International Power

ANNUAL REPORT 2004

Our core business values

Financial discipline

Integrity of communication

Respect for the individual

Substance with style

Team first culture

Contents

FINANCIAL HIGHLIGHTS

	Year ended 31 December 2004	Year ended 31 December 2003
	£m	£m
Turnover (including joint ventures and associates)	**1,267**	1,273
Profit/(loss) on ordinary activities before interest and taxation		
Excluding exceptional items	**287**	285
Including exceptional items	**302**	(57)
Profit/(loss) on ordinary activities before taxation		
Excluding exceptional items	**164**	174
Including exceptional items	**148**	(184)
Earnings/(loss) per share (EPS) in pence †		
Basic excluding exceptional items	**8.3p**	9.1p
Basic including exceptional items	**7.2p**	(17.6)p
Operating cash flow	**267**	285
Free cash flow – see page 26	**104**	125
Capital expenditure		
Maintenance	**(59)**	(64)
Growth	**(158)**	(57)
Acquisitions		
Edison Mission Energy assets	**1,073**	–
Turbogás	**135**	–

	As at 31 December 2004	As at 31 December 2003 (restated)*
	£m	£m
Net assets	**2,062**	1,560
Net debt	**2,739**	692
Gearing	**133%**	44%
Debt capitalisation	**57%**	31%

† *Adjusted for the Rights Issue*

* *Restated for the adoption of UITF38 Accounting for ESOP Trusts (see note xvii: New accounting standards on page 76)*

CHAIRMAN'S STATEMENT

2004 WAS A TRANSFORMATIONAL YEAR FOR YOUR COMPANY WHICH SAW ITS BUSINESS RESTRUCTURED TO CREATE A PLATFORM FOR IMMEDIATE AND MORE VISIBLE EARNINGS AND CASH FLOW GROWTH. THE KEY TASKS FOR 2005 ARE THE INTEGRATION AND CONSOLIDATION OF OUR ACQUISITIONS WITHIN THE EXISTING PORTFOLIO WHILST ENSURING WE DELIVER ON OUR COMMITMENTS TO SHAREHOLDERS.

2004 was a transformational year for your Company which saw its business restructured to create a platform for immediate and more visible earnings and cash flow growth, resulting in the Board announcing its intention to commence paying a dividend.

The strengthened platform for the Group was primarily created through the acquisitions of the international generation portfolio of Edison Mission, and of Turbogás in Portugal, underpinned by a successful Rights Issue that raised £286 million in September 2004. Importantly, we also successfully restructured the financing of the non-recourse project debt of ANP, our US subsidiary company.

In addition to these important strategic moves, the Company's existing assets performed well to produce earnings at the top end of our EPS guidance for the year. We delivered an EPS (excluding exceptional items) of 8.3p as compared to 9.1p last year (both adjusted for the Rights Issue), down as we predicted because of continued weak markets in the US, namely in Texas and New England. We had anticipated that our US markets would remain subdued, but we remain confident that our modern, efficient US portfolio will benefit from market recovery in the medium-term when the oversupply position has corrected.

Our regional portfolios in Europe, the Middle East, Australia and Asia all had a good year, demonstrating the strength of our regional spread and our mix of long-term contracted and merchant output.

A more detailed review of our regional business is set out in our Chief Executive's report.

In my statement last year, I said that although we were actively reviewing growth opportunities, the key priority for 2004 was the restructuring of the non-recourse debt facility for our US merchant plant. We achieved this with a limited cash contribution from the parent company providing financial stability for the US assets until the expected market recovery. With this restructuring behind us, we were able to convert selected growth opportunities into real shareholder value by acquiring in November a majority interest in Turbogás (a 990 MW gas fired power station in Portugal) and in December, in a 70:30 partnership with Mitsui & Co of Japan, the Edison Mission international portfolio (which increased our generating capacity by a further 3,202 MW). These newly acquired assets represent an excellent regional fit with our existing portfolio and increase the percentage of our output sold under good long-term contracts, providing increased stability and visibility to our cash flow and earnings.

These acquisitions would not have been possible without two very important contributions. One was from the employees of the Group, led by the new executive management team put in place by Philip Cox, Chief Executive Officer, at the start of 2004. The team all put in a tremendous amount of work to implement successfully the refinancing and the acquisitions, whilst still ensuring

good operational performance of the existing assets. I am very grateful for the enthusiasm, commitment and professionalism of all our employees in the last year. The other very significant contribution was the financial support provided by our shareholders in funding the Rights Issue to ensure we could finance these acquisitions. The success of the Rights Issue demonstrated the confidence that the shareholders have in our management team and in the transactions we announced – I would like to thank our shareholders for their support.

Having reviewed the impact of these acquisitions on our earnings and cash flow, the Board now feels it is appropriate for the Company to start paying dividends to shareholders. Subject to approval at the forthcoming Annual General Meeting (AGM), the Board proposes to pay a dividend of 2.5p a share for 2004 payable in the summer of 2005.

In future the Board will propose an annual dividend at the time of our preliminary results, taking into account the outlook for future earnings, free cash flow generation and the investment opportunities available to the Group to deliver further growth and shareholder value.

For 2005 the Board expects to maintain a dividend pay-out ratio similar to the 30% level provided for the 2004 dividend. We expect then to move progressively towards a pay-out ratio of 40% in the medium-term.

This year we report against the new Combined Code for the first time, and, in the few instances where we do not comply fully with these requirements, we explain why this is the case. We are also required to comply with the US Sarbanes-Oxley Act, due to our listing in New York.

In 2004 we welcomed Struan Robertson to our Board as a new Non-Executive Director. Struan's appointment was made following a recruitment exercise carried out by external consultants. Along with his engineering background, Struan also brings excellent international business experience gained at a senior level within the energy sector at BP.

The key tasks for 2005 are the integration and consolidation of our acquisitions within the existing portfolio whilst ensuring that we deliver on the commitments we have given to shareholders, both on earnings and on dividends. It continues to be a time of major restructuring in our industry, and we will also continue to review carefully and selectively growth opportunities if they meet our strategic and financial criteria and clearly add to shareholder value. We have achieved a lot to reposition your Group in 2004, and we intend to deliver in 2005.

Sir Neville Simms
Chairman

CHIEF EXECUTIVE OFFICER'S STATEMENT

2004 WAS A YEAR OF SIGNIFICANT PROGRESS, AS WE COMPLETED A NUMBER OF IMPORTANT STEPS TO STRENGTHEN AND REPOSITION YOUR GROUP FOR BOTH THE IMMEDIATE FUTURE AND THE LONG-TERM, ALONGSIDE DELIVERING RESULTS AT THE TOP END OF OUR EARNINGS GUIDANCE. LOOKING FORWARD, WE HAVE THE CLEAR PRIORITY TO INTEGRATE OUR NEWLY ACQUIRED ASSETS QUICKLY AND EFFICIENTLY TO ENSURE WE DELIVER TO SHAREHOLDERS THE RETURNS WE HAVE PROMISED.

Dear Shareholder

2004 was a year of significant progress, as we completed a number of important steps to strengthen and reposition your Group for both the immediate future and the long-term, alongside delivering results at the top end of our earnings guidance. We are clearly not satisfied that our 2004 profits (excluding exceptional items) were down on 2003 by some 4%, but we do believe the steps taken in 2004 provide a sound basis for an immediate and sustainable growth in earnings and cash flow. Let me explain.

Firstly, we acquired the international generating assets of Edison Mission Energy (EME). This portfolio comprises nine assets in six countries with a net generating capacity of 3,202 MW, representing a significant increase in our total capacity. This was a major acquisition, costing some US$1.9 billion (£972 million), undertaken in a 70:30 partnership with Mitsui of Japan, who we know well through our previous joint developments in Asia and the Middle East. We are delighted to have Mitsui as our partner in this major investment – we have highly complementary skills and aligned objectives. The EME assets are an excellent fit, with seven of the nine assets having secure long-term contracts, and the other two operating in our core merchant markets of the UK and Victoria (Australia). These assets are now being quickly and successfully integrated into our existing regional structure, giving an immediate and significant increase in earnings.

Secondly, we completed the acquisition of a majority stake in Turbogás in Portugal, a modern and efficient 990 MW gas fired plant. This asset, together with our existing investment in Portugal – namely the 600 MW Pego coal fired plant – provides a profitable, cash generative and highly integrated Portuguese portfolio, and positions us very well for the anticipated liberalisation of the Iberian market.

Thirdly, we also completed the restructuring of the US$879 million (£488 million) non-recourse debt facility for our US merchant portfolio. As we flagged last year, the low margins in our US merchant markets resulted in insufficient cash flow to fully meet interest costs. We carefully evaluated all options, and concluded that it was in the best interests of shareholders to retain the upside exposure to the medium-term recovery in our US markets. The restructured facility, extended to 2010, provides a solid capital structure, and we can now fully concentrate on ways of commercially strengthening our US business.

Throughout these major moves, where we were committing a major element of our Group cash reserves and assuming a significant amount of non-recourse debt, we kept our focus on maintaining a prudent capital structure. Our objective was to add no additional debt at the Group centre, and to retain some capacity to execute value-added growth opportunities in our core regions. We concluded that a Rights Issue was the most appropriate option, and I want to thank shareholders for their overwhelming support.

Operationally in 2004, the Group continued to benefit from our portfolio approach, with continued strong performance in four of our five core regions offsetting the anticipated weak performance of our US merchant business.

