International Power plc

Interim Report for the six months ended 30 June 2010

(London – 10 August 2010) International Power today announces its results for the six months ended 30 June 2010 and reports on key developments to date.

Sir Neville Simms, Chairman of International Power, said: "I am pleased to report that the business has performed well during the first half of the year. Underlying EPS* after adjusting for the sale of the Czech business is up 7% driven by good operational performance across the portfolio and a significantly improved contribution from Rugeley. The Board is pleased to announce an interim dividend of 4.39 pence. Overall the business continues to perform in line with our expectations, is generating good free cash flow and our financial position remains strong."

Financial highlights - excluding exceptional items and specific IAS 39 mark to market movements*

- Profit from operations of £524 million (2009: £550 million) – down 5% (down 9% at constant currency)
- EPS of 14.1 pence (2009: 15.4 pence) – down 8% (down 14% at constant currency)
- After adjusting for the sale of the Czech business, underlying profit from operations at constant currency is up 2% and underlying EPS at constant currency is up 7%
- Free cash flow** of £398 million (2009: £326 million) – up 22%
- Interim dividend of 4.39 pence per share (2009: 4.25 pence) – up 3%
- Issued €250 million senior unsecured notes, due 2017
- Net debt at £4,835 million (31 December 2009: £5,059 million) – down 4%

Profit from operations*

	Six months ended 30 June		Year ended 31 December
	2010	**2009 (restated)**	**2009 (restated)**
	£m	£m	£m
North America	49	58	134
Europe	265	299	647
Middle East	49	41	85
Australia	133	120	233
Asia	53	54	101
Regional total	**549**	**572**	**1,200**
Corporate costs	(25)	(22)	(52)
Profit from operations	**524**	**550**	**1,148**

Financial highlights - including exceptional items and specific IAS 39 mark to market movements

- Profit from operations of £443 million (2009: £799 million)
- EPS of 13.1 pence (2009: 25.9 pence)

Notes:

* Excluding exceptional items and specific IAS 39 mark to market movements. For analysis and explanation of exceptional items and specific IAS 39 mark to market movements, please see notes 1 and 4 to the interim financial statements.

** Free cash flow is set out in the consolidated statement of cash flows on pages 17 and 18.

All reference to financial performance in this commentary excludes the impact of exceptional items and specific IAS 39 mark to market movements (unless stated otherwise).

Following the Group's adoption of IFRIC 12 – Service Concession Arrangements, following its endorsement by the European Union, the comparatives for the six months ended 30 June 2009 and the year ended 31 December 2009 have been restated. The results for the six months ended 30 June 2009 have also been restated for the change in accounting policy relating to retirement benefit obligations, which was reflected in the Group's consolidated financial statements for the year ended 31 December 2009 (refer to notes 1 and 5).

North America

Profit from operations in North America decreased 16% to £49 million compared to £58 million for the same period last year (down 14% at constant currency). The reduction in profit from operations was primarily due to a major planned outage and a lower write back of fair value provisions at Coleto Creek. Our peaking plants delivered an improved contribution reflecting higher capacity payments, and the wind assets in Canada, which were acquired in October 2009, made a first-time contribution. Our contracted assets in the region, EcoEléctrica and Oyster Creek, operated well and delivered a good financial performance.

In ERCOT, market conditions remain weak. The South Zone, where our Hays plant is located, experienced reduced congestion and lower pricing following some capacity additions. Consequently, the achieved spark spread at Hays was down at US$10/MWh (H1 2009: US$13/MWh), at a load factor of 30% (H1 2009: 55%). Midlothian achieved a spark spread of US$8/MWh, down from US$11/MWh in the first half of 2009, and a load factor of 20% compared to 30% for the same period last year. For the full year, we expect Hays to run at a load factor of 35% and Midlothian at 25%. We have forward contracted 60% of the expected output of these plants for 2010. A planned reduction in operating costs should help offset some of the fall in the 2010 expected spark spreads at Hays and Midlothian.

In New England, Bellingham and Blackstone achieved a spark spread of US$28/MWh (H1 2009: US$32/MWh) at a higher load factor of 30%, compared to 20% in 2009, due to warmer weather particularly in May and June. Earnings in New England continue to be underpinned by capacity payments under the Forward Capacity Market. For 2010 we have forward contracted 80% of our expected output in New England.

Coleto Creek achieved an increased dark spread of US$33/MWh (H1 2009: US$26/MWh), but at a reduced load factor of 65% (H1 2009: 95%) as the plant underwent a major planned outage and successfully completed an upgrade to the steam turbine, improving output by 10MW and heat rate by 2%. Coleto Creek's full-year results in 2009 benefited from a £30 million non-cash write back of fair value provisions made against power contracts in place at acquisition, and there is no material

write back in 2010. For 2010 we expect a load factor of 80% and have forward contracted 95% of expected output.

The peaking plants in PJM and MISO delivered an improved contribution reflecting an increase in capacity payments during the period. The capacity price for the period June 2013 to May 2014 cleared at an improved price of US$27.73/MW-day (compared to US$16.46/MW-day for the previous period) during a capacity auction held in May. This price reflects significant demand side response and a one-year delay to an expected transmission line that will increase transmission capacity from west PJM, where our assets are located, to high demand areas in east PJM.

In Canada, construction has been completed on the 40MW Harrow project, located in Ontario. In May, International Power announced that it has signed power purchase agreements for 76MW of new wind generation capacity under the Ontario Transmission Authority's Feed-in Tariff programme. The projects are expected to commence operation in 2011. Once operational, the output from this capacity will be sold under a 20-year feed-in tariff to the Ontario Power Authority.

Europe

Profit from operations in Europe decreased 11% to £265 million from £299 million in the same period for 2009 (down 12% at constant currency). Adjusting for the sale of the Czech business, profit from operations was up 10%. Performance at Rugeley improved significantly, however this was partially offset by an expected reduction in contribution from First Hydro in the UK. Our contracted plants in Iberia and Turkey operated well.

Rugeley in the UK, where the FGD plant was commissioned in 2009, delivered an increased contribution achieving a dark spread of £58/MWh during the period (H1 2009: £13/MWh) at a relatively low load factor of 35% (H1 2009: 75%). Deeside achieved a spark spread of £12/MWh (H1 2009: £19/MWh), at an increased load factor of 85%, compared to 50% in the first half of 2009 when the plant had a planned C-inspection. Saltend achieved a consistent spark spread of £24/MWh at a slightly higher load factor of 85% (H1 2009: 80%), due to its highly contracted position, which was locked-in during the high power price environment in 2008. For 2010 we have forward contracted 85% of our expected output at Deeside, and 95% at Rugeley and Saltend.

In the UK, wholesale prices have been affected by reduced volatility and new CCGT plants coming online. These weaker conditions impact First Hydro's balancing mechanism and trading revenue streams and as a result, First Hydro's performance was down significantly on the same period in 2009, in line with our expectations. The plant has maintained its ancillary service volumes, and prices in the contracted reserve markets showed some improvement.

At ISAB in Italy the second unit returned to production in May. In addition, the plant benefited from a full settlement of property damage and business interruption insurance associated with the 2008 incident.

Construction of the 830MW Elecgas plant in Portugal and the 420MW T-Power plant in Belgium continues to make good progress. These two gas-fired projects are both on schedule to reach commercial operation in the first half of 2011.

Middle East

In the Middle East, profit from operations increased 20% to £49 million, up from £41 million last year (up 22% at constant currency) reflecting a good operational performance from all the assets in the region, with high availability levels.

At Fujairah F2, in the UAE, construction of the 2,000MW, 130MIGD plant is progressing and the project is expected to reach full commercial operation during 2010. The plant is being commissioned in three stages and, following a short delay, is expected to be fully commissioned in the second half of this year.

Australia

Profit from operations was up 11% at £133 million compared to £120 million in the previous year (down 11% at constant currency). Improved performances at Loy Yang B and Simply Energy, where customer numbers were higher with improved retail margins, were offset by a lower contribution from Hazelwood due to planned major outages on two units.

Hazelwood's first half load factor was 80% compared to 85% in the first half of 2009, with an achieved price of A$48/MWh (H1 2009: A$46/MWh). For the full year, we have forward contracted 70% of Hazelwood's expected output (at a load factor of 80%) and expect to achieve an average price of A$43/MWh.

In January 2010, the total existing non-recourse debt of A$742 million of Hazelwood power station was restructured. The previous two-tranche structure (comprising A$445 million Tranche B, maturing in February 2010, and A$297 million Tranche A maturing in 2014) was merged into a single facility with a maturity date of 30 June 2012 and a margin of 400 basis points.

In May the Australian Government announced a delay to the proposed Carbon Pollution Reduction Scheme (CPRS) until after the end of the first Kyoto Protocol Commitment Period (end of 2012).

Construction of the additional 24MW peaking unit at Port Lincoln (Synergen) in South Australia is progressing well and the unit is expected to be in operation in the third quarter of 2010 taking the total capacity of the plant to 72MW. The plant is now operating under a new ten-year ancillary services agreement providing transmission support to the Port Lincoln area.

Asia

Profit from operations in Asia was down 2% at £53 million compared to £54 million in 2009 (up 2% at constant currency). Our assets in the region continued to deliver a strong operational performance and expect to benefit from availability bonuses this year.

Construction of the 815MW super-critical coal-fired Paiton 3 plant in Indonesia and the 110MW TNP2 gas-fired cogeneration plant in Thailand is progressing well, and both plants are on schedule to reach commercial operation by the end of 2012.

Corporate costs

Corporate costs at £25 million have increased by £3 million compared to last year (2009: £22 million), primarily due to a one-off income item in 2009 and additional project development costs in 2010.

Interest

Net interest expense at £191 million is £25 million lower than 2009. The principal driver of the reduction is the pay down of US$769 million of debt secured on five US merchant plants, located in Texas and New England, in December 2009.

Foreign exchange

The impact of the weakening of sterling on the results of our overseas operations, compared to the same period in 2009, is an increase in EPS of 0.8 pence. The impact relates primarily to the translation of the profits of Australian dollar denominated operations.

Tax

The Group tax charge has increased by £5 million to £64 million (2009: £59 million). The effective rate of tax used in preparing these results is 22% (2009: 23%). As in 2009, the tax rate has benefited from the resolution of some historic tax issues.

