8 Exceptional items and specific IAS 39 mark to market movements

In accordance with the basis of preparation outlined in note 1, the Group separately presents exceptional items and specific IAS 39 mark to market movements to allow a better understanding of the financial information presented, and specifically the Group's underlying business performance.

Those items that the Group separately present as exceptional are items which, in the judgement of the Directors, need to be disclosed separately by virtue of their size or incidence in order to obtain a proper understanding of the financial information.

The Group enters into derivative contracts to economically hedge certain of its physical and financial exposures. Where these contracts do not achieve own use treatment, hedge accounting or wholly effective hedge effectiveness under IAS 39, the Group separately presents the mark to market movements on these contracts, recorded within the income statement to allow an understanding of underlying business performance.

Mark to market movements on convertible bonds, where the conversion option, if exercised, will ultimately be extinguished by the issue of equity are also separately presented to allow an understanding of the underlying business performance.

	Year ended 31 December 2007 £m	Year ended 31 December 2006 £m
Mark to market movements	**(387)**	132
Amounts recognised in revenue	**(387)**	132
Impairment of Saltend gas contract	**(47)**	–
Impairment reversal of Deeside plant	**–**	36
Mark to market movements	**45**	(68)
Amounts recognised in cost of sales	**(2)**	(32)
Compensation in respect of the tolling agreement with TXU	**–**	14
Compensation in respect of breach of contract	**–**	5
Amounts recognised in other operating income	**–**	19
Provision against investment in BioX	**(9)**	–
Amounts recognised in other operating expenses	**(9)**	–
Mark to market movements	**12**	6
Amounts recognised in share of results of joint ventures and associates	**12**	6
Disposal of investment in Malakoff	**115**	–
Partial disposal of UK subsidiaries	**174**	–
Amounts recognised in disposal of interests in businesses	**289**	–
Mark to market movements	**(16)**	(26)
Amounts recognised in finance expenses	**(16)**	(26)
Taxation on impairment of Saltend gas contract	**14**	–
Remeasurement of deferred tax assets and liabilities associated with acquisition of Maestrale	**49**	–
Taxation on Deeside plant impairment reversal	**–**	(11)
Taxation on compensation in respect of the tolling agreement with TXU	**–**	(4)
Taxation on mark to market movements	**96**	(10)
Exceptional taxation and taxation on exceptional items and specific IAS 39 mark to market movements	**159**	(25)
Total exceptional items and specific IAS 39 mark to market movements after attributable taxation	**46**	74

8 Exceptional items and specific IAS 39 mark to market movements continued

At 31 December 2007, the intangible asset relating to the unamortised fair value of the gas supply agreement, acquired with Saltend in 2005, was impaired following a reduction in the gas forward price curve. A charge of £47 million and associated tax credit of £14 million are classified as exceptional items.

On 30 June 2007 the Group made a full provision against its investment in BioX due to increases in palm oil prices.

On 30 April 2007 the Group completed the sale of its interests in the Malakoff wholesale power generation business to MMC Corporation resulting in a profit on disposal of £115 million (refer to note 24).

On 20 June 2007 the Group 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, and equalised returns from Paiton. A profit on disposal of £174 million was recorded on the partial disposal of Deeside, Rugeley and Indian Queens (refer to note 31).

On 28 December 2007 a change in the standard rate of Italian corporation tax from 37.5% to 31.4%, effective from 1 January 2008, was approved by the Italian government. Consequently all relevant deferred tax assets and liabilities as at 31 December 2007 have been remeasured at 31.4%. The resulting net credit of £49 million relating to reducing the net deferred tax liabilities of the Maestrale acquisition has been presented as an exceptional item due to its magnitude and proximity of the date of change in standard rate of tax to the date of acquisition.

At the end of 2006 the Group carried out a review of the recoverable amount of its Deeside power plant based on its estimated value in use. This led to the full impairment reversal of the remaining £36 million impairment charge previously booked against this asset. A tax charge of £11 million was recorded on this item.

In the year ended 31 December 2006, Rugeley Power received further payments from TXU Administrators amounting to £16 million. An exceptional gain of £14 million was recorded, net of payments to creditors. A tax charge of £4 million was recorded on this item.

In June 2006 the Group received a settlement of £10 million following the conclusion of an international arbitration action under ICC rules for breach of contract entered into in 2000 to transfer operating rights over three power plants in Turkey. An exceptional gain of £5 million was recorded, net of cost recoveries.

Specific IAS 39 mark to market movements are separately identified within the preceding table described as 'mark to market movements'. For the year ended 31 December 2007 the impact of these adjustments on profit before tax is a loss of £346 million and on tax expense a credit of £96 million. For the year ended 31 December 2006 the impact of these adjustments on profit before tax is a profit of £44 million and on tax expense a charge of £10 million.

The mark to market movements recognised within finance expenses includes a charge of £17 million in respect of the fair value gains and losses on the 3.25% convertible euro bonds 2013. (Year ended 31 December 2006 is a charge of £28 million).