

35 CONTINGENT LIABILITIES

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 plc 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. The Commission ruled on the complaint in 1998 and did not make any findings against the Group. Appeals against the Commission's 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 judgment on 2 October 2003 for the main part dismissing the appeal. In its judgment, 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. 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 remote 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, including its joint ventures and associates. The Directors are of the opinion, having regard to the professional advice received, that adequate provision has been made for the settlement of any tax 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 Group totalling £609 million. Energy trading activities relating to merchant plant are supported by letters of credit and guarantees issued by the Group totalling £193 million.

d) Joint ventures and associates

(i) Legal proceedings

Uch Power Limited (UPL), located in Pakistan, in which International Power has a 40% share, is party to a gas supply agreement (GSA) with the Oil & Gas Development Authority (OGDCL). At 31 December 2005 there were unresolved disputes between UPL and OGDCL in regards to amounts owed to UPL by OGDCL and amounts owed to OGDCL by UPL. These disputes relate to issues in 2002 and 2003 around events of force majeure claimed by OGDCL and other issues around OGDCL's failure to deliver gas in accordance with the terms and conditions of the GSA. The Group's share of the amounts subject to dispute at 31 December 2005 are amounts receivable of £14 million and amounts payable of £16 million. There is no recourse to International Power plc, under this claim.

(ii) Bonds and guarantees

The Group's joint ventures and associates also have various growth and expansion projects that are supported by bonds, letters of credit and guarantees. The Group's share of these bonds, letters of credit and guarantees amount to £53 million. These obligations are normally secured by the assets of the respective joint venture or associate. Any amounts guaranteed by International Power plc or any other Group subsidiary are included within bonds and guarantees disclosed in note 35(c).

36 RELATED PARTY TRANSACTIONS

The key management personnel of International Power plc comprises the Chairman, Executive Directors and Non-Executive Directors. The compensation of key management personnel can be found in the Directors' remuneration report set out on pages 64 to 75 of the *Annual Report*.

(i) Operations and maintenance contracts

In the course of normal operations, the Group has contracted on an arm's length basis to provide power station operation and maintenance services to joint ventures and associates. During the year the Group derived income of £69 million (2004: £37 million) from these arrangements. Included in trade receivables is £6 million (2004: £7 million) in relation to these contracts.

(ii) Retail supply contracts

In the course of normal operations, the Group has contracted on an arm's length basis to provide power and gas to its retail joint ventures. During the year the Group derived income of £8 million (2004: £nil) from these arrangements. Included in trade receivables is £1 million (2004: £nil) in relation to these contracts.

(iii) Transportation contracts

In the course of normal operations, the Group has contracts in place, in relation to fuel transportation, with one of its joint ventures. During the year, the Group incurred costs of £8 million (2004: £8 million) in relation to these contracts. There was no trade payable or receivable in relation to these contracts at 31 December 2005.

(iv) Other contracts

Mitsui & Co. of Japan (Mitsui) is, pursuant to the terms of the UK Listing Rules, a related party of the Company due to its interest in Saltend and the assets acquired from EME. In 2005, TNP, a wholly owned subsidiary of the Company, entered into a contract with a company in the same group as Mitsui, relating to the supply of material for the 23 MW extension of its 120 MW plant. The capital cost of this contract is JPY1,039 million (£5.1million). This contract was entered into after a competitive tendering process.

37 EVENTS AFTER THE BALANCE SHEET DATE

In January 2006 International Power signed an agreement to acquire 40% of the Hidd independent power and water project in Bahrain. Completion is expected to take place in July 2006.

Also in January 2006 Rugeley Power Limited received a further £15 million in respect of our claim for compensation for the termination of the TXU tolling agreement in November 2002.

38 EVENTS SUBSEQUENT TO THE DATE OF THE AUDITOR'S REPORT

There are no events to report subsequent to the date of the auditor's report.

39 SUBSIDIARIES

The Group has the following significant investments in subsidiaries.

Name and nature of business	Country of incorporation and registration	Type of share	Group effective shareholding
Canunda Power Pty Limited* (power generation)	Australia	Ordinary Shares	100%
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%
International Power Opatovice A.S.* (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%
Saltend Cogeneration Company Limited* (power generation)	England and Wales	Ordinary Shares	70%
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 Enérgica S.A* (power generation)	Portugal	Ordinary Shares	60%
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 I, 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 subsidiaries operate in their country of incorporation, except as indicated below. All subsidiaries have a 31 December year end. The Group also has a number of overseas branch offices.

* Held by an intermediate subsidiary

** Operates in the UK

† Operates in Australia