Exceptional items and specific IAS 39 mark to market movements

Exceptional items after tax amount to a loss of £15 million (2009: £nil) representing an impairment to the carrying value of the Derwent plant due to the end of its steam offtake contract in 2011.

The specific IAS 39 mark to market movements reported in the period amount to a net loss of £33 million before tax (2009: gain of £240 million). £57 million of the loss relates to power and gas contracts, principally arising from settlements in the period (2009: gain of £243 million which primarily related to a reduction in forward prices in our merchant market regions), offset principally by mark to market gains of £36 million (2009: net loss of £11 million) relating to the convertible bonds.

Tax on total specific IAS 39 mark to market movements during the year was a credit of £9 million (2009: charge of £51 million).

Cash Flow

A summary of the Group's cash flow and a reconciliation to net debt is set out below:

	Six months ended 30 June		Year ended 31 December
	2010	**2009 (restated)**	**2009 (restated)**
	£m	£m	£m
Profit for the period	**230**	**464**	**1,132**
Depreciation and amortisation	227	173	374
Non-cash items and other movements [(i)]	192	(155)	(327)
Dividends from joint ventures and associates	39	21	146
Capital expenditure – maintenance	(72)	(72)	(148)
Sale of property, plant and equipment	-	2	1
Net (purchase)/sale of intangible assets	(23)	42	47
Movement in working capital	49	83	101
Tax and net interest paid	(244)	(232)	(535)
Free cash flow	**398**	**326**	**791**
Australian stamp duty - exceptional	-	-	(6)
Capital expenditure – growth	(69)	(43)	(115)
Investments in (net of returns from) joint ventures, associates and investments	(16)	(13)	(18)
Acquisitions	(3)	(5)	(76)
Disposals	(7)	-	638
Dividends paid	(126)	-	(195)
Proceeds from share issue	2	2	3
Net payments to non-controlling interests	(6)	(78)	(110)
Other movements in debt	(3)	(17)	(36)
Decrease in net debt	**170**	**172**	**876**
Opening net debt	(5,059)	(6,318)	(6,318)
Net debt reclassified as assets and liabilities held for sale	-	156	-
Net debt on acquisition of subsidiaries	-	-	(49)
Net debt on disposal of subsidiaries	-	-	121
Effect of foreign exchange thereon	54	569	311
Closing net debt	**(4,835)**	**(5,421)**	**(5,059)**

[(i)] Non-cash items and other movements are set out in the consolidated statement of cash flows. They include income statement charges for interest, tax, specific IAS 39 mark to market movements and the share of profit of joint ventures and associates.

Free cash flow for the first six months of 2010 at £398 million is £72 million higher than for the first half of 2009. Most of this improvement reflects the settlement of hedges on the UK portfolio. Dividends from joint ventures and associates are up £18 million between years, while tax paid and interest paid have also increased and decreased respectively. Growth capex is £26 million higher in 2010, principally due to the refitting of the Maestrale wind farms in Italy.

Summary statement of financial position

The Group's net assets can be analysed as follows:

	As at 30 June 2010 £m	As at 30 June 2009 (restated) £m	As at 31 December 2009 (restated) £m
Goodwill and intangibles	1,039	1,008	1,053
Property, plant and equipment	6,988	6,652	6,959
Investments	1,689	1,533	1,627
Long-term receivables and others	1,638	1,712	1,749
Non-current assets	11,354	10,905	11,388
Net current (liabilities)/assets excluding net debt items	(187)	96	(131)
Non-current liabilities excluding net debt items	(1,441)	(1,525)	(1,437)
Net debt	(4,835)	(5,421)	(5,059)
Net assets	**4,891**	**4,055**	**4,761**
Gearing	**99%**	**134%**	**106%**
Debt capitalisation	**50%**	**57%**	**52%**
Net debt – JVs/Associates	(1,919)	(1,636)	(1,684)

The decrease in goodwill and intangibles assets since 31 December 2009 mostly reflects the strengthening of sterling against the euro. The increase in other non-current assets also reflects this foreign exchange movement which is more than offset by the impact of a weakening of sterling against the US dollar and a reduction in derivative financial assets.

The increase in liabilities excluding net debt items since December 2009 comprises a number of offsetting working capital movements. Net debt has fallen from £5,059 million to £4,835 million following strong cash generation by the business and the strengthening of sterling against the euro.

The Group remains in a robust financial position with strong free cash flow generation. At 30 June 2010 cash at the project level and corporate level amounts to £709 million and £737 million respectively. Debt at the project level and corporate level is £5,268 million and £1,013 million respectively. The increase in corporate level debt, rising from £845 million at 31 December 2009 to £1,013 million predominantly reflects the issue of the €250 million Senior Notes. As a consequence of the reduction in net debt, debt capitalisation has declined to 50% from 52%.

Dividend

The Board is pleased to announce an interim dividend of 4.39 pence per ordinary share (which is calculated as 35% of the previous year's full-year dividend). This will be paid to shareholders registered on the Company share register on 1 October 2010, with payment being made on 28 October 2010.

Outlook

The business has performed well in the first half of 2010. Our merchant assets remain well positioned to capture value from any recovery or volatility in market conditions and our long-term contracted assets continue to operate in line with expectations. Overall, our outlook for the year remains unchanged from that stated in the 2009 preliminary results announcement.

Achieved Spreads and Load Factors for the six months ended 30 June 2010

	Year ending 31 December 2010	Six months ended 30 June 2010	2009
	Forecast	Actual	Actual
North America			
ISO-NE (Bellingham/Blackstone)			
Spark spread ($/MWh)	$29	$28	$32
Load factor	30%	30%	20%
Contracted position	80%		
Texas (Hays)			
Spark spread ($/MWh)	$10	$10	$13
Load factor	35%	30%	55%
Contracted position	60%		
Texas (Midlothian)			
Spark spread ($/MWh)	$11	$8	$11
Load factor	25%	20%	30%
Contracted position	60%		
Texas (Coleto Creek)			
Dark spread ($/MWh)	$33	$33	$26
Load factor	80%	65%	95%
Contracted position	95%		
United Kingdom			
Rugeley			
Dark spread (£/MWh)	£43	£58	£13
Load factor	45%	35%	75%
Contracted position	95%		
Deeside			
Spark spread (£/MWh)	£13	£12	£19
Load factor	65%	85%	50%
Contracted position	85%		
Saltend			
Spark spread (£/MWh)	£22	£24	£24
Load factor	90%	85%	80%
Contracted position	95%		
Australia			
Hazelwood			
Achieved power price (A$/MWh)	A$43	A$48	A$46
Load factor	80%	80%	85%
Contracted position	70%		

Notes:

- Forward contracted positions represent the total contracted generation as a % of forecast generation for the year, where the proportion of the year elapsed is included as fully contracted.

North America

- ISO-NE spark spreads include income from the Forward Capacity Market and exclude the cost of CO_2.
- The forward contracted positions at Coleto Creek include sales via gas hedges.
- Dark spreads at Coleto Creek exclude the cost of SO_2 credits and non-cash write back of fair value provisions.

Europe

- The forward contracted positions at Rugeley and Saltend include sales via gas hedges.
- Spreads at Rugeley, Deeside and Saltend exclude the cost of CO_2 and are adjusted to reflect the fuel optimisation achieved by trading our coal and gas assets as a portfolio.

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Condensed Interim Financial Statements

Consolidated Income Statement

For the six months ended 30 June 2010

		Six months ended 30 June 2010			Six months ended 30 June 2009		
	Note	Results excluding exceptional items and specific IAS 39 mark to market movements (i) £m	Exceptional items and specific IAS 39 mark to market movements (i) £m	Results for the period £m	Results excluding exceptional items and specific IAS 39 mark to market movements (i) (Restated) (ii), (iii) £m	Exceptional items and specific IAS 39 mark to market movements (i) £m	Results for the period (Restated) (ii), (iii) £m
Revenue: Group and share of joint ventures and associates	**2**	2,466	(102)	2,364	2,499	196	2,695
Less: share of joint ventures' revenue		(146)	-	(146)	(232)	-	(232)
Less: share of associates' revenue		(600)	-	(600)	(543)	-	(543)
Group revenue	**2**	**1,720**	**(102)**	**1,618**	**1,724**	**196**	**1,920**
Cost of sales		(1,267)	45	(1,222)	(1,285)	47	(1,238)
Gross profit		**453**	**(57)**	**396**	**439**	**243**	**682**
Other operating income		69	-	69	82	-	82
Other operating expenses		(111)	-	(111)	(102)	-	(102)
Share of results of joint ventures and associates		113	(24)	89	131	6	137
Profit from operations	**2**	**524**	**(81)**	**443**	**550**	**249**	**799**
Finance income		17	-	17	21	-	21
Finance expenses		(208)	33	(175)	(237)	(9)	(246)
Net finance costs		(191)	33	(158)	(216)	(9)	(225)
Profit before tax		**333**	**(48)**	**285**	**334**	**240**	**574**
Taxation		(64)	9	(55)	(59)	(51)	(110)
Profit for the period		**269**	**(39)**	**230**	**275**	**189**	**464**
Attributable to:							
Non-controlling interests		54	(23)	31	41	29	70
Equity holders of the parent		215	(16)	199	234	160	394
Earnings per share:							
Basic	**5**	14.1p		13.1p	15.4p		25.9p
Diluted	**5**	13.5p		11.1p	14.8p		24.1p

All results are from continuing operations.

(i) The Group separately presents certain items as exceptional. These are items which, in the judgement of the Directors, need to be disclosed separately by virtue of their size or incidence in order for the reader to obtain a proper understanding of the financial information. In addition, in order to assist the reader in understanding the underlying business performance, the Group separately discloses within the income statement specific IAS 39 mark to market movements (refer to notes 1 and 4).

(ii) The Group has adopted IFRIC 12 – Service Concession Arrangements, following its endorsement by the European Union (refer to notes 1 and 5).

(iii) The results for the six months ended 30 June 2009 have also been restated for the change in accounting policy relating to retirement benefit obligations, which was reflected in the Group's consolidated financial statements for the year ended 31 December 2009.

