

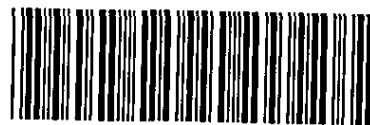
NATIONAL POWER (KOT ADDU) LIMITED

Company No: 3184309

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

For the year ended 31 December 2006

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NATIONAL POWER (KOT ADDU) LIMITED

Directors' report

The Directors present their report and audited financial statements for the year ended 31 December 2006

Principal activities

The Company has a 36% interest in Kot Addu Power Company Ltd ("KAPCO"), which owns a 1600MW oil and gas fired combined cycle plant in Pakistan. KAPCO generates power for the Water and Power Development Authority of Pakistan (WAPDA), under a 25-year agreement. The Company acts as a holding company for this investment.

Business review

The results of the Company are as follows

| | Year ended 31 December 2006 £'000 | Year ended 31 December 2005 £'000 |
|-------------------------------|---|---|
| Profit for the financial year | 21,524 | 22,123 |

As shown in the profit and loss account on page 6, the profit in the year is comparable with 2005, as a similar level of income was received from investments in associates.

The balance sheet on page 7 of the financial statements shows the Company's financial position at the year end. The net assets have increased by £1,000 due to the net difference between the dividend received and the amounts declared and paid as dividends to the parent.

The Directors approved dividends of £11.115 million and £10.408 million on 31 May 2006 and 20 November 2006 respectively (2005: £25.5 million).

Future developments

The Company has no significant future developments to report.

There have been no significant events since the balance sheet date which should be considered for a proper understanding of these financial statements.

Principal risks and uncertainties

Currency risk

The company is exposed to foreign exchange risk on dividends or other funds remitted from the Company's overseas investments.

For 2006 and 2005 average and year-end sterling rates for the major currency, which is significant to the Company, were

| | <u>Average</u> | | <u>Year end</u> | |
|-----------------|----------------|-------------|-----------------|-------------|
| | <u>2006</u> | <u>2005</u> | <u>2006</u> | <u>2005</u> |
| US dollar | 1.8452 | 1.8225 | 1.9572 | 1.7168 |
| Pakistan rupees | 111.2574 | 108.5599 | 119.1510 | 102.6450 |

Directors

The Directors who held office during the financial year were as follows -

A S J Ramsay
M D Williamson

Employees

Details of the number of employees and related costs can be found in note 2 to the financial statements.

NATIONAL POWER (KOT ADDU) LIMITED

Directors' report (continued)

Directors' and officers' liability insurance

During the year ended 31 December 2006, the Company's ultimate parent company, International Power plc, maintained insurance for the Directors to indemnify them against certain liabilities which they may incur in their capacity as Directors or officers of the Company, including liabilities in respect of which the Company itself is unable to provide an indemnity by virtue of Section 310 of the Companies Act 1985

Charitable contributions

The Company made no charitable contributions in the year (2005 – £nil)

Political donations

The Company made no political donations in the year (2005 – £nil)

Disclosure of information to Auditors

As at the date of approval of this Directors' Report, each of the Directors of the Company confirm that so far as they are aware, there is no relevant audit information of which the Company's auditors are unaware and each Director has taken all steps that they ought to have taken as a director to make themselves aware of any relevant audit information, and to establish that the Company's auditors are aware of that information

Auditor

In accordance with section 386 of the Companies Act 1985, the Directors of the Company have passed an elective resolution, in order to dispense with the obligation to appoint auditors annually KPMG Audit Plc will continue to act as auditor of the Company

By order of the Board



A S J Ramsay
Company Secretary
13 September 2007

NATIONAL POWER (KOT ADDU) LIMITED

Statement of Directors' responsibilities in respect of the Directors' report and the financial statements

The Directors are responsible for preparing the Directors' report and the financial statements in accordance with applicable law and regulations

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice)

The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period

In preparing these financial statements, the Directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities

Independent auditor's report to the members of National Power (Kot Addu) Limited

We have audited the financial statements of National Power (Kot Addu) Limited for the year ended 31 December 2006 which comprise the Profit and Loss Account, the Balance Sheet, the Reconciliation of Movements in Shareholder's Funds and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's 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 and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' responsibilities on page 4.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether, in our opinion, the information given in the Directors' report is consistent with the financial statements.

In addition, we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read the Directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2006 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' report is consistent with the financial statements.

