borrowing facilities available to it. The undrawn committed facilities available at 31 December 2004 in respect of which all conditions precedent have been met at that date amount to £700 million.

	31 December 2004			31 December 2003	
	Facility £m	Undrawn £m	Available £m	Undrawn £m	Available £m
US$450 million Corporate revolving credit facility (October 2006)[1]	**234**	**78**	**78**	129	129
US$50 million ANP Funding 1 revolving credit facility (May 2010)	**26**	**18**	**18**	50	–
US$40 million ANP Funding 1 bank support facility (cancelled)	**–**	**–**	**–**	22	–
Czk1,000 million EOP revolving credit facility (May 2007)	**23**	**20**	**20**	22	22
US$488 million Tihama term facility (December 2021)	**254**	**181**	**181**	–	–
AU$92 million Canunda facility (December 2014)	**38**	**12**	**12**	–	–
£30 million Corporate letter of credit facility[2]	**30**	**11**	**11**	1	1
£95 million subsidiary facilities in various currencies	**95**	**66**	**66**	7	3
Total	**700**	**386**	**386**	231	155

1. The drawn element of the US$450 million Corporate revolving credit facility relates to letters of credit issued.

2. These facilities include a £30 million letter of credit facility which becomes committed for any letters of credit that have been drawn. At 31 December 2004, £19 million of letters of credit had been drawn from this facility.

Uncommitted facilities available at 31 December 2004 were:

	31 December 2004			31 December 2003		
Facility	Total £m	Drawn £m	Undrawn £m	Total £m	Drawn £m	Undrawn £m
Bank borrowings and overdraft facilities	**22**	**–**	**22**	25	–	25
ANP Funding 1 working capital facility	**31**	**–**	**31**	–	–	–
£13 million subsidiary facilities in various currencies	**13**	**3**	**10**	5	–	5
	66	**3**	**63**	30	–	30

Bank borrowing facilities are normally reaffirmed by the banks annually although they can theoretically be withdrawn at any time.

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 2004.

	31 December 2004		31 December 2003	
Primary financial instruments held or issued to finance the Group's operations	Book value £m	Fair value £m	Book value £m	Fair value £m
Short-term borrowings and current portion of long-term borrowings	**(100)**	**(100)**	(531)	(531)
Long-term borrowings	**(3,434)**	**(3,465)**	(942)	(953)
Cash deposits and current asset investments	**1,193**	**1,193**	746	746

Notes to the accounts continued

28 FINANCIAL INSTRUMENTS continued

g) Fair values of financial assets and liabilities continued

Derivative financial instruments held to manage the interest rate, currency profile and exposure to energy prices	Book value £m	Fair value £m	Gain/ (loss) £m	Year ended 31 December 2004 Gross gain £m	Gross (loss) £m	Year ended 31 December 2003 Gross gain £m	Gross (loss) £m
Interest rate swaps and similar instruments	**–**	**(38)**	**(38)**	**–**	**(38)**	–	(38)
Energy derivatives	**–**	**16**	**16**	**90**	**(74)**	100	(63)

In addition to the above, the Group holds energy derivatives for trading purposes with a book value and fair value of £3 million (gross gain of £37 million, gross loss of £34 million).

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 page 29 of the Operating and Financial Review, 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 or expires. 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 2004	(38)	–	37	(1)
Gains and (losses) arising in previous years that were recognised in the year ended 31 December 2004	(15)	–	33	18
Gains and (losses) arising in previous years that were not recognised in the year ended 31 December 2004	(23)	–	4	(19)
Gains and (losses) arising in the year ended 31 December 2004 that were not recognised in the year	(15)	–	12	(3)
Unrecognised gains and (losses) on hedges at 31 December 2004	(38)	–	16	(22)
Of which:				
Gains and (losses) expected to be recognised in the year ended 31 December 2005	(2)	–	16	14
Gains and (losses) expected to be recognised in the year ended 31 December 2006 or later	(36)	–	–	(36)

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

29 COMMITMENTS

a) Lease and capital commitments

		Group		Company	
		31 December 2004 £m	31 December 2003 £m	**31 December 2004 £m**	31 December 2003 £m
Capital commitments: contracted but not provided		**182**	75	**–**	–
Property leases (annual commitment):	expiring within one year	**1**	1	**–**	–
	expiring between one and five years	**–**	–	**–**	–
	expiring after five years	**5**	5	**5**	5

b) Fuel purchase and transportation commitments

At 31 December 2004, the Group's subsidiaries had contractual commitments to purchase and/or transport coal and fuel oil. Based on contract provisions, which consist of fixed prices, subject to adjustment clauses in some cases, these minimum commitments are currently estimated to aggregate £107 million (2003: £117 million) expiring within one year, £195 million (2003: £90 million) expiring between one and five years and £98 million (2003: £89 million) expiring after more than five years.

