

## 12 GOODWILL

	<b>31 December 2006</b>	31 December 2005
	<b>£m</b>	£m
<b>Cost</b>		
At 1 January	<b>189</b>	197
Acquired through business combinations	<b>40</b>	2
Eliminated on partial disposal of a subsidiary	–	(9)
Exchange differences	<b>(3)</b>	(1)
<b>At 31 December</b>	<b>226</b>	189

The addition of £40 million in 2006 relates to the acquisition of Coletto Creek (refer note 31(a)).

Given the geographical diversity of the Group's power plants and the nature of their operations, for impairment testing purposes the Directors consider that each power plant owning subsidiary is a separate cash generating unit. The following cash generating units have significant carrying amounts of goodwill:

	<b>31 December 2006</b>	31 December 2005
	<b>£m</b>	£m
First Hydro (UK)	<b>153</b>	153
Coletto Creek (US)	<b>38</b>	–
Turbogás (Portugal)	<b>26</b>	27
IPO (Czech Republic)	<b>8</b>	7
Others	<b>1</b>	2
	<b>226</b>	189

The Group tests goodwill for impairment annually or when there is an indication that goodwill might be impaired. The cash generating units' recoverable amounts are determined from value in use calculations. These are based on projected cash flows, which may extend forward as much as 40 years, from individual project whole life asset models. These cash flows have been discounted using rates in the range 6% to 13% on a pre-tax basis. Key assumptions include the discount rates and market prices for electricity and fuel costs over the lives of the assets. These market prices are considered in the light of forward price curves (which represent the Group's view as to prices at which customers would currently contract for delivery or settlement of commodities, such as power or gas, at future dates) and forecast demand and supply growth over the lives of the assets. The projected cash flows extend over the whole of the assets' expected lives as this best reflects the long-term nature of the returns generated by the long-life assets. Pre-tax risk adjusted discount rates take into account current market assessments of the time value of money and risks specific to the respective cash generating unit.