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Condensed Interim Financial Statements

Consolidated Income Statement

For the year ended 31 December 2009

		Year ended 31 December 2009		
	Note	Results excluding exceptional items and specific IAS 39 mark to market movements (i) (Restated) (ii) £m	Exceptional items and specific IAS 39 mark to market movements (i) £m	Results for the year (Restated) (ii) £m
Revenue: Group and share of joint ventures and associates	**2**	4,925	195	5,120
Less: share of joint ventures' revenue		(384)	-	(384)
Less: share of associates' revenue		(1,053)	-	(1,053)
Group revenue	**2**	**3,488**	**195**	**3,683**
Cost of sales		(2,551)	46	(2,505)
Gross profit		**937**	**241**	**1,178**
Other operating income		217	-	217
Other operating expenses		(237)	(25)	(262)
Share of results of joint ventures and associates		231	26	257
Profit from operations	**2**	**1,148**	**242**	**1,390**
Disposals of interests in businesses		-	449	449
Finance income		39	-	39
Finance expenses		(478)	(107)	(585)
Net finance costs		(439)	(107)	(546)
Profit before tax		**709**	**584**	**1,293**
Taxation		(115)	(46)	(161)
Profit for the year		**594**	**538**	**1,132**
Attributable to:				
Non-controlling interests		101	50	151
Equity holders of the parent		493	488	981
Earnings per share:				
Basic	**5**	32.4p		64.5p
Diluted	**5**	31.9p		61.8p

All results are from continuing operations.

(i) The Group separately presents certain items as exceptional. These are items which, in the judgement of the Directors, need to be disclosed separately by virtue of their size or incidence in order for the reader to obtain a proper understanding of the financial information. In addition, in order to assist the reader in understanding the underlying business performance, the Group separately discloses within the income statement specific IAS 39 mark to market movements (refer to notes 1 and 4).

(ii) The Group has adopted IFRIC 12 – Service Concession Arrangements, following its endorsement by the European Union (refer to notes 1 and 5).

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Condensed Interim Financial Statements

Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2010

	Note	Six months ended 30 June 2010 £m	Six months ended 30 June 2009 (Restated) £m	Year ended 31 December 2009 (Restated) £m
Profit for the period		**230**	**464**	**1,132**
Other comprehensive income:				
Net (loss)/gain on cash flow hedges		(112)	153	205
Net exchange gain recognised on net investment hedges		61	92	58
Exchange gains/(losses) arising on translation of foreign operations		84	(452)	(233)
Reclassification adjustments relating to foreign operations disposed of during the period		-	-	(94)
Actuarial losses on defined benefit plans		(11)	(4)	(13)
Tax relating to components of other comprehensive income		9	9	(3)
Other comprehensive income for the period, net of tax	**10**	**31**	**(202)**	**(80)**
Total comprehensive income for the period		**261**	**262**	**1,052**
Attributable to:				
Non-controlling interests		29	65	162
Equity holders of the parent		232	197	890
		261	**262**	**1,052**

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Condensed Interim Financial Statements

Consolidated Statement of Financial Position

As at 30 June 2010

	Note	30 June 2010 £m	30 June 2009 (Restated) £m	31 December 2009 (Restated) £m
Non-current assets				
Goodwill		850	853	887
Other intangible assets		189	155	166
Property, plant and equipment		6,988	6,652	6,959
Investments in joint ventures and associates		1,593	1,502	1,564
Other investments		96	31	63
Service concession receivables		1,196	1,171	1,266
Finance lease receivables		334	314	315
Other long-term receivables		66	105	103
Deferred tax assets		42	92	65
Derivative financial assets		-	30	-
Total non-current assets		**11,354**	**10,905**	**11,388**
Current assets				
Inventories		266	253	251
Trade and other receivables		682	676	812
Service concession receivables		37	35	35
Finance lease receivables		12	9	10
Derivative financial assets		271	551	442
Cash and cash equivalents		1,446	1,121	1,193
		2,714	2,645	2,743
Assets classified as held for sale		-	398	-
Total current assets		**2,714**	**3,043**	**2,743**
Total assets	**2**	**14,068**	**13,948**	**14,131**
Current liabilities				
Loans and bonds		497	505	745
Derivative financial liabilities		349	404	429
Trade and other payables		752	811	875
Current tax liabilities		327	379	354
Provisions		27	37	23
		1,952	2,136	2,426
Liabilities directly associated with assets classified as held for sale		-	195	-
Total current liabilities		**1,952**	**2,331**	**2,426**
Non-current liabilities				
Loans and bonds		5,784	6,037	5,507
Derivative financial liabilities		282	393	302
Other payables		41	51	41
Retirement benefit obligations		104	86	97
Provisions		99	57	68
Deferred tax liabilities		915	938	929
Total non-current liabilities		**7,225**	**7,562**	**6,944**
Total liabilities	**2**	**9,177**	**9,893**	**9,370**
Net assets		**4,891**	**4,055**	**4,761**
Equity				
Share capital		761	761	761
Share premium account		438	435	436
Capital redemption reserve		145	145	145
Capital reserve		422	422	422
Revaluation reserve		(1)	(2)	(1)
Hedging reserve		(283)	(208)	(176)
Translation reserve		686	471	536
Retained earnings		2,412	1,813	2,351
Total equity attributable to equity holders of the parent		**4,580**	**3,837**	**4,474**
Non-controlling interests		311	218	287
Total equity		**4,891**	**4,055**	**4,761**

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Condensed Interim Financial Statements

Consolidated Statement of Changes in Equity

For the six months ended 30 June 2010

	Share capital	Share premium account	Capital redemption reserve	Capital reserve	Revaluation reserve	Hedging reserve	Translation reserve	Retained earnings	**Attributable to equity holders of the parent**	Non-controlling interests	**Total equity**
	£m	£m	£m	£m	£m	£m	£m	£m	**£m**	£m	**£m**
At 1 January 2010	**761**	**436**	**145**	**422**	**(1)**	**(176)**	**536**	**2,351**	**4,474**	**287**	**4,761**
Changes in equity for 2010											
Net loss on cash flow hedges	-	-	-	-	-	(109)	-	-	**(109)**	(3)	**(112)**
Exchange gains recognised on net investment hedges	-	-	-	-	-	-	61	-	**61**	-	**61**
Exchange (losses)/gains arising on translation of foreign operations	-	-	-	-	-	(6)	89	-	**83**	1	**84**
Actuarial losses on defined benefit plans	-	-	-	-	-	-	-	(11)	**(11)**	-	**(11)**
Tax on items taken directly to equity	-	-	-	-	-	8	-	1	**9**	-	**9**
Net (loss)/income recognised directly in equity	-	-	-	-	-	(107)	150	(10)	**33**	(2)	**31**
Profit for the period	-	-	-	-	-	-	-	199	**199**	31	**230**
Total recognised income and expense for the period	-	-	-	-	-	(107)	150	189	**232**	29	**261**
Issue of shares	-	2	-	-	-	-	-	-	**2**	-	**2**
Distributions	-	-	-	-	-	-	-	(126)	**(126)**	(9)	**(135)**
Other movements	-	-	-	-	-	-	-	(2)	**(2)**	4	**2**
Total movements for the period	-	2	-	-	-	(107)	150	61	**106**	24	**130**
At 30 June 2010	**761**	**438**	**145**	**422**	**(1)**	**(283)**	**686**	**2,412**	**4,580**	**311**	**4,891**

	Share capital	Share premium account	Capital redemption reserve	Capital reserve	Revaluation reserve	Hedging reserve	Translation reserve	Retained earnings	**Attributable to equity holders of the parent**	Non-controlling interests	**Total equity**
	£m	£m	£m	£m	£m	£m	£m	£m	**£m**	£m	**£m**
At 1 January 2009 *	759	431	145	422	(2)	(376)	859	1,570	**3,808**	233	**4,041**
Impact of adopting IFRIC 12 (note 1)	-	-	-	-	-	-	(26)	(15)	**(41)**	(2)	**(43)**
Restated balance	759	431	145	422	(2)	(376)	833	1,555	**3,767**	231	**3,998**
Changes in equity for 2009											
Net gain on cash flow hedges	-	-	-	-	-	143	-	-	**143**	10	**153**
Exchange gains recognised on net investment hedges	-	-	-	-	-	-	91	-	**91**	1	**92**
Exchange gains/(losses) arising on translation of foreign operations	-	-	-	-	-	30	(471)	-	**(441)**	(11)	**(452)**
Actuarial losses on defined benefit plans	-	-	-	-	-	-	-	(4)	**(4)**	-	**(4)**
Tax on items taken directly to equity	-	-	-	-	-	(5)	18	1	**14**	(5)	**9**
Net income/(loss) recognised directly in equity	-	-	-	-	-	168	(362)	(3)	**(197)**	(5)	**(202)**
Profit for the period	-	-	-	-	-	-	-	394	**394**	70	**464**
Total recognised income and expense for the period	-	-	-	-	-	168	(362)	391	**197**	65	**262**
Issue of shares	2	4	-	-	-	-	-	-	**6**	-	**6**
Distributions	-	-	-	-	-	-	-	(131)	**(131)**	(78)	**(209)**
Other movements	-	-	-	-	-	-	-	(2)	**(2)**	-	**(2)**
Total movements for the period	2	4	-	-	-	168	(362)	258	**70**	(13)	**57**
At 30 June 2009	**761**	**435**	**145**	**422**	**(2)**	**(208)**	**471**	**1,813**	**3,837**	**218**	**4,055**

***** As set out in note 1, the comparative period for the six months ended 30 June 2009 has been restated to reflect the change in accounting policy relating to retirement benefit obligations. The impact of this restatement on total equity at 1 January 2009 was to decrease retained earnings by £40 million to £1,570 million and to decrease non-controlling interests by £4 million to £233 million.

