Notes to the Company financial statements
For the year ended 31 December 2005
1 ACCOUNTING POLICIES

a) Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards, and under the historical cost accounting rules.

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements, except as noted below.

In these financial statements the following new standards have been adopted for the first time:

(i) FRS 20 (Share-based Payments);

(ii) FRS 21 (Events after the Balance Sheet Date);

(iii) FRS 23 (The Effects of Changes in Foreign Exchange Rates);

(iv) the presentation requirements of FRS 25 (Financial Instruments: Disclosure and Presentation);

(v) FRS 26 (Financial Instruments: Measurement);

(vi) FRS 28 (Corresponding Amounts).

The adoption of these new standards had no impact on the Company's profit or net assets with the exception of FRS 20 and FRS 21:

(i) FRS 20 resulted in the recognition of a share-based payments charge to the profit and loss account of £6 million in 2005 (2004: £1 million).

(ii) Under FRS 21, dividends declared after the balance sheet date are not accrued until such time as they are approved at the AGM. As a result, the dividends previously accrued for at 31 December 2004 in the prior year Company accounts has been adjusted to increase the net assets of the Company by £37 million in the 31 December 2004 comparatives.

The recognition and measurement requirements of FRS 17 (Retirement Benefits) have also been adopted, previously the transitional disclosures of that standard had been followed.

The accounting policies under these new standards are set out below. FRS 28 (Corresponding Amounts) has had no material effect as it imposes the same requirements for comparatives as hitherto required by the Companies Act 1985.

The corresponding amounts in these financial statements are restated in accordance with the new policies, other than those covered by the exceptions permitted by FRS 25 and FRS 26. FRS 25 and FRS 26 permits the corresponding amounts not to be restated and the Company has adopted this approach.

Under section 230(4) of the Companies Act 1985 the Company is exempt from the requirement to present its own profit and loss account.

As the results of the Company are being presented together with its consolidated financial statements (refer to pages 79 to 131), the Company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the Group (or investees of the Group qualifying as related parties).

b) Income recognition

Dividend income from subsidiary undertakings is recognised in the profit and loss account on receipt of the cash.

c) Pension schemes

The Company operates a pension scheme (by participating in the International Power section of the Electricity Supply Pension Scheme) providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the Company.

Pension scheme assets are measured using market values. Pension scheme liabilities are measured using a projected unit credit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability.

The pension scheme surplus (to the extent that it is recoverable) or deficit is recognised in full. The movement in the scheme surplus/deficit is split between operating charges, finance items and, in the statement of total recognised gains and losses, actuarial gains and losses.

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

d) Tangible fixed assets

Tangible fixed assets are stated at original cost less accumulated depreciation and any provision for impairment in value.

Depreciation is calculated so as to write-down the cost of tangible fixed assets to their residual value evenly over their estimated useful lives.

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

	Years
Fixtures, fittings, tools and equipment	3-10
Computer equipment and software	3-5
Leasehold improvements	Life of lease

e) Fixed asset investments

Investments in subsidiary undertakings are stated at cost less provision for impairment.

f) 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.

g) Derivative financial instruments (for year ended 31 December 2005)

The Company has applied the accounting requirements of FRS 25 and FRS 26 prospectively with effect from 1 January 2005. Loans and receivables and long-term loans payable are held at amortised cost.

h) Financial guarantees

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the Company considers these to be insurance arrangements, and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

i) Share-based payments

The Company issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the date of grant of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of the shares that will eventually vest and where applicable, adjusted for the effect of non market-based vesting conditions.

Fair value is measured using the Black-Scholes pricing model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, any exercise restrictions and behavioural considerations.

j) Foreign currencies

Foreign currency monetary assets and liabilities are translated at the rate of exchange at the balance sheet date. Foreign currency non-monetary items measured in terms of historical cost are translated at the rate of exchange at the date of the transaction. Exchange differences on monetary items are dealt with in the profit and loss account. Exchange differences on non-monetary items are recognised in line with whether the gain or loss on the non-monetary item itself is recognised in the profit and loss account or in equity.

2 PROFIT OF THE PARENT COMPANY

The profit of the parent company for the financial year amounted to £21 million (2004: £84 million). By virtue of Section 230(4) of the Companies Act 1985, the Company is exempt from presenting a separate profit and loss account.

3 EMPLOYEES

The average number of persons employed by the Company (including Directors) during the year, analysed by category, was as follows:

	Year ended 31 December 2005 Number	Year ended 31 December 2004 Number
UK business	**162**	148
International business	**34**	20
	196	168

The aggregate payroll costs of these persons were as follows:

	Year ended 31 December 2005 £m	Year ended 31 December 2004 £m
Wages and salaries	**21**	14
Share-based payments	**6**	1
Social security costs	**6**	1
Other pension costs	**4**	4
	37	20

For details of the Company's share-based payments, refer to note 28 of the Group accounts.

