

### 31 Acquisitions and disposals

#### a) Simply Energy

On 7 July 2005, iPower Pty Limited, a wholly-owned subsidiary of International Power plc, completed a retail energy partnership agreement with EnergyAustralia. The consideration was £27 million for a 50% share of the partnership. The retail energy partnership sells electricity and gas to retail customers in Victoria and South Australia. In the Group accounts, the retail partnership was accounted for as a jointly controlled entity and its results were accounted for under the equity method with effect from 7 July 2005.

On 16 August 2007, the Group completed the acquisition of the remaining 50% of the EnergyAustralia and International Power Australia retail energy partnership, through its subsidiary IP Retail Pty Limited, for £56 million. Following the completion of this transaction the business was renamed Simply Energy. The results of Simply Energy have been consolidated as a subsidiary from this date using the acquisition method.

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

	Acquiree's carrying amount £m	Fair value adjustments £m	Fair value to the Group £m
Other intangible assets	6	(6)	–
Trade receivables	19	–	19
Other receivables	1	–	1
Prepayments and accrued income	35	–	35
Derivative financial assets	40	–	40
Cash and cash equivalents	4	–	4
Bank loans	(25)	–	(25)
Trade payables	(27)	–	(27)
Other payables	(2)	–	(2)
Deferred tax	(20)	7	(13)
Provisions	–	(17)	(17)
<b>Net assets acquired</b>	<b>31</b>	<b>(16)</b>	<b>15</b>
Goodwill arising on acquisition			71
<b>Fair value of net assets acquired and goodwill</b>			<b>86</b>

#### Components of cost of acquisition

Consideration for initial 50% shareholding in July 2005	27
Consideration for remaining 50% shareholding	56
Total cost of acquisition	83
Earnings under equity method of initial 50% shareholding (while Simply Energy was a jointly controlled entity)	11
Revaluation deficit on step acquisition	(8)
<b>Fair value of net assets acquired and goodwill</b>	<b>86</b>
Consideration for remaining 50% shareholding	56
Cash and cash equivalents acquired	(4)
<b>Net cash outflow to the Group</b>	<b>52</b>

In the period from 17 August 2007 to 31 December 2007, Simply Energy contributed £88 million of revenue and £2 million to the Group's profit from operations (both excluding exceptional items and specific IAS 39 mark to market movements). Including exceptional items and specific IAS 39 mark to market movements, it contributed to the Group £85 million of revenue and incurred a loss from operations of £3 million.

It also contributed £14 million to the Group's net operating cash flows and paid £1 million in respect of net interest and £nil in respect of tax.

The fair value adjustments are made to reflect the fair value of the net assets acquired and principally represent the recognition of the fair value of non-contractual customer relationships included by the acquiree as intangible assets, the recognition of provisions for unprovided amounts in respect of onerous customer contracts, and the associated deferred tax on the temporary timing difference created by the fair value adjustments.

Goodwill acquired in a business combination represents a payment made by the acquirer in anticipation of future economic benefits from assets that are not capable of being individually identified and separately recognised. In the case of Simply Energy, goodwill is generated by non-contractual customer relationships and synergies existing within the acquired business, such as the value of the assembled workforce. Synergies expected to be achieved as a result of combining Simply Energy with the International Power Group also contribute to goodwill.

Goodwill is recognised on the acquisition of Simply Energy as a result of the continuing recognition of goodwill previously recognised in July 2005 on the acquisition of the initial 50% interest in the jointly controlled entity. Further goodwill arises on consolidation following the acquisition in August 2007.

The revaluation deficit comprises the adjustment to the fair values in August 2007 of customer relationships and customer contracts which were treated as 'own use' in accounting for the initial 50% interest in the retail partnership under the equity method.

It is impracticable to state what the impact would have been on Group revenue and profit for the year had the acquisition been completed on 1 January 2007 due to the difficulty in ascertaining the valuation of assets and liabilities at that time.

## b) Maestrale

On 31 August 2007 International Power plc, through wholly owned subsidiaries, completed the acquisition of the 636 MW Maestrale wind farm portfolio which comprised 581 MW in operation and 55 MW under construction. Maestrale was acquired from private investors connected with the Matrix Group and CJS Capital Partners Limited. The wind farm portfolio is located onshore in Germany and, predominantly, in southern Italy. The results of Maestrale have been consolidated as a subsidiary from 31 August 2007 using the acquisition method.