In the US, margins in our two markets of Texas and New England continued to be low, and insufficient to meet total operating costs. We did a very thorough market analysis to ensure there are solid grounds for anticipating a recovery in the medium-term, namely the 2007 to 2009 timeframe. In the short-term, current forward prices for 2005 also generally show some very modest improvement. Our contracted assets continue to perform very well, and

under the new regional leadership of Bruce Levy, we look forward to reviewing commercial opportunities to maximise returns from our US business.

In Europe, there was continued strong performance from EOP in the Czech Republic, Pego in Portugal and Marmara in Turkey. The UK business saw some improvement in power prices, but as this was principally driven by an increase in gas prices, there was only a minimal impact on profitability.

Our Middle East business continues to grow, with both our developments in Abu Dhabi, namely Shuweihat and Umm Al Nar, making an increased contribution to profits in 2004. High quality growth opportunities, that provide long-term contracted income, continue to be pursued in this region.

In Australia, our strong forward contracted position helped maintain profitability at a time when market prices were softer. Our integrated portfolio in this region was strengthened by the construction of our first wind farm, which is now fully operational, and by the commissioning of the SEA Gas pipeline in South Australia.

Our Asian portfolio is totally covered by long-term offtake contracts and, continued high levels of plant availability, delivered another year of good financial performance.

Our safety, environmental and community programmes continue to have a very high priority throughout the Group – all of our assets have a consistent set of principles and policies, and although each individual initiative is ultimately implemented at a local level, they are co-ordinated, encouraged and reviewed from the Group centre. We are committed to the highest levels of safety and environmental performance at all our plants, and we continually strive to be a participative and supportive neighbour in all the communities in which we operate. The corporate social responsibility section of this report will give you some practical examples of how we translate this commitment into positive actions.

The Group is now well positioned, with a stronger contracted base to our earnings and cash flow, in depth market knowledge and operating skills across all our core regions, a portfolio approach that both mitigates risk and provides upside exposure to recovery in merchant markets, strong partners in our projects, and, very importantly, a solid capital structure based on non-recourse project debt with liquidity at the corporate centre.

Looking forward, we have the clear priority to integrate our newly acquired assets quickly and efficiently to ensure we deliver to shareholders the returns we have promised. We are now implementing detailed integration plans to do precisely that.

We are committed to delivering increased profitability and cash flow. These earnings and cash flow will be used to grow our dividends in line with our declared policy and selectively to grow our portfolio. On growth, our guiding principles remain financial discipline and regional focus, and we will continue only to allocate capital where we see good long-term value for our shareholders.

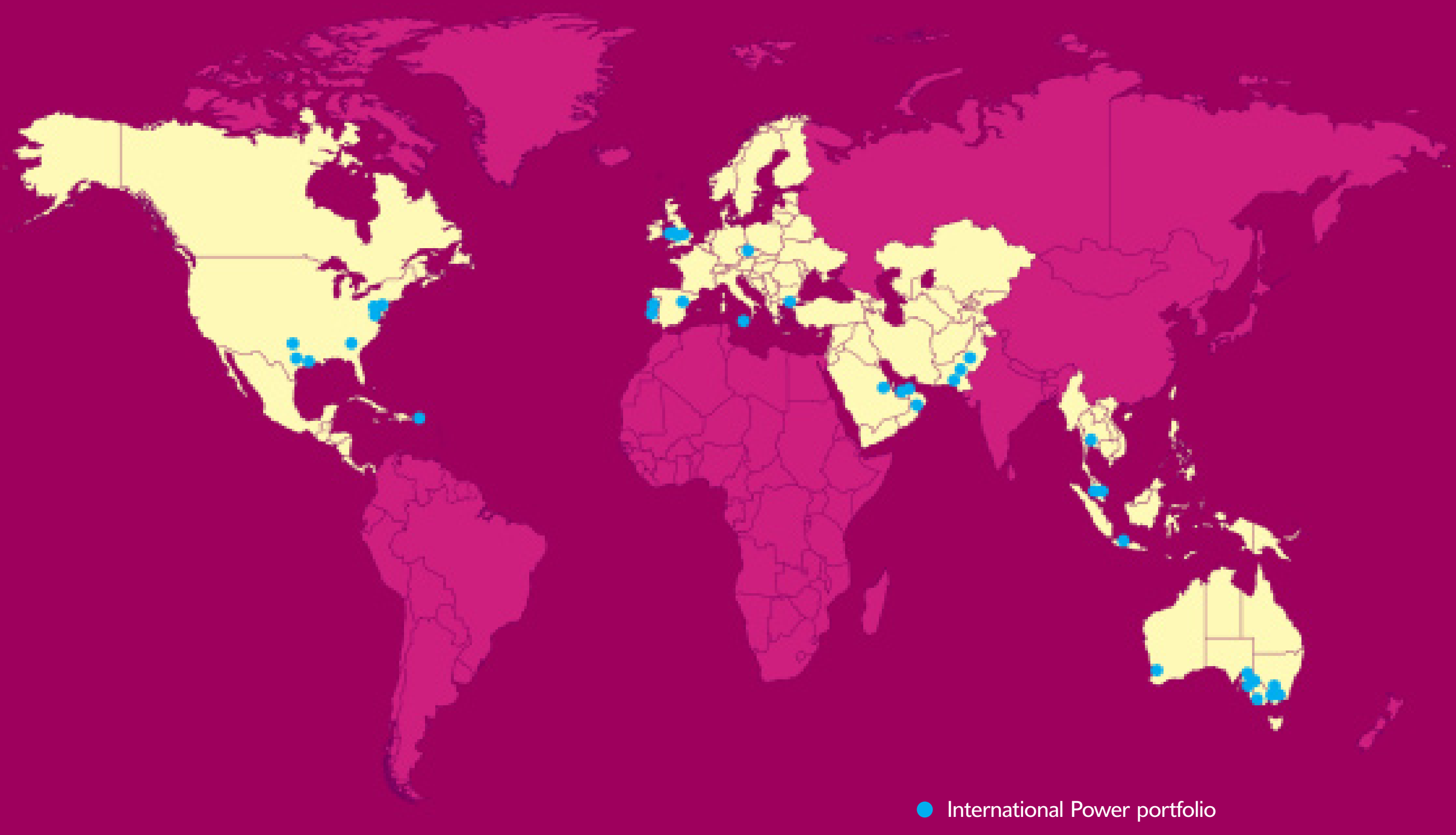
Philip Cox
Chief Executive Officer

ASSET PORTFOLIO

		Fuel/type	Gross capacity power MW	IPR ownership %	Net capacity[2] power MW	Gross capacity heat (MWth) desal (MIGD) steam (million lbs/hr)	IPR net capacity[2] heat (MWth) desal (MIGD) steam (million lbs/hr)
Assets in operation							
North America	Hartwell, Georgia	Gas (OCGT)	310	50	155		
	Hays, Texas[1]	Gas (CCGT)	1,100	100	1,100		
	Midlothian I and II, Texas[1]	Gas (CCGT)	1,650	100	1,650		
	Oyster Creek, Texas	Gas (Cogen/CCGT)	425	50	213	100 MWth	50 MWth
	Bellingham, Massachusetts[1]	Gas (CCGT)	570	100	570		
	Blackstone, Massachusetts[1]	Gas (CCGT)	570	100	570		
	Milford, Massachusetts	Gas (CCGT)	160	100	160		
	EcoEléctrica, Puerto Rico	LNG (CCGT)	524	35	183		
North America total in operation			***5,309***		***4,601***	***100 MWth***	***50 MWth***
Europe	EOP, Czech Republic[3]	Coal/Gas	585	99	580	1,945 MWth	1,925 MWth
	ISAB, Italy	Gas	528	34	181		
	Pego (Tejo Energia), Portugal	Coal	600	45	270		
	Turbogás, Portugal[5]	Gas (CCGT)	990	80	792		
	Spanish Hydro, Spain	Hydro	84	67	57		
	Marmara (Uni-Mar), Turkey	Gas (CCGT)	480	33	160		
	Deeside, UK	Gas (CCGT)	500	100	500		
	Derwent, UK	Gas (CCGT)	214	23	50		
	First Hydro, UK	Pumped storage	2,088	70	1,462		
	Rugeley, UK	Coal	1,050	100	1,050		
Europe total in operation			***7,119***		***5,102***	***1,945 MWth***	***1,925 MWth***
Middle East	Al Kamil, Oman	Gas (OCGT)	285	65	185		
	Umm Al Nar, (Arabian Power Company), UAE	Gas (CCGT)/desalination	870	20	174	162 MIGD	32 MIGD
	Shuweihat S1, UAE	Gas (CCGT)/desalination	1,500	20	300	100 MIGD	20 MIGD
Middle East total in operation			***2,655***		***659***	***262 MIGD***	***52 MIGD***
Australia	Canunda, South Australia	Wind	46	100	46		
	Pelican Point, South Australia	Gas (CCGT)	485	100	485		
	Synergen, South Australia	Various	360	100	360		
	Hazelwood, Victoria	Coal	1,635	92	1,500		
	Loy Yang B, Victoria	Coal	1,000	70	700		
	SEA Gas pipeline, Victoria[4]		n/a	33	n/a		
	Valley Power, Victoria	Gas (CCGT)	300	42	126		
	Kwinana, Western Australia	Gas (CCGT)	118	49	58		
Australia total in operation			***3,944***		***3,275***		
Asia	Paiton, Indonesia	Coal	1,230	31	385		
	Malakoff, Malaysia[3]	Gas (OC/CCGT)	2,863	18	529		
	HUBCO, Pakistan	Oil	1,290	17	214		
	KAPCO, Pakistan	Gas/Oil (CCGT)	1,600	36	575		
	Uch, Pakistan	Gas (CCGT)	586	40	234		
	Pluak Daeng (Thai National Power), Thailand	Gas (Cogen)	110	100	110	20 MWth	20 MWth
Asia total in operation			***7,679***		***2,047***	***20 MWth***	***20 MWth***
TOTAL in operation around the world			**26,706**		**15,684**		