30 CONTINGENT LIABILITIES AND CONTINGENT ASSETS

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.

RWE NPower has agreed to indemnify International Power 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 to the extent such liability is not insured by Electra Insurance Limited.

ii) In 1994 separate complaints were made by the National Association of Licensed Opencast Operators (NALOO) and the South Wales Small Miners Association (SWSMA) 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 and SWSMA allege that such a finding would be grounds for a claim for damages in the English courts by their respective members. Appeals against the Commission findings were brought by NALOO and SWSMA. The SWSMA appeal was initially ruled out of time, but on appeal a faction was allowed to proceed. Progress with this claim will be influenced by the outcome of the NALOO appeal. At first instance, the European Court ruled that the Commission is under an obligation to investigate the complaint by NALOO. The Company, PowerGen plc, British Coal Corporation and the Commission appealed against the ruling to the European Court of Justice which delivered a judgement on 2 October 2003 for the main part dismissing the appeal. In its judgement, the Court decided that the Commission has the power to investigate and the matter is now with the Commission for consideration. It is not practicable to estimate legal costs or possible damages at this stage. The Commission ruled on the complaint in 1998 and did not make any findings against the Company.

RWE NPower has agreed to indemnify International Power 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 or liquidity.

b) Taxation

The Company is aware of a number of issues which are, or may be, the subject of disputes with the tax authorities in the territories where the Group has operations. The Directors are of the opinion, having regard to the professional advice received, that adequate provision has been made for the settlement of any taxation liabilities that might arise.

c) Bonds and guarantees

Various growth and expansion projects are supported by bonds, letters of credit and guarantees issued by the Company totalling £459 million.

Energy trading activities relating to merchant plant are supported by letters of credit and guarantees totalling £111 million.

d) Rugeley compensation

The amount of compensation to be received by Rugeley, in respect of the termination of the tolling agreement with TXU Europe, has been agreed with the administrators of TXU Europe. Rugeley expects to receive compensation of between £73 million and £84 million. A first dividend distribution (estimated at £50 million) is anticipated at the end of March 2005, and the remainder later in 2005 and early 2006. The majority of this settlement will be used to repay project debt at Rugeley.

31 RELATED PARTY TRANSACTIONS

Operations and maintenance contracts

In the course of normal operations, the Group has contracted on an arms-length basis to provide power station operation and maintenance services to joint ventures and associated undertakings. During the year the Group derived income of £37 million (year ended 31 December 2003: £37 million) from these arrangements. Included in creditors is £7 million (2003: nil) in relation to these contracts.

32 POST BALANCE SHEET EVENTS

In February 2005, International Power completed the acquisition of a 40% shareholding in Uch, a 586 MW gas fired plant in Pakistan. The entire output from the plant is sold to WAPDA under a long-term PPA until 2023.