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Consolidated Statement of Changes in Equity (continued)

For the six months ended 30 June 2010

	Share capital	Share premium account	Capital redemp-tion reserve	Capital reserve	Reval-uation reserve	Hedging reserve	Trans-lation reserve	Retained earnings	**Attributable to equity holders of the parent**	Non-controlling interests	**Total equity**
	£m	£m	£m	£m	£m	£m	£m	£m	**£m**	£m	**£m**
At 1 January 2009	759	431	145	422	(2)	(376)	859	1,570	**3,808**	233	**4,041**
Impact of adopting IFRIC 12 (note 1)	-	-	-	-	-	-	(26)	(15)	**(41)**	(2)	**(43)**
Restated balance	759	431	145	422	(2)	(376)	833	1,555	**3,767**	231	**3,998**
Changes in equity for 2009											
Net gain on cash flow hedges	-	-	-	-	-	192	-	-	**192**	13	**205**
Exchange gains/(losses) recognised on net investment hedges	-	-	-	-	-	-	59	-	**59**	(1)	**58**
Exchange gains/(losses) arising on translation of foreign operations	-	-	-	-	-	26	(262)	-	**(236)**	3	**(233)**
Reclassification adjustments relating to foreign operations disposed of during the year	-	-	-	-	-	-	(94)	-	**(94)**	-	**(94)**
Actuarial losses on defined benefit plans	-	-	-	-	-	-	-	(13)	**(13)**	-	**(13)**
Tax on items taken directly to equity	-	-	-	-	-	(21)	-	22	**1**	(4)	**(3)**
Net income/(loss) recognised directly in equity	-	-	-	-	-	197	(297)	9	**(91)**	11	**(80)**
Profit for the year	-	-	-	-	-	-	-	981	**981**	151	**1,132**
Total recognised income and expense for the year	-	-	-	-	-	197	(297)	990	**890**	162	**1,052**
Issue of shares	2	5	-	-	-	-	-	-	**7**	-	**7**
Distributions	-	-	-	-	-	-	-	(195)	**(195)**	(106)	**(301)**
Other movements	-	-	-	-	-	3	-	2	**5**	-	**5**
Transfer to retained earnings	-	-	-	-	1	-	-	(1)	**-**	-	**-**
Total movements for the year	2	5	-	-	1	200	(297)	796	**707**	56	**763**
At 31 December 2009	**761**	**436**	**145**	**422**	**(1)**	**(176)**	**536**	**2,351**	**4,474**	**287**	**4,761**

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Condensed Interim Financial Statements

Consolidated Statement of Cash Flows

For the six months ended 30 June 2010

	Six months ended 30 June 2010 £m	Six months ended 30 June 2009 (Restated) £m	Year ended 31 December 2009 (Restated) £m
Cash flows from operating activities			
Profit for the period	230	464	1,132
Adjustments for:			
Tax expense	55	110	161
Net finance costs	158	225	546
Profit on disposals of interests in businesses	-	-	(449)
Share of profit of joint ventures and associates	(104)	(137)	(257)
Impairment of Derwent – exceptional	15	-	-
Impairment of available-for-sale investment – exceptional	-	-	25
Impairment of Levanto wind farms – exceptional	-	-	70
Specific IAS 39 mark to market movements	57	(243)	(311)
Profit on sale of property, plant and equipment	-	(1)	-
Profit on sale of intangible assets	(5)	(39)	(47)
Other non-cash movements	(3)	10	(19)
Decrease in provisions	(4)	(54)	(51)
Decrease in service concession receivables (excluding maintenance and growth expenditure)	17	19	37
Decrease in finance lease receivables	5	4	9
Other cash movements	1	(49)	(41)
	192	(155)	(327)
Adjustment for depreciation of property, plant and equipment and amortisation of intangible assets	227	173	374
Dividends received from joint ventures and associates	39	21	146
Purchase of property, plant and equipment – maintenance	(68)	(68)	(137)
Service concession expenditure – maintenance	(4)	(4)	(11)
Proceeds from disposal of property, plant and equipment	-	2	1
Purchase of intangible assets	(64)	-	(22)
Sale of intangible assets	41	42	69
Operating cash flow before movements in working capital	**593**	**475**	**1,225**
(Increase)/decrease in inventories	(10)	1	9
Decrease in trade and other receivables	65	213	151
Decrease in trade and other payables	(6)	(131)	(59)
Cash generated from operations	**642**	**558**	**1,326**
Taxes paid	(45)	(19)	(105)
Interest paid	(206)	(230)	(455)
Interest received	7	17	25
Free cash flow	**398**	**326**	**791**
Cash flows relating to exceptional items:			
Payment of Australian stamp duty – exceptional	-	-	(6)
Net cash inflow from operating activities	**398**	**326**	**785**

International Power plc

Condensed Interim Financial Statements

Consolidated Statement of Cash Flows (continued)

For the six months ended 30 June 2010

	Note	Six months ended 30 June 2010 £m	Six months ended 30 June 2009 (Restated) £m	Year ended 31 December 2009 (Restated) £m
Net cash inflow from operating activities		**398**	**326**	**785**
Cash flows from investing activities				
Purchase of property, plant and equipment – growth		(45)	(41)	(94)
Service concession expenditure – growth		(24)	(2)	(21)
Acquisitions (net of cash and cash equivalents acquired), and increase in stake, of subsidiaries		-	-	(34)
Acquisitions of joint ventures, associates and investments		(3)	(5)	(6)
Payments relating to disposal of a subsidiary	**4**	(7)	-	-
Proceeds from disposal of a subsidiary	**4**	-	-	563
Proceeds from disposal of investment in joint ventures and associates	**4**	-	-	33
Investments in, net of returns from, joint ventures, associates and investments		(16)	(13)	(18)
Net cash (outflow)/inflow from investing activities		**(95)**	**(61)**	**423**
Cash flows from financing activities				
Dividends paid	**6**	(126)	-	(195)
Proceeds from share issue		2	2	3
Proceeds from new loans and bonds		282	116	187
Repayment of loans and bonds		(217)	(303)	(1,076)
Funding from non-controlling interests		3	39	39
Funding repaid to non-controlling interests		-	(3)	(7)
Distributions paid to non-controlling interests		(9)	(78)	(110)
Net cash outflow from financing activities		**(65)**	**(227)**	**(1,159)**
Net increase in cash and cash equivalents		**238**	**38**	**49**
Cash and cash equivalents at beginning of the period		**1,193**	**1,129**	**1,129**
Amounts reclassified as assets held for sale		-	(3)	-
Effect of foreign exchange rate changes thereon		15	(43)	15
Cash and cash equivalents at end of the period		**1,446**	**1,121**	**1,193**

1. Basis of preparation

General information

These condensed interim financial statements have been prepared in accordance with IAS 34 (Interim Financial Reporting) as adopted by the European Union ('EU'). They were approved by the Board of Directors and authorised for issue on 9 August 2010.

The condensed interim financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's Annual Report and consolidated financial statements for the year ended 31 December 2009 (the '*Annual Report*').

These condensed interim financial statements are unaudited and do not constitute statutory accounts of International Power plc and its subsidiaries ('the Group') within the meaning of Section 434 of the Companies Act 2006. The auditors have reviewed the condensed interim financial statements and their report in respect of the six months ended 30 June 2010 is set out in the Independent review report on page 37.

The comparative figures for the financial year ended 31 December 2009 are not the statutory accounts for that financial year. Those accounts have been reported on by the Company's auditors and delivered to the Registrar of Companies. The report of the auditors was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

Going concern basis

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out on pages 10 to 35 of the Business and financial review of the *Annual Report*. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are also described in the Business and financial review on pages 54 to 63. In addition, the Group's *Annual Report* and consolidated financial statements include the Group's objectives, policies and processes for financial risk management, which continue to be applied for the interim period under review.

As described on pages 58 to 59 of the *Annual Report*, the Group meets its funding requirements through a combination of non-recourse project finance debt secured on project companies' assets together with convertible debt and a corporate revolver facility at International Power plc ('the Company'). Following the refinancing of the corporate revolver facility in July 2009, the repayment of the US$769 million debt at its US combined cycle gas turbine fleet in December 2009, and the restructuring of the A$742 million debt at its Hazelwood facility in January 2010, the Group does not have any material refinancings falling due in 2010 or 2011.

The Group's forecasts and projections, taking into account reasonably possible changes in trading performance, show that the Group has sufficient financial resources, together with assets that are expected to generate free cash flow to the Group due to the relatively inelastic demand for the Group's primary product, electricity. As a consequence the Directors have a reasonable expectation that the Company and the Group are well placed to manage their business risks and to continue in operational existence for the foreseeable future, despite the continuing uncertain global economic outlook. Accordingly, the Directors continue to adopt the going concern basis in preparing the condensed interim financial statements.

1. Basis of preparation (continued)

Exceptional items and specific IAS 39 mark to market movements

The condensed interim financial statements have been prepared using the historical cost convention, modified for certain items carried at fair value, as stated in the Group's accounting policies.

In order to allow a better understanding of the financial information presented, and specifically the Group's underlying business performance, the Group presents its income statement in three columns such that it identifies (i) results excluding exceptional items and specific IAS 39 mark to market movements, (ii) the effect of exceptional items and specific IAS 39 mark to market movements and (iii) results for the period. For the purposes of clarity, in the explanation of the basis of preparation applied in the consolidated financial statements, these columns are described as the 'left hand column', the 'middle column' and the 'right hand column' respectively.

Those items that the Group separately presents 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 discloses exceptional items in the middle column.

The Group enters into derivative contracts to economically hedge certain of its physical and financial exposures. In relation to commodities trading, the Group considers economic hedges to be those which are asset backed, i.e. where the Group is either forward selling electricity from its own generation capacity or forward buying fuel for its own generation capacity. In respect of interest rate swaps and other treasury related derivatives, the Group considers economic hedges to be those which hedge existing assets, liabilities and firm commitments.

Some of these economic hedges achieve own use treatment under IAS 39 and are accounted for on an accruals basis. Some are accounted for as cash flow hedges under IAS 39 with fair value gains and losses recorded in other comprehensive income and accumulated in the hedging reserve. Where derivative contracts do not achieve own use treatment and the Group could not, or has not sought to, apply cash flow hedge accounting, IAS 39 requires the derivative contract to be measured at fair value (marked to market) with fair value gains and losses recognised in the income statement. The Group separately presents these mark to market movements on economic hedges, in the middle column, to assist the reader's understanding of underlying business performance and to provide a more meaningful presentation.

For economic hedges, where fair value gains and losses are recorded in the income statement, in the period in which the economically hedged transaction settles, the settlement amount of the derivative, being the cumulative fair value gains and losses recognised in the current and prior periods, is presented in the left hand column so that the transaction is measured at its contracted price (i.e. the spot price less the fair value gain or loss on the derivative contract at that date).

As the cumulative mark to market movements have already been recognised in the middle column in the current and prior periods, an equal but opposite amount is presented in the middle column so that cumulatively the amount recognised in the middle column in respect of such economic hedges is zero.

By presenting fair value gains and losses in this manner, the left hand column is not affected by mark to market movements and therefore reflects the underlying business performance at contracted prices.