	Fuel/type	Gross capacity power MW	IPR ownership %	Net capacity[2] power MW	Gross capacity heat (MWth) desal (MIGD) steam (million lbs/hr)	IPR net capacity[2] heat (MWth) desal (MIGD) steam (million lbs/hr)
Assets under construction						
Malakoff, Malaysia[3]	Coal	1,890	18	349		
Ras Laffan B, Qatar	Gas (CCGT)	1,025	40	410	60 MIGD	24 MIGD
Tihama, Saudi Arabia	Gas (Cogen)	1,074	60	644	4.5m lbs/hr	2.7m lbs/hr
Umm Al Nar Expansion, UAE	Gas (CCGT)/desalination	1,550	20	310	25 MIGD	5 MIGD
TOTAL under construction around the world		**5,539**		**1,713**		

(1) Capacity shown for these assets is the nameplate capacity.
(2) Net capacity – Group share of gross capacity.
(3) Gross capacity amount shown for EOP and Malakoff represents the actual net interest owned directly or indirectly by EOP and Malakoff, respectively.
(4) 687 km gas pipeline from Victoria to South Australia.
(5) Turbogás net ownership will reduce to 60% (594 MW) during the first half of 2005.



THE TABLES ABOVE AND OPPOSITE SET OUT DETAILS IN RELATION TO OUR OPERATING PLANTS AND PLANTS UNDER CONSTRUCTION AS AT 9 MARCH 2005

OPERATING AND FINANCIAL REVIEW

ABOUT INTERNATIONAL POWER

WE ARE AN INTERNATIONAL POWER GENERATION COMPANY WITH INTERESTS IN 16 COUNTRIES COVERING FOUR CONTINENTS. WE ORGANISE OUR BUSINESS INTO FIVE REGIONS: NORTH AMERICA, EUROPE, MIDDLE EAST, AUSTRALIA AND ASIA.

Our business

International Power is a global power generation company with interests in more than 26,700 MW (gross) of generating capacity worldwide. Since demerger in October 2000, the Company has grown significantly with an increase of over 50% in generation capacity through successful acquisitions and greenfield developments in our core markets – North America, Europe, Middle East, Australia and Asia.

Our core skill is power generation – using gas, coal, oil and renewable energy sources. At various assets within the portfolio, we are creating additional value through expansion into complementary activities and closely linked businesses. These include water desalination, district heating, open-cast coal mining and gas transportation. For example, we are now the largest private producer of water in the Middle East and one of the largest providers of district heating services in the Czech Republic.

High environmental standards and robust environmental performance are an integral part of all our operations. The corporate social responsibility section in this report (see pages 46 to 51) sets out how we manage environmental impacts, and also reports on health and safety and our relationships with the communities in which we operate.

We create value through efficient technical operation of our plants and competitive trading of output. We aim to add value through a portfolio management approach, which involves maintaining a balance in the portfolio in terms of fuel diversity, dispatch type, geographical spread and contractual position. The output from our plants is sold to consumers either via competitive merchant markets or single customers under long-term power purchase agreements (PPAs).

Deeside, UK

Our people, and their skills and commitment, are critical to the long-term success of the business. We have in-depth strength and experience across our portfolio, and are committed to developing and training our people. We encourage mobility to match the skill and development requirements with the most relevant opportunities across the Group.

EME portfolio acquisition

On 17 December 2004, we completed the acquisition of nine of the international generation assets of the EME portfolio in a 70:30 partnership with Mitsui (IPM). The existing shareholder at CBK (Philippines) has exercised pre-emption rights, and at Doga (Turkey) the required shareholder consent has not been obtained. In addition, existing shareholders at Italian Wind (Italy) and Tri Energy (Thailand) have exercised a 'right of purchase' and these assets will not form part of International Power's portfolio.

As a result of these events, we will own 3,202 MW (net), representing 85% of the EME portfolio. The net cash consideration will be reduced by US$339 million (£178 million) from the expected net cash consideration of US$2.2 billion (£1.15 billion) for the entire EME portfolio. In summary the loss of these assets has no material impact on either our overall returns or the commercial rationale of the acquisition. Following the disposal of Italian Wind, and after accounting for all costs associated with the acquisition, our 70% interest resulted in a cash outflow of some £375 million, with the remainder of the acquisition price funded by Mitsui and bank finance.

Going forward, the EME portfolio consists of nine power generation projects in six countries. These assets complement our existing portfolio by adding quality assets in our core markets, particularly Australia, Europe and Asia.

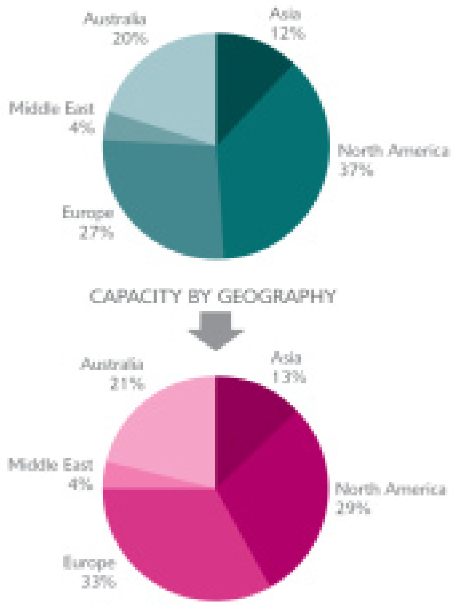
The portfolio is strongly contracted, with seven of the projects under long-term PPAs and hedge contracts. The two assets that operate on a merchant basis, First Hydro and Valley Power, fit very well into our existing portfolio in our core markets of the UK and Australia.

The IPM partnership benefits from International Power and Mitsui's complementary strategies and skills. Both companies are committed to a long-term partnership to deliver maximum value from the acquisition. International Power has previously worked with Mitsui on international projects in the Middle East and Pakistan for over ten years. Mitsui has extensive experience in the Asian market (they already own a 36.6% shareholding in Paiton) as well as world-class power generation, engineering, procurement and construction skills. These newly acquired assets are now integrated and managed in the International Power regional structure.

INTERNATIONAL POWER PORTFOLIO

AS AT 30 JULY 2004

AS AT 9 MARCH 2005



Notes
1. Excludes assets under construction
2. All numbers are based on International Power's net share of MWs

EOP, Czech Republic

Our core skills

Operational skills

We have considerable power station operational experience and skills. These are important to ensure we maximise returns from our assets, both to capture peak prices and value in merchant markets and ensure we achieve maximum availability, and therefore maximum returns, from our long-term contracted assets.

Trading

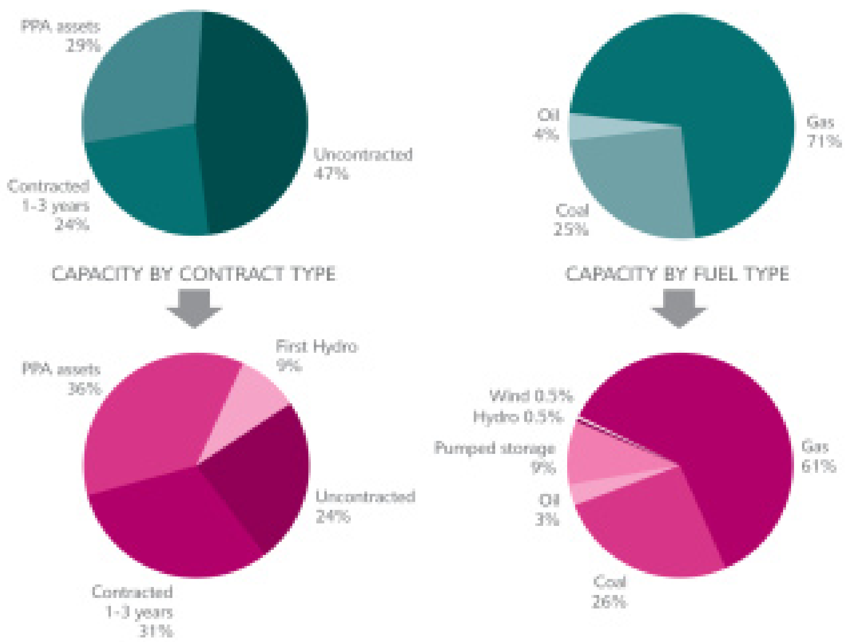
We operate in a number of merchant markets throughout the world. We have developed the skills necessary to maximise our returns in these markets, with a practical focus on co-ordinating trading and operations to ensure we optimise our returns by having our plant available whenever our trading teams see value. For us trading means selling the physical output of our plant. Our traders operate within strict guidelines and risk policies to ensure our traded position is carefully monitored and managed.

Long-term contract expertise

We have strong commercial skills to structure and negotiate long-term power contracts in regulated markets such as the Middle East. These contracts provide stability of earnings and cash generation over the long-term.

