22 DERIVATIVE FINANCIAL INSTRUMENTS

	31 December 2006		31 December 2005	
	Assets £m	**Liabilities £m**	Assets £m	Liabilities £m
Energy derivatives	**236**	**362**	267	661
Interest rate swaps	**15**	**9**	1	26
Options over equity	**30**	**59**	–	–
	281	**430**	268	687
Current	**243**	**204**	268	496
Non-current	**38**	**226**	–	191
	281	**430**	268	687

The Group utilises interest rate swaps to manage its interest rate exposures by swapping an element of its borrowings from floating rates to fixed rates. As at 31 December 2006, the total notional value of interest rate swaps was £2,007 million (2005: £1,416 million).

The Group utilises foreign currency exchange contracts to manage its foreign exchange rate exposures. As at 31 December 2006, the total notional value of these contracts was £45 million (2005: £6 million) and the mark to market was £nil (2005: £nil).

The Group owns purchased call options over the equity of various energy related businesses. The Group already has an equity interest in some of these businesses. The Group has convertible bonds which can convert into Ordinary Shares of International Power plc. The conversion feature in the 3.25% convertible euro bond is accounted for as an embedded derivative (refer note 25).

23 CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise bank balances and cash held by the Group and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximates to their fair value.

	31 December 2006 £m	31 December 2005 £m
Cash and cash equivalents in the cash flow statement	**980**	620

The total cash and cash equivalents balance includes £211 million (2005: £71 million) of cash which is considered to be 'restricted' as it is primarily to secure amounts required for debt repayments and letters of credit.

24 ASSETS HELD FOR SALE

On 22 December 2006, the shareholders of Malakoff Berhad approved the sale of their wholesale power generating business to MMC, another Malaysian corporate, for 10.35 Malaysian ringgits per share. The sale process is expected to be completed in the first half of 2007. The estimated proceeds, from the sale of International Power's shareholding in Malakoff Berhad, are significantly more than the 31 December 2006 carrying amount of £128 million. As at 22 December 2006, the carrying amount was reclassified from investments in joint ventures and associates to non-current assets classified as held for sale. The asset held for sale is included within the Asia region segmental assets shown in note 2. International Power's share of Malakoff's earnings are included within the Asia region segmental results.

25 LOANS AND BONDS

	31 December 2006 £m	31 December 2005 £m
a) Interest-bearing loans and bonds (current)		
Current portion of secured bank loans	**231**	187
Secured bonds	**10**	–
	241	187
b) Interest-bearing loans and bonds (non-current)		
Secured bank loans	**3,209**	2,721
Secured bonds	**668**	445
Preferred equity facility	**152**	173
3.75% Convertible US dollar bonds 2023	**113**	125
3.25% Convertible euro bonds 2013	**124**	–
	4,266	3,464
Total interest-bearing loans and bonds	**4,507**	3,651

25 LOANS AND BONDS continued

Secured bank loans and secured bonds

The bank loans and bonds with a carrying amount of £4,118 million are secured by fixed and floating charges over the assets of certain subsidiaries. Substantially all of the Group's power stations, generating assets and other operating assets are financed under facilities which are non-recourse to International Power plc and secured solely on the assets of the subsidiary concerned.

Preferred equity facility

The preferred equity facility comprises US$300 million in preference shares which were issued by Impala Magpie Limited to Mitsui Power Ventures Limited for the purposes of financing the acquisition of the EME portfolio which was completed in December 2004.

Impala Magpie Limited is a 70% owned subsidiary of International Power plc and Mitsui Power Ventures Limited is a wholly-owned subsidiary of Mitsui & Co of Japan. Mitsui Power Ventures Limited is International Power's partner in IPM Eagle LLP, which is the owner of the assets formerly owned by Edison Mission Energy, and Saltend.