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

	Acquiree's carrying amount £m	Fair value adjustments £m	Fair value to the Group £m
Other intangible assets	–	64	64
Property, plant and equipment	343	675	1,018
Finance lease receivable	75	22	97
Inventory	11	–	11
Trade receivables	20	–	20
Other receivables	124	–	124
Derivative financial assets	4	–	4
Cash and cash equivalents	44	–	44
Bank loans	(41)	–	(41)
Trade payables	(20)	–	(20)
Other payables	(8)	–	(8)
Accruals	(56)	–	(56)
Current tax liabilities	(18)	–	(18)
Bank loans	(652)	–	(652)
Deferred tax	(65)	(283)	(348)
Provisions	(3)	–	(3)
<b>Net assets acquired</b>	<b>(242)</b>	<b>478</b>	<b>236</b>
Minority interests in net assets acquired			(1)
Goodwill arising on acquisition			360
<b>Group's share of net assets acquired and goodwill</b>			<b>595</b>
Satisfied by:			
Cash consideration paid (including £2 million acquisition costs)			595
Cash and cash equivalents acquired			(44)
<b>Net cash outflow to the Group</b>			<b>551</b>

**31 Acquisitions and disposals** continued

In the period from 1 September 2007 to 31 December 2007, Maestrale contributed £40 million of revenue and £9 million to the Group's profit from operations (both including and excluding exceptional items and specific IAS 39 mark to market movements). It also contributed £22 million to the Group's net operating cash flows and paid £18 million in respect of net interest and £4 million in respect of tax.

The fair value adjustments are made to reflect the fair value of the net assets acquired. These principally represent the recognition of intangible assets consisting of contract-based intangibles and the value of green certificates held at the date of acquisition, the recognition of operating plant and assets under construction as well as finance leases at fair value. Deferred tax is also recognised for the temporary timing difference created by the fair value adjustments.

Goodwill arises on the acquisition of the Maestrale wind farm portfolio as a result of value, attributed to future cash flows associated with the expected repowering of the assets and the resulting life extension of the tariff regimes, in excess of the amount that can be attributed to property, plant and equipment.

Due to the proximity of the acquisition to the year end, the complexity of the business and the number of entities acquired, the fair values attributed to the acquired assets and liabilities are provisional and may be revised. Similarly for the same reasons, it is impracticable to state what the impact would have been on Group revenue and profit for the year had the acquisition been completed on 1 January 2007 due to the difficulty in ascertaining the valuation of assets and liabilities at that time.

**c) Other acquisitions and disposals****New partnership with Mitsui**

On 20 June 2007, International Power completed the formation of a new partnership with Mitsui & Co., Ltd (Mitsui). The partnership created a common ownership platform for the UK assets, (excluding Derwent), held 75% International Power and 25% Mitsui, and equalised the returns from Paiton, Indonesia. This follows the Extraordinary General Meeting on 15 June 2007, when shareholders voted in favour of the transaction.

As part of this agreement, International Power sold a 25% equity interest in Deeside, Rugeley and Indian Queens to Mitsui and acquired an additional 5% equity interest in First Hydro and Saltend. Mitsui provided a £200 million credit facility to support trading activities of the UK assets. International Power also acquired the right to additional returns from Paiton equivalent to 9.2% of Paiton's earnings and cash distributions.

The sale and purchase of the interests in the UK assets and Paiton resulted in a net cash payment of £106 million to International Power. Gross proceeds of £168 million and a profit on disposal of £174 million were recorded on the partial disposal of Deeside, Rugeley and Indian Queens.

**Acquisition of other European wind farms**

During 2007 International Power also acquired 100% of the voting equity instruments or partners' capital of the following businesses:

- In July 2007 a 16 MW operational wind farm, located at Delfzijl-Zuid in the Netherlands;
- In September 2007 the 28 MW Schkortleben operational wind farm, located in Germany, from e.n.o. energy;
- In December 2007 a 15 MW operational wind farm, located at Delfzijl-Zuid in the Netherlands;
- In December 2007 the 20 MW Karstaedt operational wind farm, located in Germany.

Total consideration for all acquisitions amounted to £50 million. Consideration of £2 million remains unpaid at the year end.

**d) Acquisition of subsidiaries net of cash and cash equivalents acquired**

In addition to the net cash outflow to the Group of £52 million relating to the acquisition of Simply Energy and the net cash outflow of £551 million relating to the acquisition of Maestrale, net cash outflows of £46 million arose on the acquisition of the other European wind farms and £129 million relating to the purchase of an additional 5% equity interest in First Hydro and Saltend, and rights to additional returns from Paiton. This results in a total net cash outflow to the Group of £778 million (2006: £650 million).

**e) Fair value hindsight adjustments – acquisitions during 2006**

The fair values of certain assets and liabilities associated with the purchase of the Levanto portfolio of onshore wind farms, predominantly located in France and Germany, which took place in November 2006 have been revised. This follows the conclusion of an independent third party fair valuation exercise commissioned during 2007. As a result of the finalisation of the valuation, the following changes have been made to the acquired assets and liabilities. Property, plant and equipment of €20 million, intangible assets of €22 million and receivables of €4 million have been recognised. The fair values of finance lease receivables have been reduced from €419 million to €395 million and loan and bond creditors have increased from €414 million to €427 million. Corresponding deferred tax adjustments have also been applied to these changes in fair values.