Development and construction management

Greenfield development and project management throughout the construction and commissioning phases of power stations are very important skills in our portfolio. Our successful development programme in the Middle East is the most graphic current example of delivering value from these skills.



Acquisitions

We have a co-ordinated corporate and regional approach to the sourcing, evaluation and selection of acquisition opportunities. We put this approach to good use with the EME portfolio acquisition, ensuring that a very thorough due diligence process was followed through with quick and effective integration. All acquisitions are subject to robust technical, commercial and financial reviews.

Financing

We operate in a capital intensive industry where financing expertise adds very real value. We have the experience in both non-recourse project debt and in corporate finance to ensure we have an appropriate, stable and limited risk capital structure.

Market knowledge

Our knowledge of market and commercial conditions in our five core regions means that we can service our customers to the best possible standards and select only the best opportunities across our portfolio for further growth.

Partnerships

Partnering is very important at many of our investments. Well-aligned partners with common objectives add significant value and we are delighted with the partnership structures we have in the portfolio.

WE HAVE CONSIDERABLE POWER STATION OPERATIONAL EXPERIENCE AND SKILLS TO ENSURE WE CAN MAXIMISE RETURNS FROM OUR ASSETS

Financial highlights

Profit and loss account

	Year ended 31 December 2004 £m	Year ended 31 December 2003 £m
Excluding exceptional items		
Turnover – (including joint ventures and associates)	**1,267**	1,273
Profit before interest and tax	**287**	285
Interest	**(123)**	(111)
Tax	**(45)**	(54)
Minority interests	**(11)**	(7)
Dividends	**(37)**	–
	71	113
Earnings per share	**8.3p**	9.1p†
Including exceptional items		
Profit/(loss) before interest and tax	**302**	(57)
Earnings/(loss) per share	**7.2p**	(17.6)p

Balance sheet

	As at 31 December 2004 £m	As at 31 December 2003 (restated)* £m
Net assets	**2,062**	1,560
Net debt	**2,739**	692
Gearing	**133%**	44%
Debt capitalisation	**57%**	31%

† *Adjusted for the Rights Issue*
* *Restated for the adoption of UITF38 Accounting for ESOP Trusts (see note xvii: New accounting standards on page 76)*

- Profit before interest and tax of £287 million (2003: £285 million) before exceptional items
- Free cash flow of £104 million (2003: £125 million) (see Liquidity section)
- Earnings per share before exceptional items of 8.3p (2003: 9.1p†)
- ANP debt successfully restructured
- 2004 dividend of 2.5p per Ordinary Share recommended by the Board

Outlook

Our priority in 2005 is to complete the integration of the EME and Turbogás acquisitions to deliver significant earnings enhancement. Based on our current assessment of our expanded regional portfolio, the markets in which they operate, and a modest improvement in market conditions in Texas for 2005, we anticipate EPS in 2005 in the range of 11.0p to 12.5p (under UK GAAP).

Operational highlights

Segmental results – excluding exceptional items

	Subsidiaries		Share of joint ventures and associates		Total	
	Year ended 31 December 2004	Year ended 31 December 2003	**Year ended 31 December 2004**	Year ended 31 December 2003	**Year ended 31 December 2004**	Year ended 31 December 2003
	£m	£m	**£m**	£m	**£m**	£m
Turnover						
North America	**188**	344	**72**	70	**260**	414
Europe	**308**	239	**212**	235	**520**	474
Middle East	**24**	21	**30**	12	**54**	33
Australia	**223**	224	**8**	–	**231**	224
Asia	**25**	24	**177**	104	**202**	128
Group turnover	**768**	852	**499**	421	**1,267**	1,273
Profit/(loss) before interest and tax						
North America	**(29)**	(13)	**16**	15	**(13)**	2
Europe	**52**	38	**61**	65	**113**	103
Middle East	**13**	18	**16**	5	**29**	23
Australia	**98**	101	**6**	–	**104**	101
Asia	**9**	9	**78**	75	**87**	84
Segmental operating profit	**143**	153	**177**	160	**320**	313
Corporate costs	**(33)**	(28)	**–**	–	**(33)**	(28)
Operating profit (excluding exceptional items)	**110**	125	**177**	160	**287**	285
Exceptional items	**15**	(377)	**–**	35	**15**	(342)
Profit/(loss) before interest and tax	**125**	(252)	**177**	195	**302**	(57)

- Acquisition of nine assets completed – 3,202 MW (net), representing 85% of EME portfolio
- Integration progressing well
- Acquisition of a majority share in 990 MW (gross) Turbogás, Portugal, completed
- Commercial operation commenced at Shuweihat S1, Abu Dhabi 1,500 MW and 100 MIGD
- 46 MW wind farm in Canunda, South Australia is now fully operational

The regional performance is discussed in more detail on pages 14 to 23. Corporate costs and exceptional items are discussed on page 25.

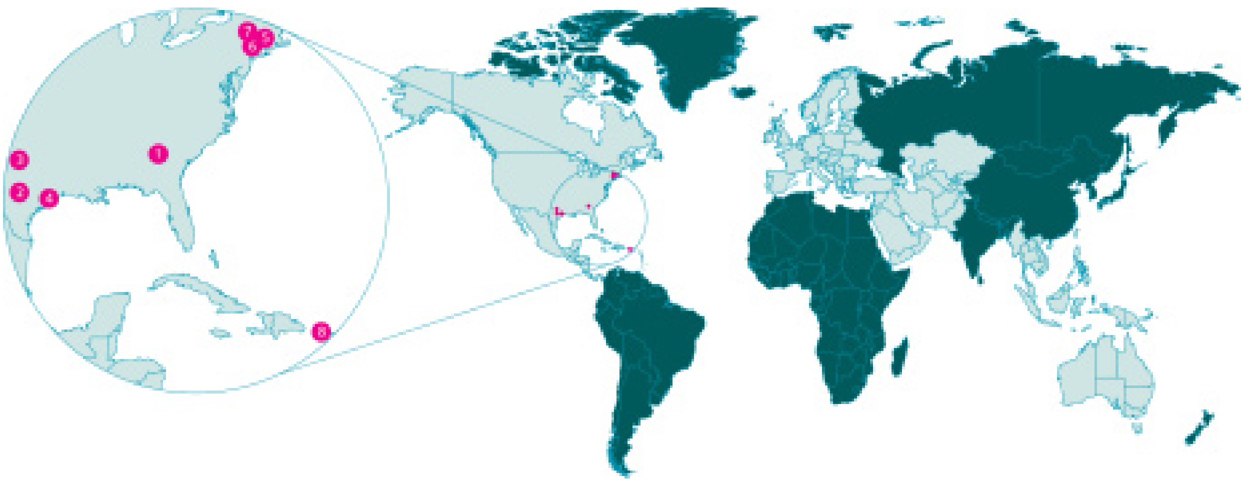
Dividend policy

The Board is pleased to recommend a final dividend for the year ended 31 December 2004 of 2.5p per share. Payment of this dividend, to shareholders registered on the Company share register on 27 May 2005, is expected on 8 July 2005.

In future, the Board will propose an annual dividend at the time of our preliminary results, taking into account the outlook for future earnings, free cash flow generation and the investment opportunities available to the Group to deliver further growth and shareholder value.

For 2005 the Board expects to maintain a dividend pay-out ratio similar to the 30% level provided for the 2004 dividend. We expect then to move progressively towards a pay-out ratio of 40% in the medium-term.

Regional performance
North America



		Fuel / Type	Gross capacity power MW	Net capacity[2] power MW	Gross capacity heat (MWth)	Net capacity[2] heat (MWth)
	Assets in operation					
1	Hartwell, Georgia	Gas (OCGT)	310	155	–	–
2	Hays, Texas[1]	Gas (CCGT)	1,100	1,100	–	–
3	Midlothian I and II, Texas[1]	Gas (CCGT)	1,650	1,650	–	–
4	Oyster Creek, Texas	Gas (Cogen/CCGT)	425	213	100	50
5	Bellingham, Massachusetts[1]	Gas (CCGT)	570	570	–	–
6	Blackstone, Massachusetts[1]	Gas (CCGT)	570	570	–	–
7	Milford, Massachusetts	Gas (CCGT)	160	160	–	–
8	EcoEléctrica, Puerto Rico	LNG (CCGT)	524	183	–	–
	North America total in operation		**5,309**	**4,601**	**100**	**50**

(1) Capacity shown for these assets is the nameplate capacity.
(2) Net capacity – Group share of gross capacity.

	Year ended 31 December 2004 £m	Year ended 31 December 2003 £m
Turnover	**260**	414
PBIT (pre-exceptional items)	**(13)**	2
Exceptional items	**–**	(404)
PBIT	**(13)**	(402)

The North American region saw a reduction in turnover from £414 million in 2003 to £260 million in 2004 principally due to our Hays plant in Texas being mothballed for 2004. The region incurred a loss of £13 million before interest and tax (2003 profit before interest and tax: £2 million). Excluding intra-group charges, this is equivalent to an EPS loss of 2.6p (2003: EPS loss of 2.3p) and reflects the continued weakness in Texas and New England markets. The 2003 profit before interest and tax included £27 million of compensation payments from Alstom compared to £3 million in 2004.

The majority of the North American plants operate in merchant markets and their output is not contracted under long-term arrangements. These plants, namely Midlothian and Hays in Texas and Blackstone, Bellingham and a portion of the capacity at Milford in New England, sell their output in the wholesale market, either via power pools or direct to retail/supply companies.