Notes to the accounts continued

33 DETAILS OF PRINCIPAL SUBSIDIARY UNDERTAKINGS, ASSOCIATES AND JOINT VENTURES

Subsidiary undertakings

Name and nature of business	Country of incorporation and registration	Type of share	Group effective shareholding
Gippsland Power Pty Limited (power generation) *	Australia	Ordinary Shares	70%
Hazelwood Power Partnership (power generation) *	Australia	Partners' Capital	92%
Latrobe Power Partnership (power generation) *	Australia	Partners' Capital	70%
Perth Power Partnership (power generation) *	Australia	Partners' Capital	49%
Synergen Power Pty Limited (power generation) *	Australia	Ordinary Shares	100%
Canunda Power Pty Limited *	Australia	Ordinary Shares	100%
Valley Power Pty Limited (power generation) *	Australia	Ordinary Shares	70%
International Power (Cayman) Limited (financing company)	Cayman Islands **	Ordinary Shares	100%
Elektrárny Opatovice AS (power generation) *	Czech Republic	Ordinary Shares	99%
Deeside Power Development Company Limited (power generation)	England and Wales	Ordinary Shares	100%
First Hydro Company (power generation) *	England and Wales	Ordinary Shares	70%
First Hydro Finance plc (financing company) *	England and Wales	Ordinary Shares	70%
IPM Eagle LLP (investment holding company) *	England and Wales	Partners' Capital	70%
Normanglade 4 LLP (financing company) *	England and Wales	Partners' Capital	70%
Pelican Point Power Limited (power generation) *	England and Wales ‡	Ordinary Shares	100%
Rugeley Power Limited (power generation)	England and Wales	Ordinary Shares	100%
IPR Insurance Company Limited (insurance captive) *	Guernsey	Ordinary Shares	100%
International Power (Jersey) Limited (financing company)	Jersey **	Ordinary Shares	100%
Al Kamil Power Company SAOG (power generation) *	Oman	Ordinary Shares	65%
Turbogás – Produtora Energetica S.A *	Portugal	Ordinary Shares	75%
Tihama Power Generation Company Limited (power generation) *	Saudi Arabia	Ordinary Shares	60%
Electro Metalúrgica del Ebro SL (power generation) *	Spain	Ordinary Shares	64%
Ibérica de Enérgías SL (power generation) *	Spain	Ordinary Shares	70%
Thai National Power Company Limited (power generation) *	Thailand	Ordinary Shares	100%
ANP Bellingham Energy Company, LLC (power generation) *	US	Ordinary Shares	100%
ANP Blackstone Energy Company, LLC (power generation) *	US	Ordinary Shares	100%
ANP Funding 1 LLC (financing company) *	US	Ordinary Shares	100%
Hays Energy Limited Partnership (power generation) *	US	Partners' Capital	100%
Midlothian Energy Limited Partnership (power generation) *	US	Partners' Capital	100%
Milford Power Limited Partnership (power generation) *	US	Partners' Capital	100%

All subsidiary undertakings operate in their country of incorporation, except as indicated below. All subsidiary undertakings have 31 December year ends. The Group also has a number of overseas branch offices.

* Held by an intermediate subsidiary undertaking

** Operates in the UK

‡ Operates in Australia

Associates

Name and nature of business	Country of incorporation, registration and operation	Accounting period end	Type of share	Group effective shareholding
Derwent Cogeneration Limited (power generation) *	England and Wales	31 March	Ordinary Shares	23%
PT Paiton Energy (power generation) *	Indonesia	31 December	Ordinary Shares	31%
ISAB Energy Srl (power generation) *	Italy	31 December	Ordinary Shares	34%
Malakoff Berhad (power generation) *	Malaysia	31 August	Ordinary Shares	18%
Kot Addu Power Company Limited (power generation) *	Pakistan	30 June	Ordinary Shares	36%
Uch Power Ltd	Pakistan	31 December	Ordinary Shares	40%
The Hub Power Company Limited (power generation) *	Pakistan	30 June	Ordinary Shares	17%
Carbopego – Abastecimento de Combustiveis, SA (fuel supplies) *	Portugal	31 December	Ordinary Shares	33%
Pegop-Energia Electrica, SA (power station operations) *	Portugal	31 December	Ordinary Shares	45%
Tejo Energia – Producao e Distribuicao de Energia Electrica, SA (power generation) *	Portugal	31 December	Ordinary Shares	45%
Uni-Mar Enerji Yatirimlari AS (power generation) *	Turkey	31 December	Ordinary Shares	33%
Arabian Power Company PJSC (power generation) *	UAE	31 December	Ordinary Shares	20%
Shuweihat CMS International Power Company PJSC (power generation) *	UAE	31 December	Ordinary Shares	20%

Joint ventures

Name and nature of business	Country of incorporation, registration and operation	Accounting period end	Type of share	Group effective shareholding
South East Australia Pty Limited (gas pipeline) *	Australia	30 June	Ordinary Shares	33%
EcoElectrica LP (power generation) *	Bermuda▲	31 December	Partners' Capital	35%
Pražská Teplárenská AS (power generation) *	Czech Republic	31 December	Ordinary Shares	49%
Hartwell Energy Limited Partnership (power generation) *	US	31 December	Partners' Capital	50%
Oyster Creek Limited Partnership (power generation) *	US	31 December	Partners' Capital	50%

International Power continues to equity account for Malakoff and The Hub Power Company, despite its shareholdings being less than 20%, as it continues to exert significant influence over both assets. At both HUBCO and Malakoff, International Power continues to have significant board representation.

* Held by an intermediate subsidiary undertaking

▲ Operates in Puerto Rico