KPMG Audit Plc

KPMG Audit Plc
Chartered accountants
Registered auditor
14 September 2007

8 Salisbury Square
London
EC4Y 8BB

NATIONAL POWER (KOT ADDU) LIMITED

**Profit and loss account
for the year ended 31 December 2006**

| | Notes | Year ended 31 December 2006 £'000 | Year ended 31 December 2005 £'000 |
|--|-------|---|---|
| Operating expenses | | - | (38) |
| Operating loss from ordinary activities | | - | (38) |
| Investment income | 4 | 23,269 | 23,958 |
| Profit on ordinary activities before taxation | | 23,269 | 23,920 |
| Tax on profit on ordinary activities | 5 | (1,745) | (1,797) |
| Profit for the financial year | | 21,524 | 22,123 |

The Company had no other recognised gains or losses for the year (2005 £nil)

The notes on pages 9 to 12 form part of these financial statements

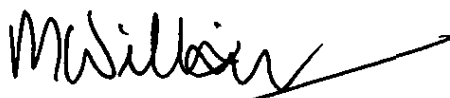
NATIONAL POWER (KOT ADDU) LIMITED

Balance sheet as at 31 December 2006

| | Notes | 31 December 2006 £'000 | 31 December 2005 £'000 |
|--|-------|---------------------------|---------------------------|
| Fixed assets | | | |
| Other investment | 6 | 97,416 | 97,416 |
| Current assets | | | |
| Debtors amounts falling due within one year | 7 | 237 | 237 |
| Creditors amounts falling due within one year | 8 | (23,400) | (23,400) |
| Net current liabilities | | (23,163) | (23,163) |
| Total assets less current liabilities | | 74,253 | 74,253 |
| Creditors amounts falling due after more than one year | 9 | (3,376) | (3,377) |
| Net assets | | 70,877 | 70,876 |
| Capital and reserves | | | |
| Called up share capital | 10 | - | - |
| Capital reserve | 11 | 69,330 | 69,330 |
| Profit and loss account | 11 | 1,547 | 1,546 |
| Equity shareholders' funds | | 70,877 | 70,876 |

The notes on pages 9 to 12 form part of these financial statements

These financial statements were approved and authorised for issue by the Board of Directors on 13 September 2007 and signed on its behalf by



M D Williamson
Director

NATIONAL POWER (KOT ADDU) LIMITED**Reconciliation of movements in shareholder's funds
for the year ended 31 December 2006**

| | Notes | Year ended 31 December 2006 £'000 | Year ended 31 December 2005 £'000 |
|--|-------|---|---|
| Shareholder's funds at beginning of year | | 70,876 | 4,923 |
| Capital contribution | 11 | - | 69,330 |
| Profit for the financial year | 11 | 21,524 | 22,123 |
| Dividends paid | 11 | <u>(21,523)</u> | <u>(25,500)</u> |
| Shareholder's funds at end of year | | <u>70,877</u> | <u>70,876</u> |

The notes on pages 9 to 12 form part of these financial statements

NATIONAL POWER (KOT ADDU) LIMITED

Notes to the financial statements

1. Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements

a. Basis of preparation

The financial statements have been prepared on a going concern basis, under the historical cost convention and in accordance with applicable accounting standards

Under section 228 of the Companies Act 1985, the Company is exempt from the requirement to prepare consolidated group accounts on the grounds that its results are included in the accounts of its parent undertaking International Power plc. Consequently, the financial statements present information about the Company as an individual undertaking and not its group

b. Cash flow statement

Under FRS 1, the Company is exempt from the requirement to prepare a cash flow statement on the grounds that it is a wholly owned subsidiary undertaking included within publicly available consolidated financial statements

c. Fixed asset investments

Fixed asset investments are stated at cost less provision for any impairment

d. Foreign currencies

Transactions denominated in foreign currencies arising in the normal course of business are translated into sterling at the exchange rate ruling on the date the transaction takes place unless related or matching forward foreign exchange contracts have been entered into, when the rate specified in the contract is used. Monetary assets and liabilities expressed in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Exchange differences arising in the normal course of business and on the translation of monetary assets and liabilities are dealt with in the profit and loss account

2. Directors' and employees' remuneration

None of the Directors received any fees or emoluments during the period directly attributable to their positions within the Company (2005 £nil). The Company had no employees during this financial period or the previous financial year

3. Auditor's remuneration

The auditor's remuneration of £2,700 in respect of the statutory audit for 2006 (2005 £2,500) is borne by International Power plc, the Company's ultimate holding company

4. Investment income

| | Year ended 31 December 2006 £'000 | Year ended 31 December 2005 £'000 |
|---|---|---|
| Dividends received from fixed asset investments | 23,269 | 23,958 |

NATIONAL POWER (KOT ADDU) LIMITED

Notes to the financial statements (continued)