For these plants, the Company maintains an active programme to hedge power and gas forward, to lock in positive margins from operations, over a rolling 12-month period. Operating margins in these markets have been depressed in recent years, principally due to an oversupply of generation capacity caused by the construction of new plants during the late 1990s through to 2004. These high levels of oversupply and resulting low power prices led to the decision, in January 2004, to mothball the Hays plant in Texas until prices and margins recover. This has allowed the Company to reduce operating costs with little net impact on earnings.

The Texas power market remains oversupplied, but some market participants have begun to take encouraging steps to reduce the level of inefficient capacity in the market. Since February 2004, over 13,100 MW has been mothballed or permanently retired (or subject to an announced intent to be retired), which is some 16% of the total installed capacity in Texas. Demand for electricity continues to grow at a solid rate, with a 2.4% long-term growth rate forecast in that market. In light of this, there has been a limited improvement in spark spreads in Texas. We have therefore recently decided to reinstate operations at the 1,100 MW Hays plant effective from May 2005, as this will deliver a welcome, but modest, improvement in earnings and cash flow.

The reserve margin in New England, while large at 20%, is somewhat less than in Texas at 24%. In 2004, for the first time since 1998, demand growth for power at 2.3% exceeded the net supply additions, as power plants in the course of construction in the region have now been completed and 400 MW of capacity was retired. However, spark spreads for gas fired generators have remained low due to the high cost of gas, which has enabled older, less efficient and less environmentally friendly oil fired stations to operate more frequently. Continued demand growth and additional capacity retirements are expected to result in an improvement in margins over the next few years.

For 2005, approximately 70% of expected merchant output has been contracted, with a particular focus on the key summer period when spark spreads are generally at their highest level of the year. On the whole, we continue to expect market recovery in Texas and New England in the period between 2007 and 2009.

The North American portfolio also includes plants that sell capacity and energy under long-term contracts. These contracted assets, Milford (56% of output under long-term contract), Hartwell and Oyster Creek, delivered a consistent performance in 2004. Hartwell and Oyster Creek delivered PBIT of £15 million (2003: £15 million). A fourth contracted asset, EcoEléctrica, was added to the North American portfolio in mid-December as part of the EME acquisition. The financial contribution of this asset was minimal due to the timing of the acquisition.

In July 2004, the US$879 million (£488 million) of non-recourse debt for our US merchant portfolio was restructured. A key achievement of the restructuring was the extension of debt maturity from 2006 to 2010, beyond our expected date of market recovery.

In addition, an interest 'roll-up' was agreed on US$399 million (£222 million) of the loan amount, which lowers the cash interest burden on the business by allowing interest obligations to be rolled over until the assets generate improved cash flow.

As part of this debt restructuring, International Power agreed to provide, over two years, new funds of US$175 million (£97 million) for our US business. The restructuring allowed for a reduction in International Power's credit support of trading activity to US$100 million (£55 million) from US$150 million (£83 million). This restructuring, together with the other agreed terms, provides a stable and long-term capital structure for our US business and was a significant achievement through which we retained 100% equity ownership of the US merchant assets.

EME integration

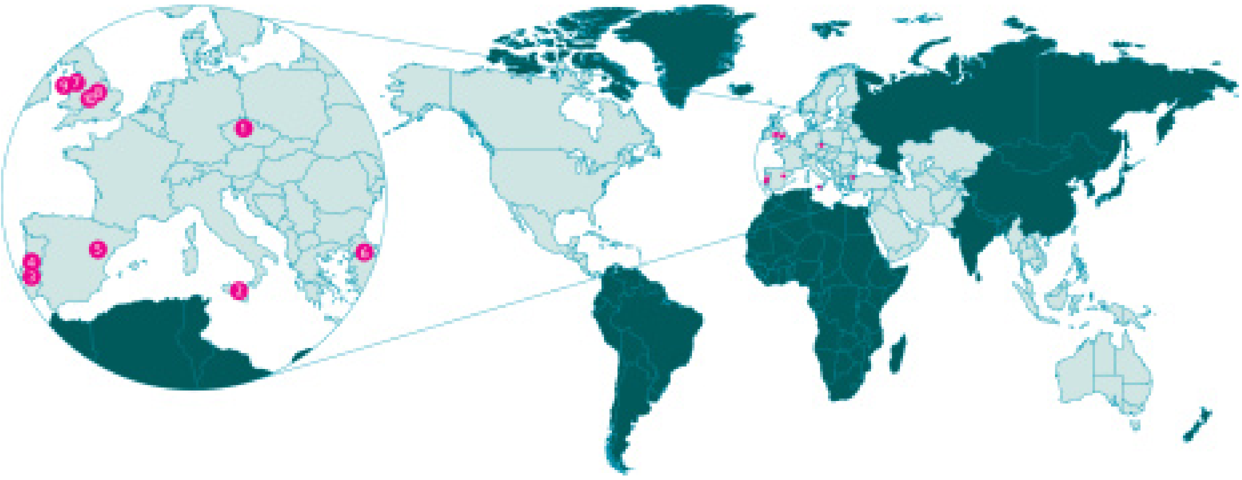
EcoEléctrica, the 524 MW plant in Puerto Rico acquired from EME, now forms part of International Power's North American asset portfolio. Output from the plant is contracted under a long-term PPA until 2021. The IPM partnership has worked quickly to integrate EcoEléctrica's operations. A full-time asset manager has been appointed in Puerto Rico, and steps have been initiated to align EcoEléctrica's operating practices with International Power standards. EcoEléctrica has operated well in the past and continues to achieve high levels of availability.

EcoEléctrica, Puerto Rico

Oyster Creek, Texas

Regional performance

Europe



		Fuel / Type	Gross capacity power MW	Net capacity[(1)] power MW	Gross capacity heat (MWth)	Net capacity[(1)] heat (MWth)
	Assets in operation					
1	EOP, Czech Republic[(2)]	Coal/Gas	585	580	1,945	1,925
2	ISAB, Italy	Gas	528	181	–	–
3	Pego (Tejo Energia), Portugal	Coal	600	270	–	–
4	Turbogás, Portugal[(3)]	Gas (CCGT)	990	792	–	–
5	Spanish Hydro, Spain	Hydro	84	57	–	–
6	Marmara (Uni-Mar), Turkey	Gas (CCGT)	480	160	–	–
7	Deeside, UK	Gas (CCGT)	500	500	–	–
8	Derwent, UK	Gas (CCGT)	214	50	–	–
9	First Hydro, UK	Pumped storage	2,088	1,462	–	–
10	Rugeley, UK	Coal	1,050	1,050	–	–
	Europe total in operation		**7,119**	**5,102**	**1,945**	**1,925**

(1) Net capacity – Group share of gross capacity.
(2) Gross capacity amount shown for EOP represents the actual net interest owned directly or indirectly by EOP.
(3) Turbogás net ownership will reduce to 60% (594 MW) during the first half of 2005.

	Year ended 31 December 2004 £m	Year ended 31 December 2003 £m
Turnover	**520**	474
PBIT (pre-exceptional items)	**113**	103
Exceptional items	**11**	7
PBIT	**124**	110

Turnover in Europe in 2004 increased to £520 million (2003: £474 million) and profit before interest and tax increased to £113 million (2003: £103 million). Our EOP business in the Czech Republic again performed strongly, with good technical performance enabling it to benefit from the cold weather and an extended heating season. Turbogás contributed to earnings immediately on acquisition in November 2004.

At Marmara in Turkey and at Pego in Portugal, high availability led to continued strong financial performance during the year. As expected, there will be a planned step down in tariff at both assets under the long-term contracts in 2005.

In the UK gas spark spreads were flat year on year. However the significant increase in forward power prices in 2004 will benefit Rugeley (which is coal fired) in 2005. Rugeley is now highly contracted for 2005. Rugeley has entered into a contract with Centrica to supply 250 MW of peak power for a three-year period commencing October 2005.

First Hydro, UK

Pego, Portugal

The amount of compensation to be received by Rugeley, in respect of the termination of the tolling agreement with TXU Europe, was agreed with the administrators of TXU Europe. Rugeley expects to receive compensation of between £73 million and £84 million. A first dividend distribution (estimated at £50 million) is anticipated at the end of March 2005, and the remainder later in 2005 and early 2006. The majority of this settlement will be used to repay project debt at Rugeley.

Overall, the medium-term outlook for our merchant plants in the UK has improved in the last year, but the near-term outlook for Deeside still looks challenging.

In November, we completed the acquisition of a 75% shareholding in the 990 MW CCGT Turbogás plant in Portugal from RWE for €195 million (£135 million). This was followed by the purchase of a further 5% interest in the plant from Koch in January 2005. Turbogás is an important acquisition as it adds a modern, efficient, and contracted plant to our European portfolio. Turbogás has strengthened the Group's position in the Iberian market by adding fuel diversity and scale to our existing position alongside Pego – we now have an interest in two assets that represent a market share of some 17% in Portugal.

In December, EdP (the partner at Turbogás) exercised an option to increase its shareholding in the plant from 20% to 40%. Completion of this is expected in March 2005 and International Power's final ownership in Turbogás will total 60% (net capacity of 594 MW).

The Portuguese Government is working to implement market changes aimed at creating an integrated and liberalised Iberian wholesale power market, which is planned to commence operation in mid 2005. The Government is therefore in discussions with incumbent generators, including Pego and Turbogás, with a view to making changes to long-term PPAs. We remain very confident that our financial returns from these long-term PPAs will be maintained through these market reforms.