The amortisation of derivatives, which are acquired with a fair value other than zero, is always recorded in the left hand column. This is achieved by presenting an equal but opposite amount in the middle column, such that specific IAS 39 mark to market movements presented in the middle column are shown net of the amortisation during the period.

Ineffectiveness in qualifying cash flow hedges under IAS 39 can arise from business combinations, where the fair value of the derivatives at acquisition is not equal to zero, or as a result of the difference between the contractual profile of the economic hedge and the profile of transactions defined as the hedged item. IAS 39 requires ineffectiveness in qualifying cash flow hedges to be recorded in the income statement, and therefore the Group records this ineffectiveness in the middle column when it relates to an economic hedge.

1. Basis of preparation (continued)

Exceptional items and specific IAS 39 mark to market movements (continued)

Mark to market movements of the fair value of embedded derivatives in convertible bonds, which relate to conversion features where the functional currency of the parent company and other factors preclude the conversion feature being treated as equity in the consolidated financial statements, are treated as specific IAS 39 mark to market movements and as such are presented in the middle column. The Directors consider the fair value gains and losses of these embedded derivatives should be appropriately disclosed within specific IAS 39 mark to market movements, in the middle column, so as to separately identify a non-cash movement which, if the conversion option is exercised, will ultimately be extinguished by the issue of equity.

Mark to market movements relating to proprietary trading activities, the revaluation of assets held for trading and amortisation of derivatives which are acquired with a fair value other than zero comprise part of the Group's underlying business performance and are appropriately, in the judgement of the Directors, included within the left hand column.

The right hand column presents the results for the period, showing all gains and losses recorded in the consolidated income statement.

To the extent that exceptional items are separately identified in the income statement, they are also separately identified in the statement of cash flows under the respective heading to which they relate.

Changes in accounting policies

In the preparation of the condensed interim financial statements, the Group has applied the same accounting policies as those presented in the Group's consolidated financial statements for the year ended 31 December 2009, as set out on pages 116 to 123 of the *Annual Report*, as adjusted for the effects of the following:

Adoption of International Financial Reporting Interpretations Committee – Interpretation 12 (Service Concession Arrangements) ('IFRIC 12')

IFRIC 12 was endorsed by the EU on 25 March 2009 and is applicable for annual periods beginning on or after 29 March 2009.

Service concessions are arrangements whereby a government or other public sector entity grants contracts for the supply of public services—such as roads, airports, prisons and energy and water supply and distribution facilities—to private sector operators. Control of the assets remains in public hands but the private sector operator is responsible for construction activities, as well as for operating and maintaining the public sector infrastructure. IFRIC 12 addresses how service concession operators should apply existing International Financial Reporting Standards (IFRSs) to account for the obligations they undertake and rights they receive in service concession arrangements.

IFRIC 12 draws a distinction between two types of service concession arrangement. In one, the operator receives a financial asset, i.e. an unconditional contractual right to receive cash or another financial asset from the government in return for constructing or upgrading the public sector asset. In the other, the operator receives an intangible asset, i.e. no more than a right to charge for use of the public sector asset that it constructs or upgrades. A right to charge users is not an unconditional right to receive cash because the amounts are contingent on the extent to which the public uses the service. IFRIC 12 allows for the possibility that both types of arrangement may exist within a single contract: to the extent that the government has given an unconditional guarantee of payment for the construction of the public sector asset, the operator has a financial asset; to the extent that the operator has to rely on the public using the service in order to obtain payment, the operator has an intangible asset.

1. Basis of preparation (continued)

Changes in accounting policies (continued)

Adoption of IFRIC 12 (continued)

The Group has several service concession arrangements in place across the Group, principally in Asia, mainland Europe and the Middle East, through contracts entered into by its subsidiaries, joint ventures and associates. Typically these arrangements are in the form of long-term power purchase agreements (agreements to sell electrical capacity and electrical output over an extended period) with government controlled offtakers.

As a consequence of the nature of the contractual arrangements in which the Group is participating, all the Group's service concession arrangements result in the recognition of service concession receivables because the Group has unconditional contractual rights to receive cash or other financial assets from the governments in return for constructing or upgrading the public sector assets. The Group has not recognised any service concession intangible assets as a direct result of the adoption of IFRIC 12.

For the arrangements within the Group which are affected by the adoption of IFRIC 12, these were previously accounted for as contracts which were, or contained, finance leases, following the requirements of IFRIC 4 (Determining whether an Arrangement contains a Lease) and IAS 17 (Leases).

In accordance with the requirements of IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors) the change in accounting policy in relation to service concession arrangements, following a change required by IFRS, has been made retrospectively and the comparatives have been restated accordingly.

The impact of adoption of IFRIC 12 is to replace finance lease receivables and property, plant and equipment, with service concession receivables. To the extent that taxable or deductible temporary differences arise on these adjustments, deferred tax assets or liabilities have also been recognised. The carrying amounts of our investments in joint ventures and associates in the statement of financial position have also been changed to recognise the cumulative impact on earnings arising from the consequence of adopting IFRIC 12 in those entities.

As a consequence of the restatement, at 30 June 2009 total finance lease receivables decreased by £1,174 million (31 December 2009: decreased by £1,202 million), property, plant and equipment decreased by £20 million (31 December 2009: decreased by £82 million), investments in joint ventures and associates decreased by £59 million (31 December 2009: decreased by £70 million), and deferred tax liabilities decreased by £3 million (31 December 2009: decreased by £3 million).

At 30 June 2009 service concession receivables of £1,206 million (31 December 2009: £1,301 million) were recognised.

As a result of the Group's adoption of IFRIC 12, the consolidated income statement in the comparative period for the six months ended 30 June 2009 has been restated to increase Group revenue by £7 million (year ended 31 December 2009: increase by £17 million), increase cost of sales by £2 million (year ended 31 December 2009: increase by £7 million), decrease share of results of joint ventures and associates by £11 million (year ended 31 December 2009: decrease by £19 million), and to increase tax expense by £1 million (year ended 31 December 2009: increase by £2 million).

The impact on earnings per share for the prior periods is outlined in note 5.

In the consolidated statement of cash flows for the six months ended 30 June 2009 the movement in finance lease receivables has decreased by £22 million (year ended 31 December 2009: decreased by £43 million) and the adjustment for depreciation of property, plant and equipment and amortisation of intangible assets decreased by £2 million (year ended 31 December 2009: decreased by £4 million).

For the six months ended 30 June 2009 the decrease in service concession receivables was £19 million (year ended 31 December 2009: £37 million).

1. Basis of preparation (continued)

Retirement benefit obligations

For the six months ended 30 June 2009, the year ended 31 December 2008 and prior periods, the Group's policy in relation to defined benefit pension plans was to apply the corridor method in the recognition of actuarial gains and losses, as set out in IAS 19 (Employee Benefits). Gains and losses in an individual scheme were recognised to the extent they exceeded the greater of 10% of the gross assets or gross liabilities of the scheme. The amount recognised in the following year was the excess amortised over the remaining average service lives of the employees in the scheme and was recognised in the income statement. The net defined benefit obligation recognised in the statement of financial position represented the present value of the defined benefit obligations adjusted for unrecognised actuarial gains and losses and unrecognised service costs and as reduced by the fair value of the plan assets.

In the consolidated financial statements for the year ended 31 December 2009 the Group changed its policy. Now the Group recognises an amount in the statement of financial position in respect of defined benefit pension plans which is the present value of the defined benefit obligations at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognised past service costs. Actuarial gains and losses are recognised in the statement of comprehensive income in the period in which they arise. Past service costs are recognised immediately in income to the extent that benefits have vested, otherwise costs are amortised on a straight-line basis over the vesting period.

As the interim financial statements for the six months ended 30 June 2009 were presented based on the earlier policy, the comparative period for the six months ended 30 June 2009 has been restated to remove the pension charge relating to the amortisation of actuarial gains and losses which were outside the corridor, and recorded in other operating expenses, of £1 million, to increase the retirement benefit obligation as at 30 June 2009 by £65 million and to decrease net deferred tax liabilities by £18 million at the same date (refer also to note 5).

The impact of this restatement on total equity at 1 January 2009 was to decrease retained earnings by £40 million to £1,570 million and to decrease non-controlling interests by £4 million to £233 million. The results and financial position for the year ended 31 December 2009 have not been restated as they reflected the new policy.

Adoption of International Financial Reporting Standard 3 (Business Combinations) (revised 2008) ('IFRS 3') and International Accounting Standard 27 (Consolidated and Separate Financial Statements) (revised 2008) ('IAS 27')

Following their adoption by the EU, the Group has adopted IFRS 3 and IAS 27 in the current year. The revised standards apply prospectively to business combinations effected by the Group after 1 January 2010. Business combinations which took place before 1 January 2010 do not need to be restated as a result of the adoption of these standards. The most significant changes to the Group's previous accounting policies for business combinations are as follows:

- acquisition related costs which previously would have been included in the cost of a business combination are expensed in the income statement as they are incurred;
- any pre-existing equity interest in the entity acquired is remeasured to fair value at the date of obtaining control, with any resulting gain or loss recognised in the income statement;
- any changes in the Group's ownership interest subsequent to the date of obtaining control are recognised directly in equity, with no adjustment to goodwill; and
- any changes to the cost of an acquisition, including contingent consideration, resulting from events after the date of acquisition are recognised in the income statement. Previously, such changes resulted in an adjustment to goodwill.

The revised standards have been applied to the acquisition of development companies by IPA Wind Development, LLC, as outlined in note 9.

2. Segment reporting

The Group is a global energy business that focuses on power generation. The international operations are managed as five separate geographic regions, namely North America, Europe, Middle East, Australia and Asia, and this reflects the different characteristics within each region. The segment disclosures are based on the components that the Board monitors in making decisions about operating matters. Such components are identified on the basis of internal reports that the Board reviews regularly in allocating resources to segments and in assessing their performance, which are prepared on a basis which excludes exceptional items and specific IAS 39 mark to market movements. As the Group is structured and managed as five regions, the segment results, assets and liabilities are presented in this way. The accounting policies applied in the presentation of results of the five reportable segments are the same as the Group's accounting policies described in the notes to the consolidated financial statements included in the *Annual Report* as adjusted for the changes in policies outlined in note 1.

a) Revenue (excluding exceptional items and specific IAS 39 mark to market movements)

All five reportable segments derive their revenue from electricity generation. There is no inter-segment revenue, therefore only revenue obtained from customers external to the Group is presented. The results presented reflect the geographical location of both the businesses and their customers, i.e. there are no material cross-border sales.