The preference shares entitle the holder to a preferred dividend coupon of US dollar LIBOR plus 2%. The preference shares are redeemable from 16 December 2008 and may also be redeemed if funds become available following the sale of certain assets.

International Power (Impala), a wholly-owned subsidiary of International Power plc, has granted Mitsui Power Ventures Limited a put option to sell 70% of the preference shares it holds on the date of exercise. The put option is exercisable in certain circumstances, including where Impala Magpie Limited fails to redeem the preference shares on maturity.

International Power plc has agreed to guarantee International Power (Impala)'s obligations to Mitsui & Co of Japan and Mitsui Power Ventures Limited.

3.75% Convertible US dollar bonds 2023

On 22 August 2003, International Power (Jersey) Limited, a wholly-owned subsidiary company incorporated in Jersey, issued US$252.5 million 3.75% convertible notes due 2023, convertible into preference shares of International Power (Jersey) Limited at the holder's option, immediately exchangeable for Ordinary Shares of, and unconditionally guaranteed by, International Power plc.

The notes are convertible into Ordinary Shares of International Power plc at a conversion price of 173p at any time up to 12 August 2023. Each US$1,000 principal amount of notes will entitle the holder to convert into a US$1,000 paid-up value of preference shares of International Power (Jersey) Limited. The notes may be redeemed at the holder's option at their principal amount, together with accrued interest, to the date fixed for redemption.

The convertible bonds mature in August 2023 but with bondholders having the right to put the bond back to the Group in August 2010, 2013, 2018 and 2023.

If the conversion option is not exercised, the convertible unsecured notes will be redeemed on 22 August 2023 at a redemption price equivalent to their principal amount.

Following the extinguishment of a cash settlement option on 17 January 2005, the remaining conversion feature, being an equity call option held by the bondholders was recognised in equity. The remaining debt element of the convertible bond accretes to par value over the life of the bond at a constant periodic rate based on its carrying amount.

The interest charged for the year is calculated by applying an effective interest rate of 3.65% to the liability component for the period since the convertible US dollar bond was issued. This is in addition to the coupon interest rate of 3.75% per annum.

The Directors estimate the fair value of the liability component of the convertible US dollar bonds at 31 December 2006 to be approximately £114 million (31 December 2005: £125 million). This fair value has been determined by reference to the market price at 31 December 2006.

3.25% Convertible euro bonds 2013

On 20 July 2006, International Power Finance (Jersey) II Limited, a wholly-owned subsidiary company incorporated in Jersey, issued €230 million 3.25% convertible notes due 2013, convertible into preference shares of International Power Finance (Jersey) II Limited at the holder's option, immediately exchangeable for Ordinary Shares of, and unconditionally guaranteed by, International Power plc.

The notes are convertible into Ordinary Shares of International Power plc at a conversion price of 391p at any time up to 20 July 2013. Each €50,000 principal amount of notes will entitle the holder to convert into a €50,000 paid-up value of preference shares of International Power Finance (Jersey) II Limited. The notes may be redeemed at the holder's option at their principal amount, together with accrued interest, to the date fixed for redemption.

If the conversion option is not exercised, the convertible unsecured notes will be redeemed on 20 July 2013 at a redemption price equivalent to their principal amount.

	31 December 2006 £m
Net proceeds of convertible euro bonds issued	**152**
Embedded derivative component	**(30)**
Liability component at date of issue	**122**
Interest charged	**2**
Liability component at 31 December	**124**

The net proceeds received from the issue of the convertible bond have been split between the debt element and an embedded derivative component. This embedded derivative component represents the fair value of the equity conversion call option held by the bondholders.

The interest charged for the year is calculated by applying an effective interest rate of 3.39% to the liability component for the period since the convertible euro bond was issued. This is in addition to the coupon interest rate of 3.25% per annum.

The Directors estimate the fair value of the liability component of the convertible euro bonds at 31 December 2006 to be approximately £133 million. This fair value has been determined by reference to the market price at 31 December 2006.