EME integration

The integration of the European EME portfolio is progressing very well. The four assets acquired in Europe, namely First Hydro, Derwent, ISAB and Spanish Hydro, have been integrated into our existing European management structure, and EME's London office has been closed. Three of the four assets operate under long-term contracts and provide a stronger and more visible earnings and cash flow profile. First Hydro is a unique, fast response peaking plant in the UK – this asset complements our existing UK portfolio and is a key component in managing power supply to the Grid. The European EME portfolio not only provides an attractive mix of contracted and merchant output, but also improves fuel diversity with gas and hydro capacity.

Environmental developments in Europe

International Power continues to retain the option to construct flue gas desulphurisation (FGD) at Rugeley. Under the Large Combustion Plant Directive (LCPD), we are required to notify the UK Government by June 2005 of our decision either in favour of, or against, the installation of FGD. Coal fired plants have the option of either fitting FGD and having greater operational flexibility, or choosing not to fit FGD and saving significant capital expenditure, but being forced into a limited operating schedule from January 2008.

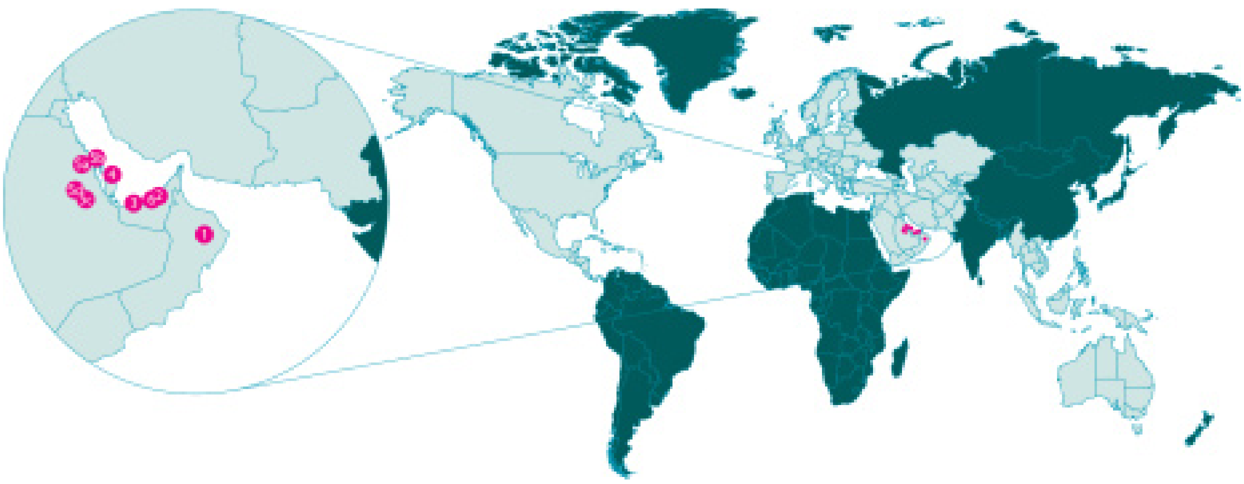
The EU emissions trading scheme for carbon dioxide credits started on 1 January 2005. The UK Government's revised National Allocation Plan (NAP), detailing carbon credit allocations during the period 2005-2007, was published on 14 February 2005. Under the revised plan, allocations to Rugeley and Deeside are 3.5 million and 990,000 tonnes per year respectively for the three-year period, implying a load factor of 47% for Rugeley and 58% for Deeside. This revised plan has not yet received EU approval.

The Czech NAP was submitted to the EU in November 2004, but awaits approval. The draft allocation received by EOP is sufficient to meet our forecasted requirement.

On 31 December 2004, the Portuguese Government published the Decree Law that transposes the EU CO_2 emissions Directive into Portuguese legislation. We expect the emissions allocation to both of the generating units at Pego and Turbogás to be confirmed by April 2005. Plans to comply with the LCPD at Pego are well advanced, with FGD expected to be operational before January 2008. Pego is neutral to this capital and operational cost, as all costs are fully recoverable under the terms of the existing PPA.

Regional performance

Middle East



		Fuel / Type	Gross capacity power MW	Net capacity[1] power MW	Gross capacity heat (MIGD)	Net capacity[1] heat (MIGD)
	Assets in operation					
1	Al Kamil, Oman	Gas (OCGT)	285	185	–	–
2	Umm Al Nar, (Arabian Power Company), UAE	Gas (CCGT) /desalination	870	174	162	32
3	Shuweihat S1, UAE	Gas (CCGT)/desalination	1,500	300	100	20
	Middle East total in operation		**2,655**	**659**	**262**	**52**
	Assets under construction					
4	Ras Laffan B, Qatar	Gas (CCGT)	1,025	410	60	24
5	Tihama, Saudi Arabia	Gas (Cogen)	1,074	644	4.5m lbs/hr	2.7m lbs/hr
6	Umm Al Nar Expansion, UAE	Gas (CCGT)/desalination	1,550	310	25	5
	Middle East total under construction		**3,649**	**1,364**	–	–

Ju'aymah 5a
Ras Tanura 5b
Shedgum 5c
Uthmaniyah 5d

[1] Net capacity – Group share of gross capacity.

	Year ended 31 December 2004 £m	Year ended 31 December 2003 £m
Turnover	**54**	33
PBIT (pre-exceptional items)	**29**	23
Exceptional items	**–**	–
PBIT	**29**	23

2004 saw turnover in the Middle East rise to £54 million (2003: £33 million) and profit before interest and tax rise to £29 million (2003: £23 million). Profitability in the region increased with higher contributions from Umm Al Nar and first time earnings from Shuweihat, where full commercial operation commenced in October.

The region's entire output is contracted under long-term power purchase (or power and water purchase) agreements, mostly with the local government or with government entities (such as the Abu Dhabi Water & Electricity Company).

These contracts provide a full financial return to International Power provided we achieve availability targets. Our track record is excellent, and there are often incentives available for above plan performance.

Due to air conditioning load, demand for power is highest in the summer period, but demand for water is extremely high throughout the year. The offtake contracts are structured so that full capacity payments are earned when the plants are available for despatch, even if actual plant load factor is low.

International Power's business in the Middle East has increased significantly over the last few years and continues to grow through the addition of new greenfield and brownfield projects. Shuweihat, the 1,500 MW combined cycle power plant and large water desalination facility with a capacity of 100 million imperial gallons per day (MIGD), has been performing very well. It is located 250 km west of the city of Abu Dhabi and is the region's largest independent water and power plant (IWPP). International Power and CMS Energy own 40% of the project on a 50:50 basis, with Abu Dhabi Water and Electricity Authority (ADWEA) holding the remaining 60% ownership. The entire power and water output from Shuweihat is sold to the Abu Dhabi Water and Electricity Company (ADWEC) under a 20-year offtake agreement. International Power and CMS Energy also jointly (50:50 ownership) operate the facility under a 20-year operations and maintenance agreement.

The substantial construction programme in the region is advancing well, with construction of the 1,550 MW and 25 MIGD Umm Al Nar extension project in Abu Dhabi progressing on schedule. Commercial operation of the first three gas turbines is expected by the end of Q2 2005, with the full extension scheduled to come on stream a year later in Q2 2006. This is a large brownfield project, where new capacity is being integrated with an existing power and desalination plant.

Construction of the 1,074 MW, 4.5 million lbs/hr (steam) Tihama cogeneration (Saudi Aramco) project, which comprises four sites, is progressing ahead of schedule. Commercial operation is expected at the first site, Uthmaniyah, in the first half of 2006. The other three cogeneration plants, Shedgum, Ras Tanura and Ju'aymah, are scheduled to come into commercial operation later in 2006. The Saudi Aramco cogeneration projects have 20-year Energy Conversion Agreements with Saudi Aramco as the power and steam offtaker. International Power also has a key operational role in each of the assets.

In July 2004, in accordance with the original project agreements signed with the Government of Oman, we sold 35% of our equity in the 285 MW Al Kamil plant, via an Initial Public Offering (IPO). The listing was fully subscribed and generated net proceeds of approximately US$15 million (£8 million). The shares are now traded publicly on the Muscat Securities Market.

In February 2005, we secured a further project in the Middle East. Together with partners Qatar Electricity & Water Company (QEWC) and Chubu Electric of Japan, we signed an agreement to build, own and operate a 1,025 MW and 60 MIGD plant, called Ras Laffan B, in Qatar. International Power will own 40% of the proposed plant. The entire output from the plant will be sold under a 25-year power and water purchase agreement to KAHRAMAA, which is in turn wholly-owned by the Government of Qatar. Financial close is expected by 31 March 2005. Construction has commenced and first production of power and water (600 MW and 15 MIGD) is expected to come on stream in Q2 2006.

International Power has had many successes in the Middle East region and now has assets in operation or under construction in the UAE, Oman, Saudi Arabia and Qatar. Economic growth in the Gulf nations over the last four years has been very strong, and continues to stimulate growth in electricity demand. Going forward, this region remains a key growth area for us, and we continue to target new projects in this market that are consistent with our risk profile and our required financial returns.