	Six months ended 30 June 2010			Six months ended 30 June 2009			Year ended 31 December 2009		
	Subsidiaries	Share of joint ventures and associates	Total	Subsidiaries (Restated)	Share of joint ventures and associates (Restated)	Total (Restated)	Subsidiaries (Restated)	Share of joint ventures and associates (Restated)	Total (Restated)
	£m	£m	£m	£m	£m	£m	£m	£m	£m
North America	282	93	375	326	99	425	669	202	871
Europe	880	187	1,067	913	292	1,205	1,833	435	2,268
Middle East	51	114	165	50	101	151	99	193	292
Australia	481	7	488	412	6	418	841	12	853
Asia	26	345	371	23	277	300	46	595	641
	1,720	746	2,466	1,724	775	2,499	3,488	1,437	4,925
Exceptional items and specific IAS 39 mark to market movements			(102)			196			195
Revenue: Group and share of joint ventures and associates			2,364			2,695			5,120

Exceptional items and specific IAS 39 mark to market movements are outlined in note 4.

Segment revenue (including exceptional items and specific IAS 39 mark to market movements) for the six months ended 30 June 2010 for North America is £394 million, Europe £878 million and Australia £556 million (six months ended 30 June 2009 for North America is £432 million, Europe £1,320 million and Australia £492 million; year ended 31 December 2009: North America £820 million, Europe £2,395 million and Australia £972 million).

2. Segment reporting (continued)

b) Profit from operations (excluding exceptional items and specific IAS 39 mark to market movements)

	Six months ended 30 June 2010			Six months ended 30 June 2009			Year ended 31 December 2009		
	Subsidiaries	Share of joint ventures and associates	Total	Subsidiaries (Restated)	Share of joint ventures and associates (Restated)	Total (Restated)	Subsidiaries (Restated)	Share of joint ventures and associates (Restated)	Total (Restated)
	£m	£m	£m	£m	£m	£m	£m	£m	£m
North America	24	25	49	43	15	58	100	34	134
Europe	235	30	265	244	55	299	571	76	647
Middle East	27	22	49	28	13	41	51	34	85
Australia	132	1	133	118	2	120	229	4	233
Asia	18	35	53	8	46	54	18	83	101
	436	113	549	441	131	572	969	231	1,200
Corporate	(25)	-	(25)	(22)	-	(22)	(52)	-	(52)
	411	113	524	419	131	550	917	231	1,148
Exceptional items and specific IAS 39 mark to market movements			(81)			249			242
Profit from operations (including exceptional items and specific IAS 39 mark to market movements)			443			799			1,390
Disposals of interests in businesses –exceptional			-			-			449
Net finance costs – excluding exceptional items and specific IAS 39 mark to market movements			(191)			(216)			(439)
Net finance costs – exceptional items and specific IAS 39 mark to market movements			33			(9)			(107)
Profit before tax			285			574			1,293

Exceptional items and specific IAS 39 mark to market movements are outlined in note 4.

Segment profit from operations (including exceptional items and specific IAS 39 mark to market movements) for the six months ended 30 June 2010 for North America is a profit of £63 million, Europe profit of £109 million, Australia profit of £201 million and Asia profit of £46 million (six months ended 30 June 2009 for North America is a profit of £78 million, Europe profit of £448 million, Australia profit of £196 million and Asia profit of £58 million; year ended 31 December 2009: North America profit of £149 million, Europe profit of £733 million, Middle East profit of £86 million, Australia profit of £353 million and Asia profit of £121 million).

2. Segment reporting (continued)

c) Segment assets

	30 June 2010			30 June 2009			31 December 2009		
	Segment assets	Investments in joint ventures and associates	Total	Segment assets (Restated)	Investments in joint ventures and associates (Restated)	Total (Restated)	Segment assets (Restated)	Investments in joint ventures and associates (Restated)	Total (Restated)
	£m	£m	£m	£m	£m	£m	£m	£m	£m
North America	2,593	258	2,851	2,300	214	2,514	2,369	232	2,601
Europe	5,780	287	6,067	6,357	309	6,666	6,363	297	6,660
Middle East	510	89	599	467	122	589	471	140	611
Australia	2,775	6	2,781	2,498	5	2,503	2,752	8	2,760
Asia	111	953	1,064	95	852	947	101	887	988
	11,769	1,593	13,362	11,717	1,502	13,219	12,056	1,564	13,620
Corporate	706	-	706	729	-	729	511	-	511
	12,475	1,593	14,068	12,446	1,502	13,948	12,567	1,564	14,131

At 30 June 2009 the North America region included non-current assets classified as held for sale amounting to £11 million, relating to the Group's investment in Hartwell Energy, and the Europe region included the assets classified as held for sale relating to International Power Opatovice A.S., in the Czech Republic.

d) Segment liabilities

	30 June 2010			30 June 2009			31 December 2009		
	Segment liabilities	Investments in joint ventures and associates	Total	Segment liabilities (Restated)	Investments in joint ventures and associates	Total (Restated)	Segment liabilities (Restated)	Investments in joint ventures and associates	Total (Restated)
	£m	£m	£m	£m	£m	£m	£m	£m	£m
North America	1,084	-	1,084	1,446	-	1,446	1,001	-	1,001
Europe	3,884	-	3,884	4,327	-	4,327	4,285	-	4,285
Middle East	440	-	440	409	-	409	406	-	406
Australia	1,758	-	1,758	1,742	-	1,742	1,835	-	1,835
Asia	105	-	105	104	-	104	94	-	94
	7,271	-	7,271	8,028	-	8,028	7,621	-	7,621
Corporate	1,906	-	1,906	1,865	-	1,865	1,749	-	1,749
	9,177	-	9,177	9,893	-	9,893	9,370	-	9,370

At 30 June 2009 the Europe region included the liabilities directly associated with assets classified as held for sale of International Power Opatovice A.S., in the Czech Republic.

3. Changes in inventories

Included within cost of sales are £98 million of inventories recognised as an expense during the period (six months ended 30 June 2009: £194 million; year ended 31 December 2009: £309 million). No inventories were written off during the period (six months ended 30 June 2009: £nil; year ended 31 December 2009: £2 million and recorded as an expense in cost of sales in the income statement).

4. Exceptional items and specific IAS 39 mark to market movements

In accordance with the basis of preparation outlined in note 1, the following exceptional items and specific IAS 39 mark to market movements are recorded within the consolidated income statement.

	Six months ended 30 June 2010	Six months ended 30 June 2009	Year ended 31 December 2009
	£m	£m	£m
Specific IAS 39 mark to market movements	(102)	196	195
Amounts recognised in revenue	**(102)**	**196**	**195**
Impairment of Levanto wind farms	-	-	(70)
Specific IAS 39 mark to market movements	45	47	116
Amounts recognised in cost of sales	**45**	**47**	**46**
Impairment of available-for-sale investment	-	-	(25)
Amounts recognised in other operating expenses	**-**	**-**	**(25)**
Impairment of Derwent	(15)	-	-
Specific IAS 39 mark to market movements	(9)	6	26
Amounts recognised in share of results of joint ventures and associates	**(24)**	**6**	**26**
Disposal of International Power Opatovice	-	-	427
Disposal of Hartwell	-	-	22
Amounts recognised in disposals of interests in businesses	**-**	**-**	**449**
Specific IAS 39 mark to market movements on:			
3.75% convertible US dollar bonds 2023	8	(17)	(80)
3.25% convertible euro bonds 2013	12	(12)	(25)
4.75% convertible euro bonds 2015	16	18	(4)
Other specific IAS 39 mark to market movements	(3)	2	2
Amounts recognised in finance expenses	**33**	**(9)**	**(107)**
Taxation on impairment of Levanto wind farms	-	-	19
Taxation on disposal of Hartwell	-	-	(8)
Taxation on specific IAS 39 mark to market movements	9	(51)	(57)
Taxation on exceptional items and specific IAS 39 mark to market movements	**9**	**(51)**	**(46)**
Total exceptional items and specific IAS 39 mark to market movements after attributable taxation	**(39)**	**189**	**538**

Exceptional items recognised in cost of sales

On 31 December 2009 the Group assessed whether there had been any objective evidence that the service concession receivable, relating to the Levanto portfolio of onshore wind farms, had been impaired. Using observed historical wind volumes, in order to determine more reliable forecasts of future wind volumes, and updated forecasts of operating costs, the impact on future cash flows was estimated. The result of this impairment test valuation was to impair, within cost of sales, the service concession receivable of £70 million, and within the total taxation charge for the year an associated deferred tax credit of £19 million. This impairment is recorded within the Europe region in the segment reporting.

4. Exceptional items and specific IAS 39 mark to market movements (continued)

Exceptional items recognised in other operating expenses

On 31 December 2009 the Group assessed whether there had been any objective evidence that the carrying amount of its available-for-sale investments had been impaired. The result of this impairment test valuation was to recognise within other operating expenses an impairment of £25 million to the carrying amount of an investment pertaining to the Eggborough power plant, in the United Kingdom. There was no tax credit associated with this impairment. The impairment is recorded within the Europe region in the segment reporting.

Exceptional items recognised in share of results of joint ventures and associates

The Group owns 33% of Derwent Cogeneration Limited, a 214MW gas fired power station which operates under a long-term steam offtake contract. On 30 June 2010, following the confirmation that the existing steam offtake contract would not be renewed, the Group assessed whether there had been any objective evidence that the carrying amount of its investment in Derwent Cogeneration Limited had been impaired. The result of this impairment test valuation was to recognise an impairment of £15 million, which is recorded within the Europe region in the segment reporting.

Exceptional items recognised in disposals of interests in businesses

On 13 November 2009 the Group completed the sale of International Power Opatovice, and its interests in its joint ventures Pražská Teplárenská and Energotrans, to the Czecho-Slovak investment firm J&T Group. Net consideration from the disposal, after costs, was £593 million and the profit on disposal was £427 million. There was no tax charge associated with this disposal. In the year ended 31 December 2009 the net cash inflow to the Group from the sale was £563 million, being net consideration of £593 million, £12 million costs not paid at the end of the reporting period, less £42 million cash held by International Power Opatovice at the date of sale. During the six months ended 30 June 2010 costs of £7 million have been paid.