4 PENSION ARRANGEMENTS

The valuation used for the FRS 17 disclosure at 31 December 2005 has been based on a full assessment of the liabilities of the International Power section of the Electricity Supply Pension Scheme at 31 March 2004.

The major assumptions used by the actuary were:

	Year ended 31 December 2005 %	Year ended 31 December 2004 %	Year ended 31 December 2003 %
Inflation assumption	**2.9**	2.9	2.8
Rate of increase in salaries	**4.4**	4.4	4.3
Rate of increase of pensions in payment	**2.9**	3.0	2.9
Rate of increase of deferred pensions	**2.9**	3.0	2.9
Rate used to discount plan liabilities	**4.7**	5.3	5.4

The assets in the scheme and the expected rates of return were:

	31 December 2005		31 December 2004		31 December 2003	
	Long-term rate of return %	**Value £m**	Long-term rate of return %	Value £m	Long-term rate of return %	Value £m
Equities	**7.1**	**60**	7.5	44	7.8	36
Bonds	**4.6**	**7**	5.0	5	5.1	5
Other	**6.0**	**7**	6.2	6	6.6	4
Total market value of assets		**74**		55		45
Present value of scheme liabilities		**(92)**		(67)		(58)
Deficit in scheme		**(18)**		(12)		(13)
Related deferred tax asset		**5**		4		4
Net pension liability		**(13)**		(8)		(9)

Analysis of amounts charged to operating profit under FRS 17:

	Year ended 31 December 2005 £m	Year ended 31 December 2004 £m
Current service cost	**4**	3
Settlement/curtailment cost	**–**	1
Total operating cost	**4**	4

Analysis of amounts credited to other finance income under FRS 17:

	Year ended 31 December 2005 £m	Year ended 31 December 2004 £m
Expected return on pension plan assets	**4**	3
Interest on pension plan liabilities	**(4)**	(3)
Net return	**–**	–

Analysis of amount recognised in statement of total recognised gains and losses under FRS 17:

	2005 £m	2004 £m
Actual return less expected return on pension scheme assets	**9**	3
Experience (losses)/gains arising on the scheme liabilities	**(6)**	4
Changes in assumptions underlying the present value of the scheme liabilities	**(9)**	(7)
Actuarial loss recognised in statement of total recognised gains and losses	**(6)**	–

Analysis of movement in deficit during the year

	2005 £m	2004 £m
Deficit in scheme at 1 January	**(12)**	(13)
Current service cost	**(4)**	(3)
Settlement/curtailment cost	**–**	(1)
Contributions	**4**	5
Actuarial loss	**(6)**	–
Deficit in scheme at 31 December	**(18)**	(12)

History of experience gains and losses

	2005	2004	2003
Difference between the actual and expected return on pension scheme assets:			
Amount (£m)	**9**	3	4
Percentage of scheme assets	**12%**	5%	9%
Experience (losses)/gains arising on the scheme liabilities:			
Amount (£m)	**(6)**	4	–
Percentage of the present value of scheme liabilities	**7%**	6%	–
Total amount recognised in statement of total recognised gains and losses:			
Amount (£m)	**(6)**	–	4
Percentage of the present value of scheme liabilities	**7%**	–	7%

Reconciliation to balance sheet under FRS 17:

	31 December 2005 £m	31 December 2004 £m
Total market value of assets	**74**	55
Scheme liabilities	**(92)**	(67)
Deficit in scheme	**(18)**	(12)

NOTES TO THE COMPANY BALANCE SHEET continued

5 TANGIBLE FIXED ASSETS

	Freehold land and buildings £m	Plant, machinery and equipment £m	Total £m
Cost			
At 1 January 2005	2	6	8
Additions	–	1	1
At 31 December 2005	**2**	**7**	**9**
Depreciation and diminution in value			
At 1 January 2005	1	5	6
Provided during the year	–	1	1
At 31 December 2005	**1**	**6**	**7**
Net book value			
At 31 December 2005	**1**	**1**	**2**
At 31 December 2004	1	1	2

6 FIXED ASSET INVESTMENTS

	Subsidiary undertakings			
	Investment £m	Loans investments £m	Other £m	Total £m
At 1 January 2005	2,637	577	2	3,216
Additions	173	175	–	348
Capitalisation of loan due from subsidiary undertakings	69	(69)	–	–
Distribution and loan repayments	(392)	(187)	–	(579)
Disposals	–	–	(1)	(1)
Impairment loss reversed	40	15	–	55
Exchange differences	42	(15)	–	27
At 31 December 2005	**2,569**	**496**	**1**	**3,066**

Details of the principal subsidiary undertakings, associates and joint ventures are provided in notes 39 and 40 of the Group accounts.

