

8 EXCEPTIONAL ITEMS AND SPECIFIC IAS 39 MARK TO MARKET MOVEMENTS

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

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

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

	Year ended 31 December 2006 £m	Year ended 31 December 2005 £m
Mark to market movements	132	(47)
Amounts recognised in revenue	132	(47)
Impairment reversal of Deeside plant	36	–
Impairment reversal of Rugeley plant	–	52
Mark to market movements	(68)	5
Amounts recognised in cost of sales	(32)	57
Compensation in respect of the tolling agreement with TXU	14	58
Compensation in respect of breach of contract	5	–
Amounts recognised in other operating income	19	58
Mark to market movements	6	7
Amounts recognised in share of results of joint ventures and associates	6	7
Profit on disposal of Tri Energy	–	4
Profit on disposal of shares in Interconnector UK	–	3
Profit on disposal of land in Thailand	–	3
Amounts recognised in disposal of investments	–	10
Mark to market movements	(26)	–
Amounts recognised in finance expenses	(26)	–
Taxation on Deeside plant impairment reversal	(11)	–
Taxation on Rugeley plant impairment reversal	–	(16)
Taxation on compensation in respect of the tolling agreement with TXU	(4)	(17)
Taxation on disposal of shares in Interconnector UK and on disposal of land in Thailand	–	(1)
Taxation on mark to market movements	(10)	13
Taxation on exceptional items and specific IAS 39 mark to market movements	(25)	(21)
Total exceptional items and specific IAS 39 mark to market movements after attributable taxation	74	64

In the year ended 31 December 2006, Rugeley Power received further payments from the TXU Administrators amounting to £16 million. An exceptional gain of £14 million has been recorded, net of payments to creditors.

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

At the end of 2006 the Group carried out a review of the recoverable amount of its Deeside power plant based on its estimated value in use. This led to the full impairment reversal of the remaining £36 million impairment charge previously booked against this asset (refer note 14).

In order to separately identify specific IAS 39 mark to market movements, these adjustments are separately identified within the table, described as 'mark to market movements'. For the year ended 31 December 2006 the impact of these adjustments on profit before tax is a profit of £44 million and on tax expense a charge of £10 million. For the year ended 31 December 2005 the impact of these adjustments on profit before tax is an expense of £35 million and on tax expense a credit of £13 million.

The mark to market movement recognised within finance expenses includes a charge of £28 million (2005: £nil) in respect of the fair value gains and losses on the 3.25% convertible euro bonds 2013. The conversion feature of the 3.75% convertible US dollar bonds 2023 is recognised in equity (refer note 25).

9 TAX

	Year ended 31 December 2006 £m	Year ended 31 December 2005 £m
a) Income tax expense for the year		
Current tax charge		
UK corporation tax charge	52	25
Foreign tax	40	27
Adjustments in respect of prior years	6	2
Total current tax charge for the year	98	54
Deferred tax charge		
Origination and reversal of temporary differences	64	43
Benefits of tax losses recognised	(15)	(8)
Total deferred tax charge for the year	49	35
Income tax expense excluding exceptional items and specific IAS 39 mark to market movements	122	68
Income tax expense on exceptional items and specific IAS 39 mark to market movements	25	21
Total income tax expense for the year	147	89

Included in the income tax expense are the following amounts relating to exceptional items and specific IAS 39 mark to market movements, included in:

	Year ended 31 December 2006 £m	Year ended 31 December 2005 £m
Revenue (deferred tax)	33	(14)
Cost of sales (deferred tax)	(4)	18
Other operating income (current tax)	4	17
Share of results of joint ventures and associates (deferred tax)	–	(1)
Disposal of investments (current tax)	–	1
Finance expenses (deferred tax)	(8)	–
Income tax expense on exceptional items and specific IAS 39 mark to market movements	25	21

The deferred tax charge is derived as follows: £46 million from UK operations (2005: £11 million) and £3 million from foreign operations (2005: £24 million).

	Year ended 31 December 2006 £m	Year ended 31 December 2005 £m
Income tax charged to:		
Income statement	147	89
Equity	(43)	(46)
	104	43