5. Tax on profit on ordinary activities

| Analysis of charge in period | Year ended 31 December 2006 £'000 | Year ended 31 December 2005 £'000 |
|---|---|---|
| Foreign tax | 1,745 | 1,797 |
| Current tax reconciliation | Year ended 31 December 2006 £'000 | Year ended 31 December 2005 £'000 |
| Profit on ordinary activities before taxation | 23,269 | 23,920 |
| Current tax charge at 30% (2005 30%) | 6,981 | 7,176 |
| Double tax relief | (5,236) | (5,379) |
| Total current tax charge | 1,745 | 1,797 |

6. Fixed asset investments

The Company has the following investments in associates

| Name and nature of business | Country of incorporation and registration | Type of share | Ownership |
|--|---|-----------------|-----------|
| Kot Addu Power Company Limited (power generation) | Pakistan | Ordinary shares | 36% |
| | | | £'000 |
| At 1 January 2006 and 31 December 2006 | | | 97,416 |

At 31 December 2006 and 31 December 2005, the Directors are of the opinion that the fair value of the investments is not materially different to the book value

7. Debtors: amounts falling due within one year

| | 31 December 2006 £'000 | 31 December 2005 £'000 |
|-------------------------------------|---------------------------|---------------------------|
| Amounts due from group undertakings | 237 | 237 |

8. Creditors: amounts falling due within one year

| | 31 December 2006 £'000 | 31 December 2005 £'000 |
|-----------------------------------|---------------------------|---------------------------|
| Amounts due to group undertakings | 62 | 62 |
| Taxation | 23,338 | 23,338 |
| | 23,400 | 23,400 |

NATIONAL POWER (KOT ADDU) LIMITED

Notes to the financial statements (continued)

9. Creditors: amounts falling due after more than one year

| | 31 December 2006 | 31 December 2005 |
|---|-------------------------|-------------------------|
| | £'000 | £'000 |
| Amounts due to group undertakings | 3,376 | 3,377 |
| Amounts falling due After more than five years | 3,376 | 3,377 |

There is neither a fixed repayment schedule nor a loan service requirement on amounts due to the group undertakings

10. Share capital

| | 31 December 2006 | 31 December 2005 |
|----------------------------------|-------------------------|-------------------------|
| | £ | £ |
| Authorised | | |
| 1,000 ordinary shares of £1 each | 1,000 | 1,000 |
| Issued and fully paid | | |
| 2 ordinary shares of £1 each | 2 | 2 |

11. Reserves

| | Share capital | Capital reserve | Profit and loss account | Total |
|---------------------------------------|----------------------|------------------------|--------------------------------|--------------|
| | £'000 | £'000 | £'000 | £'000 |
| Balance as at 1 January 2006 | - | 69,330 | 1,546 | 70,876 |
| Profit for the year | - | - | 21,524 | 21,524 |
| Dividends | - | - | (21,523) | (21,523) |
| Balance as at 31 December 2006 | - | 69,330 | 1,547 | 70,877 |
| | Share capital | Capital reserve | Profit and loss account | Total |
| | £'000 | £'000 | £'000 | £'000 |
| Balance as at 1 January 2005 | - | - | 4,923 | 4,923 |
| Capital contribution | - | 69,330 | - | 69,330 |
| Profit for the year | - | - | 22,123 | 22,123 |
| Dividends | - | - | (25,500) | (25,500) |
| Balance as at 31 December 2005 | - | 69,330 | 1,546 | 70,876 |

NATIONAL POWER (KOT ADDU) LIMITED

Notes to the financial statements (continued)

11. Reserves (continued)

Pursuant to a letter dated 9 August 2005, International Power plc decided to make a capital contribution (the "Capital Contribution") to the Company, by capitalising the balance as at 31 December 2004 of the intercompany sterling loan owed by the Company to International Power plc. The Capital Contribution is non-repayable and non-refundable, and constitutes a non-distributable reserve. The effective date of the Capital Contribution is 1 January 2005.

The Directors approved dividends of £11 115 million and £10 408 million on 31 May 2006 and 30 November 2006 respectively (2005: £25 5 million).

12. Related party disclosure

As at 31 December 2006 and 31 December 2005, the Company was a wholly owned subsidiary of International Power plc. The Company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the group.

The consolidated financial statements of International Power plc within which this Company is included, can be obtained from the address given in note 13.

13. Controlling party and ultimate parent undertaking

As at 31 December 2006 and 31 December 2005, National Power (Kot Addu) Limited was controlled by International Power plc.

As at 31 December 2006 and 31 December 2005, the smallest and largest higher group of undertakings for which group accounts are prepared was for International Power plc.

As at 31 December 2006 and 31 December 2005, International Power plc was the Company's ultimate holding company. Copies of the accounts of International Power plc may be obtained from the following address:

Senator House
85 Queen Victoria Street
London
EC4V 4DP