7 DEBTORS

	31 December 2005 £m	31 December 2004 £m
Amounts falling due within one year:		
Due from subsidiary undertakings	**275**	111
Other debtors	**25**	73
Corporation tax	**38**	–
Prepayments and accrued income	**5**	2
Total amounts falling due within one year	**343**	186

8 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	31 December 2005 £m	31 December 2004 (restated) £m
Trade creditors	**2**	5
Amounts due to subsidiary undertakings	**1,286**	1,448
Other creditors	**15**	14
Other taxation and social security	**1**	1
Bank loans	**64**	–
Corporation tax	**–**	15
Accruals and deferred income	**47**	50
Total creditors: amounts falling due within one year	**1,415**	1,533

9 PROVISIONS

	Retirement benefit obligations (restated) £m	**Deferred tax (restated) £m**	**Rationalisation and restructuring £m**	**Total (restated) £m**
At 1 January 2005	12	24	7	43
Charged to profit and loss	–	–	6	6
Credited to profit and loss	–	–	(2)	(2)
Charged/(credited) to reserves	6	(2)	–	4
At 31 December 2005	**18**	**22**	**11**	**51**

10 SHARE CAPITAL

	Authorised Ordinary Shares of 50p		**Issued and fully paid Ordinary Shares of 50p**	
	Number	**£m**	**Number**	**£m**
At 1 January 2005	2,266,000,000	1,133	1,473,269,066	737
Issue of shares under the Sharesave Scheme	–	–	858,892	–
Issue of shares under Executive Share Option Scheme	–	–	608,679	–
At 31 December 2005	**2,266,000,000**	**1,133**	**1,474,736,637**	**737**

	Authorised Ordinary Shares of 50p		Issued and fully paid Ordinary Shares of 50p	
	Number	£m	Number	£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 82 pence 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.

Ordinary Shares
Ordinary Shares rank equally between each other with regard to the right to receive dividends and also in a distribution of assets on the winding up of the Company.

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 COMPANY BALANCE SHEET continued

11 SHARE CAPITAL AND RESERVES

	Attributable to equity holders of the parent					
	Called up 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 2005	737	392	145	415	289	**1,978**
Prior year adjustments	–	–	–	–	32	**32**
At 1 January 2005 (restated)	737	392	145	415	321	**2,010**
Profit for the year	–	–	–	–	21	**21**
Issue of shares	–	2	–	–	–	**2**
Dividends	–	–	–	–	(37)	**(37)**
Other movements	–	–	–	–	2	**2**
At 31 December 2005	**737**	**394**	**145**	**415**	**307**	**1,998**

As stated in note 1, changes in UK GAAP have occurred and these are reflected in the above table as prior year adjustments. The adoption of FRS 20 relating to share-based payments resulted in the recognition of £3 million as an addition to shareholders' funds. In addition, the application of FRS 21 resulted in the 2004 dividends declared not paid of £37 million being added to shareholders' funds. The remaining prior year adjustment of £8 million reflects the adoption of FRS 17 (Retirement Benefits) and is a reduction in shareholders' funds.

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

The application of FRS 20 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 the Company's 2002 Performance Share Plan and the Bonus Share Retention Plan. At 31 December 2005, the ESOTs held a total of 2,081,573 International Power plc Ordinary Shares (2004: 3,398,444). At 31 December 2005 the market value of these shares was £4,985,367 (2004: £5,191,123). The maximum number of shares required to meet all outstanding awards (assuming full vesting of those awards) at 31 December 2005 was 7,522,005 (2004: 7,772,077).

£124 million (2004: £124 million) of the Company's profit and loss reserve is not distributable as it arose from unrealised gains on intra-group transfers.

12 COMMITMENTS

Lease and capital commitments	**Year ended 31 December 2005 £m**	Year ended 31 December 2004 £m
Property leases (annual commitment):		
Expiring within one year	**–**	–
Expiring between one and five years	**–**	–
Expiring after five years	**5**	5

13 CONTINGENT LIABILITIES

a) Taxation

The Company is aware of a number of issues which are, or may be, the subject of disputes with the tax authorities. 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.

b) Bonds and guarantees

Various growth and expansion projects are supported by bonds, letters of credit and guarantees issued by the Company totalling £448 million. Energy trading activities relating to merchant plant are supported by letters of credit and guarantees issued by the Company totalling £169 million.

14 RELATED PARTY DISCLOSURES

The Company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the Group.