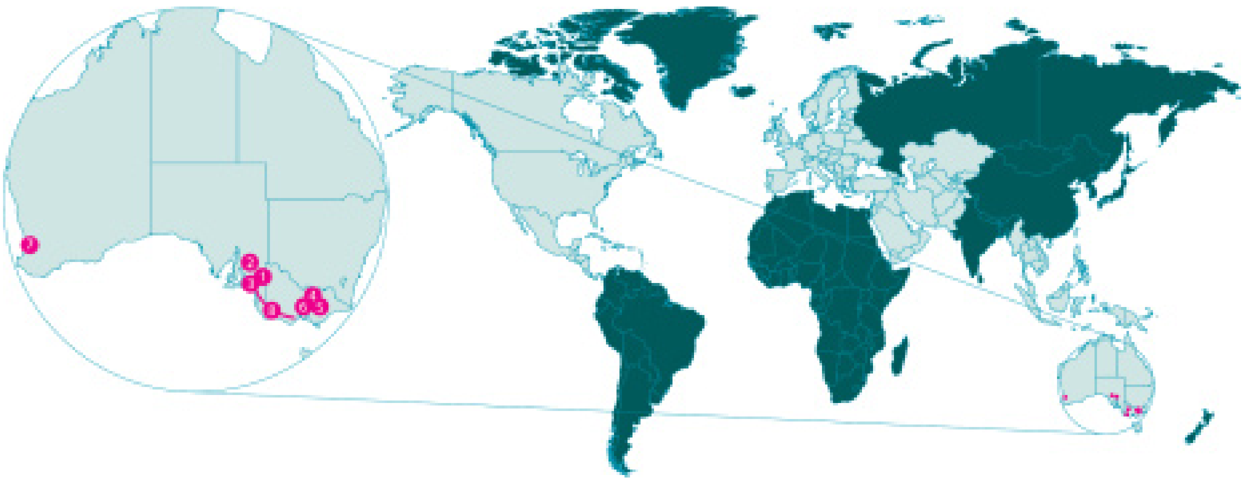
Shuweihat, UAE

Al Kamil, Oman

WE HAVE HAD MANY SUCCESSES IN THE MIDDLE EAST REGION AND NOW HAVE ASSETS IN OPERATION OR UNDER CONSTRUCTION IN THE UAE, OMAN, SAUDI ARABIA AND QATAR

Regional performance

Australia



		Fuel / Type	Gross capacity power MW	Net capacity[1] power MW	Gross capacity heat (MWth)	Net capacity[1] heat (MWth)
	Assets in operation					
1	Canunda, South Australia	Wind farm (renewable)	46	46	–	–
2	Synergen, South Australia	Various	360	360	–	–
3	Pelican Point, South Australia	Gas (CCGT)	485	485	–	–
4	Loy Yang B, Victoria	Coal	1,000	700	–	–
5	Valley Power, Victoria	Gas (CCGT)	300	126	–	–
6	Hazelwood, Victoria	Coal	1,635	1,500	–	–
7	Kwinana, Western Australia	Gas (CCGT)	118	58	–	–
8	SEA Gas pipeline, Victoria[2]		n/a	n/a	–	–
	Australia total in operation		**3,944**	**3,275**	–	–

[1] Net capacity – Group share of gross capacity.
[2] 687 km gas pipeline from Victoria to South Australia.

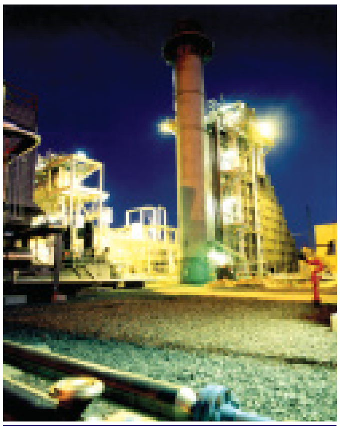
	Year ended 31 December 2004	Year ended 31 December 2003
	£m	£m
Turnover	**231**	224
PBIT (pre-exceptional items)	**104**	101
Exceptional items	**–**	–
PBIT	**104**	101

The Australian business generated a turnover of £231 million in 2004 (2003: £224 million), and a profit before interest and tax of £104 million (2003: £101 million). Hazelwood and Synergen once again benefited from a strong contractual position, with achieved prices above the weaker underlying market prices. Earnings at Pelican Point were down, primarily due to lower electricity prices and the delayed supply of gas from the new Minerva gas field in Victoria (which is now supplying gas under a ten-year contract). The 2004 earnings also benefited from a first time contribution from the 687 km SEA Gas pipeline.

We generally sell our output in the merchant markets of Victoria and South Australia on a rolling basis, ensuring we are forward contracted for one to three years. For example, for 2005 some 75% of expected output has been contracted.

In March 2004, financing was completed for International Power's first wind farm at Canunda in South Australia. All 23 wind turbines are now operational and generating up to 46 MW, which is enough capacity to power approximately 30,000 homes. The entire generation is contracted under a long-term agreement with an Australian retail company.

Loy Yang B, Victoria



Kwinana, Western Australia

After a two and a half year development programme, Hazelwood received the first coal from its adjacent West Field brown coal mine in February 2004. Approximately 70% of the coal is now sourced from the West Field mine and this is expected to increase to 100% by mid 2005, providing approximately 17 million tonnes per annum of brown coal.

Hazelwood is in the process of obtaining consents to further develop the West Field mine, which will extend the plant's life well beyond the end of this decade.

In 2004 a focused retail business was established by International Power to target industrial and small to medium business customers, primarily in Victoria and South Australia. Appropriate personnel were recruited with retail experience and this is starting to provide a modest but alternative route to customers in these markets.

The New South Wales (NSW) Government has launched an incentive based programme to improve environmental efficiency and reduce carbon dioxide emissions. Both Pelican Point and Hazelwood will participate in this scheme.

EME integration

The EME assets acquired in Australia (Loy Yang B, Valley Power and Kwinana) are an excellent fit with the base portfolio.

Overall, our Australian portfolio is an integrated group of assets, with a blend of fuel types that is very well placed to respond to customers whatever the shape of their demand profile.

The 1,000 MW Loy Yang B power station, sells circa 77% of its output to the State Electricity Commission of Victoria, under a long-term contract through to 2014. The level of output contracted then drops down to circa 55% until 2016. The plant has a long-term coal supply agreement with a neighbouring mine. Loy Yang B, which is located 15 km from International Power's Hazelwood power station, is the most modern and efficient coal plant in Victoria, and also has an excellent industrial relations history.

Valley Power is a 300 MW gas fired peaking plant located adjacent to the Loy Yang B coal fired power plant site. It services peak demand within the National Energy Market of Eastern Australia and, specifically, within the State of Victoria.

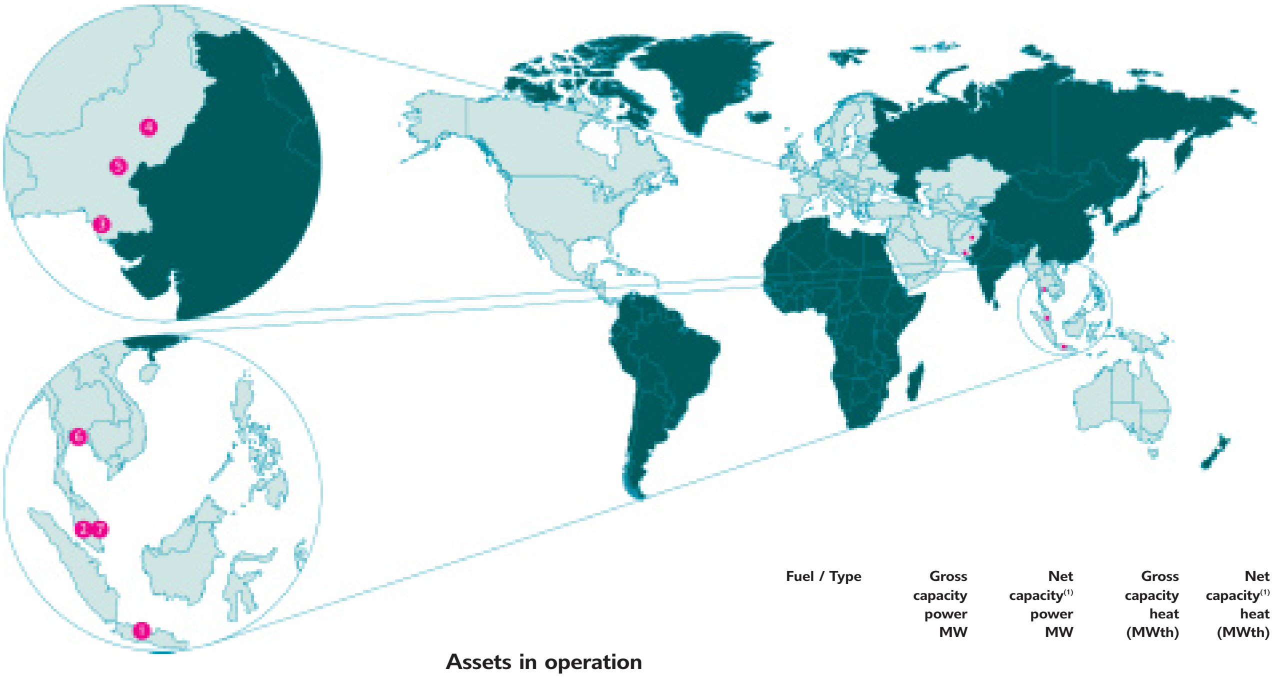
Kwinana is a 118 MW cogeneration plant in Perth, Western Australia. The plant is contracted to sell electricity to a government-owned utility under an agreement that expires in 2021, and also sells steam to a local refinery under a separate agreement that also expires in 2021. The plant began commercial operation in 1996.