On 14 October 2009, International Power, together with its joint venture partner, completed the sale of Hartwell Energy, a 318MW gas and oil-fired peaking facility located in Georgia, US, to Oglethorpe Power Corporation. Proceeds from the 50% stake in Hartwell Energy amounted to £33 million and the profit on disposal was £22 million, including a reclassification adjustment of £1 million from the translation reserve. A tax charge of £8 million was also recognised.

Specific IAS 39 mark to market movements

For the six months ended 30 June 2010 the impact of specific IAS 39 mark to market movements on profit before tax is a loss of £33 million and on tax expense a credit of £9 million (six months ended 30 June 2009: profit of £240 million and on tax expense a charge of £51 million; year ended 31 December 2009: profit of £230 million and on tax expense a charge of £57 million).

5. Earnings per share

Earnings per Ordinary Share has been calculated by dividing profit attributable to equity holders of the parent for the period by the average number of Ordinary Shares. The weighted average number of Ordinary Shares for the basic earnings per share calculation for the six months ended 30 June 2010 is 1,522.8 million (six months ended 30 June 2009: 1,520.4 million; year ended 31 December 2009: 1,521.3 million) and for the diluted earnings per share calculation is 1,768.7 million (six months ended 30 June 2009: 1,709.7 million; year ended 31 December 2009: 1,669.3 million).

Reconciliations of earnings per share before and after exceptional items and specific IAS 39 mark to market movements are as follows:

	Six months ended 30 June 2010		Six months ended 30 June 2009		Year ended 31 December 2009	
			(Restated)	(Restated)	(Restated)	(Restated)
	£m	pence	£m	pence	£m	pence
Basic earnings per share						
Profit attributable to equity holders of the parent before exceptional items and specific IAS 39 mark to market movements	215	14.1	234	15.4	493	32.4
Exceptional items and specific IAS 39 mark to market movements (net of tax and non-controlling interests)	(16)	(1.0)	160	10.5	488	32.1
Profit attributable to equity holders of the parent after exceptional items and specific IAS 39 mark to market movements	199	13.1	394	25.9	981	64.5
Diluted earnings per share						
Profit attributable to equity holders of the parent before exceptional items and specific IAS 39 mark to market movements	215	12.2	234	13.7	493	29.5
After tax dilutive effect of interest on convertible bonds	23	1.3	19	1.1	40	2.4
Profit attributable to equity holders of the parent before exceptional items and specific IAS 39 mark to market movements for the purposes of diluted EPS	238	13.5	253	14.8	533	31.9
Exceptional items and specific IAS 39 mark to market movements (net of tax and non-controlling interests)	(16)	(0.9)	160	9.4	488	29.2
After tax dilutive effect of specific IAS 39 mark to market movements on convertible bonds	(26)	(1.5)	(1)	(0.1)	11	0.7
Profit attributable to equity holders of the parent after exceptional items and specific IAS 39 mark to market movements for the purposes of diluted EPS	196	11.1	412	24.1	1,032	61.8

In the accounting periods presented, the dilutive impact of the Group's convertible bonds has been treated as follows when calculating dilutive earnings per share after exceptional items and specific IAS 39 mark to market movements.

	Six months ended 30 June 2010	Six months ended 30 June 2009	Year ended 31 December 2009
3.75% convertible US dollar bonds 2023	Dilutive	Dilutive	Anti-dilutive
3.25% convertible euro bonds 2013	Dilutive	Anti-dilutive	Dilutive
4.75% convertible euro bonds 2015	Dilutive	Dilutive	Dilutive

5. Earnings per share (continued)

The treatment of whether potential Ordinary Shares are dilutive or anti-dilutive in the calculation of diluted earnings per share before exceptional items and specific IAS 39 mark to market movements is applied consistently with its determination in the calculation of diluted earnings per share after exceptional items and specific IAS 39 mark to market movements.

Impact of change in accounting policies

As outlined in note 1, the comparatives for the six months ended 30 June 2009 have been restated for the effects of the changes in accounting policies relating to the adoption of IFRIC 12 and the treatment of defined benefit retirement plans, and the comparatives for the year ended 31 December 2009 have been restated solely for the effects of IFRIC 12:

	Six months ended 30 June 2009	
	Profit for the period excluding exceptional items and specific IAS 39 mark to market movements	**Profit for the period including exceptional items and specific IAS 39 mark to market movements**
	£m	£m
As previously presented	281	470
Change in accounting policy relating to:		
- IFRIC 12 (Service Concession Arrangements)	(7)	(7)
- Defined benefit retirement plans	1	1
Restated	275	464

	Year ended 31 December 2009	
	Profit for the year excluding exceptional items and specific IAS 39 mark to market movements	**Profit for the year including exceptional items and specific IAS 39 mark to market movements**
	£m	£m
As previously presented	605	1,143
Change in accounting policy relating to:		
- IFRIC 12 (Service Concession Arrangements)	(11)	(11)
Restated	594	1,132

As a consequence of adopting the changes in accounting policies the weighted average numbers of Ordinary Shares for the basic earnings per share calculation and the diluted earnings per share calculation remain unchanged for the six months ended 30 June 2009 and the year ended 31 December 2009.

As a result of the changes in accounting policies, the basic earnings per share before exceptional items and specific IAS 39 mark to market movements for the six months ended 30 June 2009 decreased by 0.5 pence (year ended 31 December 2009 decreased by 1.0 pence). The basic earnings per share after exceptional items and specific IAS 39 mark to market movements for the six months ended 30 June 2009 has decreased by 0.5 pence (year ended 31 December 2009 has decreased by 1.0 pence). The diluted earnings per share before exceptional items and specific IAS 39 mark to market movements for the six months ended 30 June 2009 has decreased by 0.5 pence (year ended 31 December 2009 has decreased by 0.9 pence). The diluted earnings per share after exceptional items and specific IAS 39 mark to market movements for the six months ended 30 June 2009 has decreased by 0.5 pence (year ended 31 December 2009 has decreased by 0.9 pence).

6. Dividends

At the Company's Annual General Meeting held on 18 May 2010, shareholders approved the payment of a final dividend of 8.28 pence per Ordinary Share to shareholders registered on the Company share register on 28 May 2010. This dividend amounted to £126 million and was paid on 24 June 2010. In respect of the year ended 31 December 2009 the total dividend per Ordinary Share was 12.53 pence (2008: 12.15 pence) and the total dividend paid was £190 million (2008: £185 million).

The Directors propose an interim dividend of 4.39 pence per Ordinary Share to be paid on 28 October 2010 to shareholders registered on the Company share register on 1 October 2010.

7. Property, plant and equipment

During the six months ended 30 June 2010 additions amounted to £105 million, with major expenditure occurring at Hazelwood in Australia and at the wind portfolio in Europe (six months ended 30 June 2009: £101 million; year ended 31 December 2009: £218 million).

8. Equity, loans and bonds

Loans and bonds

Draw downs and repayments of borrowings are presented in the consolidated statement of cash flows.

€250 million Senior Notes due 2017

On 11 May 2010, International Power Finance (2010) plc, a wholly owned subsidiary of International Power plc, received the proceeds from its €250 million 7.25% senior notes due 2017. The proceeds from the issue of the senior notes, before deducting debt issue costs, were €248 million (£213 million).

The senior notes are guaranteed on a senior unsecured basis by International Power plc and are listed on the official list of the UK Listing Authority for trading on the Professional Securities Market of the London Stock Exchange.

Upon a change of control, the senior notes may be redeemed at the holder's option at 101% of the principal amount plus accrued interest to the date fixed for redemption. Unless previously redeemed, the outstanding senior notes will be subject to a redemption price equivalent to their principal amount on maturity date of 11 May 2017.

Hazelwood Power Partnership

On 27 January 2010, Hazelwood Power Partnership, which owns the 1,688MW coal-fired Hazelwood power station located in Victoria, Australia completed the restructuring of its non-recourse debt of A$742 million (£415 million). The restructured facility has a maturity date of 30 June 2012.

ANP Funding 1

In December 2009, ANP Funding 1, a wholly owned subsidiary of International Power plc, repaid US$769 million (£464 million) of debt secured on the US merchant plants located in Texas and New England.

Share issues

Issues of International Power plc's Ordinary Shares are presented in the consolidated statement of cash flows. The Company has issued shares under employee share schemes during the period. The average number of shares during the period is presented in note 5.

9. Acquisitions

Acquisition of development companies by IPA Wind Development, LLC

On 2 June 2010, IPA Wind Development, LLC. ('IPA Wind'), a wholly owned subsidiary of International Power plc, completed the acquisition of the entire issued and outstanding membership interests in nine nascent companies from Element Markets, LLC. The vendor has a call option over 30% of the project companies' equity. On completion, IPA Wind owned a development pipeline of wind businesses concentrated in Texas and Illinois. The results of the businesses have been consolidated as subsidiaries with effect from the date of completion using the acquisition method.

Other than an immaterial upfront cash payment, the purchase price is wholly contingent on future events. Transaction costs, which have been expensed, were immaterial.

The development pipeline of wind projects acquired has been classified as an intangible asset and fair valued at US$50 million (£33 million). The terms of the acquisition include consideration to be paid to the vendor contingent upon completion of identified milestones. These milestones include execution of interconnections agreements, receipt of proceeds from project financing, execution of power purchase agreements, and achievement of commercial operations. A liability of US$50 million (£33 million) was recognised for this contingent consideration at the date of acquisition based on an estimate of the probability of achievement of each of these milestones multiplied by the contractual payment obligation discounted to present value. Due to the proximity of the date of acquisition to the end of the reporting period, the fair values attributed to the acquired assets and liabilities are provisional and may be revised.

In the period from 2 June 2010 to 30 June 2010, IPA Wind did not contribute any revenue to the Group. It incurred an immaterial loss, which is included in the Group's results for the period. If the acquisition had taken place on 1 January 2010 the business would also not have contributed any revenue to the Group. It would also have incurred an immaterial loss.

10. Note to the statement of comprehensive income

	Six months ended 30 June 2010		Six months ended 30 June 2009		Year ended 31 December 2009	
	Before tax amount	Tax (expense)/ benefit	Before tax amount (Restated)	Tax (expense)/ benefit (Restated)	Before tax amount (Restated)	Tax (expense)/ benefit (Restated)
	£m	£m	£m	£m	£m	£m
Net (loss)/gain on cash flow hedges	(112)	8	153	(10)	205	(25)
Net exchange gain recognised on net investment hedges	61	(17)	92	(26)	58	(16)
Exchange gains/(losses) arising on translation of foreign operations	84	15	(452)	44	(233)	34
Reclassification adjustments relating to foreign operations disposed of during the period	-	-	-	-	(94)	-
Actuarial losses on defined benefit plans	(11)	3	(4)	1	(13)	4
Movements in other comprehensive income for the period	**22**	**9**	**(211)**	**9**	**(77)**	**(3)**

11. Commitments

Fuel purchase and transportation commitments
At 30 June 2010 the Group had commitments for the purchase of fuel and transportation services, some of which have minimum purchase undertakings, to which the own use treatment is applied under IAS 39, i.e. accounted for on an accruals basis. Based on contract provisions, which consist of fixed prices, subject to adjustment clauses in some cases, these minimum commitments are estimated to aggregate to £555 million expiring within one year, £1,980 million expiring between one and five years and £1,076 million expiring after more than five years (30 June 2009: £603 million, £1,756 million and £681 million respectively; 31 December 2009: £566 million, £1,817 million and £416 million respectively).

Fuel and transport contracts, which are not treated as own use, are accounted for as derivative contracts.

Capital expenditure related commitments
Commitments relating to upgrade services under service concession arrangements, which are contracted but not provided and which will be recognised in costs of sales when the expenditure is incurred, at 30 June 2010 is £76 million (30 June 2009: £3 million; 31 December 2009: £24 million).

Capital commitments contracted but not provided, which will be recognised as property, plant and equipment when the expenditure is incurred, at 30 June 2010 is £239 million (30 June 2009: £241 million; 31 December 2009: £173 million).

12. Contingent liabilities

There have been no changes in the contingent liabilities relating to legal proceedings or taxation matters to those reported in the *Annual Report*.

Various growth and expansion projects are supported by bonds, letters of credit and guarantees issued by the Group totalling £644 million (30 June 2009: £563 million; 31 December 2009: £551 million). Energy trading activities relating to merchant plant are supported by bonds, letters of credit and guarantees issued by the Group totalling £390 million (30 June 2009: £493 million; 31 December 2009: £282 million).

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 is £86 million (30 June 2009: £97 million; 31 December 2009: £82 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 above.

13. Related party transactions

Compensation of key management personnel
The key management personnel of International Power plc comprise the Chairman, Executive Directors and Non-Executive Directors. During the six months ended 30 June 2010 the components of remuneration of key management personnel have not changed significantly from those reported for 2010 included in the Directors' remuneration report in the *Annual Report*.

Operations and maintenance contracts
In the normal course of business the Group has contracted to provide power station operation and maintenance services to joint ventures and associates. During the period the Group derived income of £42 million (six months ended 30 June 2009: £40 million; year ended 31 December 2009: £85 million) from these arrangements. Included in trade receivables is £3 million (30 June 2009: £2 million; 31 December 2009: £7 million) in relation to these contracts.

Retail supply contracts
In the normal course of business the Group has contracted to provide power and gas to joint ventures and associates involved in retail supply. During the period the Group derived income of £43 million (six months ended 30 June 2009: £43 million; year ended 31 December 2009: £82 million) from these arrangements. Included in trade receivables is £1 million (30 June 2009: £nil; 31 December 2009: £1 million) in relation to these contracts.

Transportation contracts
In the normal course of business the Group has contracts in place in relation to fuel transportation with one of its jointly controlled entities. During the period the Group incurred costs of £6 million (six months ended 30 June 2009: £5 million; year ended 31 December 2009: £10 million) in relation to these contracts.

Emission certificates
In the normal course of business the Group has contracted to provide emission certificates to one of its associates. During the period the Group derived revenue of £5 million (six months ended 30 June 2009: £3 million; year ended 31 December 2009: £12 million) from these arrangements.

Development fee income
During the six months ended 30 June 2010 the Group received £11 million in development fees from one of its associates (six months ended 30 June 2010: £nil; year ended 31 December 2009: £nil).

14. Events after the reporting period

The Finance Bill 2010 containing draft legislation for some of the proposals announced by the Chancellor in his 22 June 2010 Budget was published on 1 July 2010. The Finance Bill 2010 introduces a reduction in the rate of corporation tax from 28% to 27% from 1 April 2011.

As deferred tax assets and liabilities are measured at tax rates that are enacted or substantively enacted at the end of the reporting period, the reduction in the corporate tax rate from 28% to 27% has not been taken into account in the calculation of the effective tax rate applied in these condensed interim financial statements.

15. Annual report and accounts

Copies of the *Annual Report* are available from the Company's website www.ipplc.com or by calling or writing to International Power plc, Senator House, 85 Queen Victoria Street, London EC4V 4DP or sending an email to ipr.relations@ipplc.com. Telephone: +44 (0)20 7320 8600.

Principal Risks and Uncertainties

Section 4.2.7R of the Disclosure and Transparency Rules, requires an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed interim financial statements and a description of the principal risks and uncertainties for the remaining six months of the year.

An indication of important events and their impacts are outlined on pages 1 to 9 of the Interim Report and the description of principal risks and uncertainties for the remaining six months are set out below.

The principal risks and uncertainties for the remaining six months of the year continue to be those identified earlier in the year, and are set out under the heading 'Our approach to risk and risk management' on pages 18 to 28 of the *Annual Report* (available on www.ipplc.com).

International Power's principal activities are the development, acquisition and operation of power generation plants together with closely related activities, such as desalination and retail. These principal activities are supported by our network of local, regional and corporate offices which carry out activities such as trading, financial management and treasury operations. All of these activities have inherent risks.

The key risks to the Group are summarised as follows:

- financial risks
- market and trading risks
- fuel supply risks
- country and political risks
- construction and operational risks
- health, safety and environment risks
- staffing and human resources risks

Our approach to risk management and governance during 2010 remains the same as previously reported in the *Annual Report*.

Responsibility statement of the Directors in respect of the Interim Report

We confirm that to the best of our knowledge:

- The Condensed Interim Financial Statements have been prepared in accordance with IAS 34 (Interim Financial Reporting) as adopted by the EU;

- The Interim Report includes a fair review of the information required by:

  a) DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the Condensed Interim Financial Statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and

  b) DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the Group during that period; and any changes in the related party transactions to those described in the last set of annual financial statements.

On behalf of the Board

Philip Cox
Chief Executive Officer
9 August 2010

Mark Williamson
Chief Financial Officer
9 August 2010

Independent review report to International Power plc

Introduction

We have been engaged by the Company to review the Condensed Interim Financial Statements in the Interim Report for the six months ended 30 June 2010 which comprises the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows and the related explanatory notes. We have read the other information contained in the Interim Report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the Condensed Interim Financial Statements.

This report is made solely to the Company in accordance with the terms of our engagement to assist the Company in meeting the requirements of the Disclosure and Transparency Rules ('the DTR') of the UK's Financial Services Authority ('the UK FSA'). Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company for our review work, for this report, or for the conclusions we have reached.

Directors' responsibilities

The Interim Report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the Interim Report in accordance with the DTR of the UK FSA. As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union ('the EU'). The Condensed Interim Financial Statements included in this Interim Report has been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the EU.

Our responsibility

Our responsibility is to express to the Company a conclusion on the Condensed Interim Financial Statements in the Interim Report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the Condensed Interim Financial Statements in the Interim Report for the six months ended 30 June 2010 are not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FSA.

Richard Pinckard
For and on behalf of KPMG Audit Plc

Chartered Accountants
8 Salisbury Square
London EC4Y 8BB

9 August 2010

Effective tax rate and interest cover ratio (excluding exceptional items and specific IAS 39 mark to market movements)

The following table shows the effective tax rate and interest cover ratio for the Group (excluding exceptional items and specific IAS 39 mark to market movements) after adjusting for the presentation of results of joint ventures and associates in the consolidated income statement:

	Six months ended 30 June 2010 £m	Six months ended 30 June 2009 (Restated) £m	Year ended 31 December 2009 (Restated) £m
Profit from operations (excluding exceptional items and specific IAS 39 mark to market movements)	**524**	**550**	**1,148**
Add back:			
Share of JVs' and associates' interest	50	54	99
Share of JVs' and associates' taxation	11	33	62
Profit before total interest and taxation	**585**	**637**	**1,309**
Total interest expense (including share of JVs and associates)	(241)	(270)	(538)
Profit before total tax expense	**344**	**367**	**771**
Total income tax expense (including share of JVs and associates)	(75)	(92)	(177)
Profit after tax	**269**	**275**	**594**
Non-controlling interests	(54)	(41)	(101)
Profit attributable to the equity holders (excluding exceptional items and specific IAS 39 mark to market movements)	**215**	**234**	**493**
Effective tax rate	**22%**	**25%**	**23%**
Interest cover ratio	**2.4x**	**2.4x**	**2.4x**

Tax for the six month period ended 30 June 2010 is charged at 22% (six months ended 30 June 2009: 25%; year ended 31 December 2009: 23%) representing the best estimate of the average annual effective tax rate expected for the full year, applied to the pre-tax income of the six month period. As discussed in note 14, the proposed reduction in the corporate tax rate from 28% to 27%, as set out in the July 2010 Finance Bill, has not been taken into account in the calculation of the effective tax rate applied in these condensed interim financial statements.

Disclaimer

This announcement includes certain forward-looking statements. These statements are based on current expectations and projections of the Group about future events. However, by their nature forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that will or may occur in the future. Actual results may differ from those expressed in such statements, depending on a variety of factors including, but not limited to, the economic and business circumstances occurring from time to time in the countries in which the Group operates, changes in trends in the general, global or regional economies, changes in trends in the global energy sector, changes in regulation and natural disasters or other calamities. The Company undertakes no obligation to update any forward-looking statements.

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About International Power

International Power plc is a leading independent electricity generating company with 34,408MW gross (20,949MW net) in operation and 4,502MW gross (1,393MW net) under construction. International Power has power plants in operation or under construction in Australia, the United States of America, the United Kingdom, Belgium, Canada, France, Germany, Italy, the Netherlands, Portugal, Spain, Turkey, Bahrain, Oman, Qatar, Saudi Arabia, the UAE, Indonesia, Pakistan, Puerto Rico and Thailand. International Power is listed on the London Stock Exchange with ticker symbol IPR. Company website: www.ipplc.com