Including the assets acquired from the EME portfolio, which added 884 MW (net) of new capacity, International Power's generation capacity in Australia now totals 3,275 MW (net). This enhanced capacity has increased the Company's share of the Australian national electricity market to circa 12%, up from 8% before the EME acquisition. This represents a market share of some 27% in Victoria and 20% in South Australia.

The integration of the EME assets is well advanced and good progress has been made on extracting synergies in a number of business areas including trading, settlement, regional office and business development. Relevant management structures are now in place and selected staff members from EME have been integrated within the International Power team. EME's Melbourne office is in the process of being closed.

Regional performance

Asia



		Fuel / Type	Gross capacity power MW	Net capacity[1] power MW	Gross capacity heat (MWth)	Net capacity[1] heat (MWth)
	Assets in operation					
1	Paiton, Indonesia	Coal	1,230	385	–	–
2	Malakoff, Malaysia[2]	Gas (OC/CCGT)	2,863	529	–	–
3	HUBCO, Pakistan	Oil	1,290	214	–	–
4	KAPCO, Pakistan	Gas/Oil (CCGT)	1,600	575	–	–
5	Uch, Pakistan	Gas (CCGT)	586	234	–	–
6	Pluak Daeng (Thai National Power), Thailand	Gas (Cogen)	110	110	20	20
	Asia total in operation		**7,679**	**2,047**	**20**	**20**
	Assets under construction					
7	Malakoff, Malaysia[2]	Coal	1,890	349	–	–
	Asia total under construction		**1,890**	**349**	–	–

[1] Net capacity – Group share of gross capacity.
[2] Gross capacity amount shown for Malakoff represents the actual net interest owned directly or indirectly by Malakoff.

	Year ended 31 December 2004 £m	Year ended 31 December 2003 £m
Turnover	**202**	128
PBIT (pre-exceptional items)	**87**	84
Exceptional items	**4**	55
PBIT	**91**	139

Turnover in Asia increased to £202 million in 2004 (2003: £128 million). The 2004 turnover includes turnover from KAPCO, which was treated as a trade investment in 2003. Profit before interest and tax increased marginally in 2004 to £87 million (2003: £84 million), reflecting increased production capacity and higher earnings at Malakoff.

In Pakistan, HUBCO and KAPCO performed in line with expectations and delivered cash backed earnings. KAPCO delivered particularly good operational performance in 2004 with high levels of availability and utilisation. During the year it received accreditations to ISO 9001 (for quality management), ISO 14001 (for environmental management) and OHSAS 18001 (for safety management). KAPCO is the first company in Pakistan to receive accreditation to these three standards simultaneously.

In February 2005, our partner WAPDA sold part of its shareholding in KAPCO via a successful IPO. 20% of KAPCO is now traded on the Karachi Stock Exchange. As at 9 March 2005, KAPCO's market capitalisation totalled £465 million, making it one of the largest publicly listed companies in Pakistan alongside HUBCO.

THROUGH THE EME ACQUISITION, WE ADDED THE 1,230 MW COAL FIRED PAITON PLANT IN EAST JAVA, INDONESIA TO THE REGION'S PORTFOLIO

In Malaysia, Malakoff's increased profitability highlights the success of its expansion programme. During 2004, its operational capacity increased by 968 MW to 2,863 MW (net). The key addition to Malakoff's portfolio was a 40% shareholding in the 2,420 MW coal/gas/oil fired Kapar power station in Malaysia. Malakoff now has 1,890 MW (net) of new capacity under construction, all of which is expected to be operational by 2007. The entire output from this new capacity is contracted under long-term PPAs with Tenaga Nasional Berhad, Malaysia's national electricity company.

The Thai economy continued to grow strongly in 2004, stimulating higher demand for power. At Pluak Daeng, an expansion project is currently under development to add 20 MW of incremental capacity to service the growing needs of local industrial customers. During 2004, Thai National Power developed a cogeneration project to utilise waste steam, which involves the production and supply of chilled water using steam fired absorption chillers. The chilled water plant is currently under construction and will be commissioned in the first half of 2005.

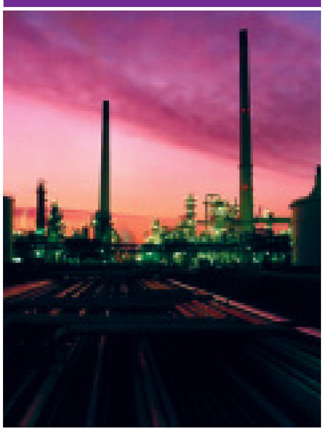
In February 2005, International Power completed the acquisition of a 40% shareholding in Uch, a 586 MW gas fired plant in Pakistan, from EON. The remaining shareholding in Uch is owned by Tenaska (33%), GE Capital (18%) and Hawkins Uch Holdings (9%). The entire output from the plant is sold to WAPDA under a long-term PPA until 2023.

EME integration

Through the EME acquisition, we added the 1,230 MW coal fired Paiton plant in East Java, Indonesia. The International Power partnership with Mitsui owns 45% of Paiton, with the remainder held by Mitsui, General Electric and PT BHP, an Indonesian company. Paiton has been running at high load factors, underlining the strong demand growth for power in the region. We also acquired with Mitsui 100% of the Paiton Energy operating company, which operates the plant under a long-term O&M agreement. Output from Paiton is contracted to PLN, the state-owned utility, under a long-term PPA expiring in 2040. Integration is proceeding very well, with International Power staff already in place in key operational roles.

Uch, Pakistan

Pluak Daeng, Thailand



Corporate

Corporate costs

International Power's headquarters is in London, where corporate and business functions are based to support our worldwide operations. Corporate costs have increased in 2004, principally as a result of the growth in operational capacity. In addition, International Power operates regional business support offices in the UK, the US, Australia, the Czech Republic, Italy, Japan, Singapore and the UAE. These offices vary in size dependent on the scale of operations.

Following the EME acquisition, as part of the integration programme, the London regional office operated by EME has closed, and the Australian regional office is in the process of being closed.

Exceptional items

A net exceptional charge of £16 million was booked in 2004, comprising:

- £11 million release of a provision relating to a guarantee following the sale of an investment in Elcogas
- £4 million profit on the disposal of a further 4% share in HUBCO
- £15 million charge from the cessation of the interest rate swaps as part of the restructuring of the ANP debt facility
- £16 million of costs associated with debt raising and debt restructuring.

Net interest

Net interest payable for the year ended 31 December 2004 was £123 million (excluding exceptional items). Corporate and subsidiary operations accounted for interest payable of £77 million comprising gross interest on bonds, bank loans and overdrafts, offset by interest receivable and capitalised interest. Associates and joint ventures incurred net interest payable of £46 million. Consolidated interest cover was 2.3 times (excluding exceptional items).

Tax

The tax charge for the year (pre-exceptional items) amounted to £45 million compared to £54 million in the previous year. The 2004 charge represents an effective tax rate of 27%, compared to 31% in the prior period, and this reduction results from confirmation of foreign tax holidays and the resolution of certain tax issues.

INTERNATIONAL POWER'S HEADQUARTERS IS IN LONDON, WHERE CORPORATE AND BUSINESS FUNCTIONS ARE BASED TO SUPPORT OUR WORLDWIDE OPERATIONS

Financial position and resources


Canunda, Australia

Liquidity

A summarised, reclassified presentation of the Group cash flow is set out below:

	Year ended 31 December 2004 £m	Year ended 31 December 2003 £m
Operating profit/(loss)	**121**	(279)
Impairment of plant	**–**	404
Release of guarantee on sale of Elcogas	**(11)**	–
	110	125
Depreciation and amortisation	**85**	109
Dividends from joint ventures and associates	**69**	101
Movement in working capital and provisions	**3**	(50)
Operating cash flow	**267**	285
Capital expenditure – maintenance	**(59)**	(64)
Tax and interest paid	**(104)**	(96)
Free cash flow	**104**	125
Finance costs – exceptional	**(26)**	(4)
Refinancing costs capitalised on acquisition debt	**(22)**	–
Capital expenditure – growth	**(158)**	(57)
Capital expenditure – other financial investment	**(61)**	(9)
Compensation for long-term performance shortfalls	**5**	56
Acquisitions	**(1,195)**	–
Disposals – exceptional	**17**	35
Share buyback	**–**	(13)
Proceeds from Rights Issue	**286**	–
Funding from minorities	**165**	–
Foreign exchange, hedging and other	**57**	(13)
(Increase)/decrease in net debt	**(828)**	120
Opening net debt	**(692)**	(812)
Net debt on acquisition of subsidiaries	**(1,219)**	–
Closing net debt	**(2,739)**	(692)

Operating cash flow for the year ended 31 December 2004 decreased by 6% to £267 million (2003: £285 million) principally due to reduced operating profits from the US, together with a lower level of dividends from our investments in associates and joint ventures. 2003 included an unusually large dividend from KAPCO.

Capital expenditure to maintain operating capacity of our power stations is at a very similar level to 2003. Capital expenditure to increase our operating capacity amounted to £158 million comprising spend on Tihama, the Canunda wind farm and the West Field mine development at Hazelwood in Australia.

Acquisitions in 2004 include the purchase of the EME portfolio and Turbogás at £1,073 million (of which £13 million of acquisition costs were outstanding at the year end) and £135 million (including costs of acquisition) respectively. Disposals include proceeds from the sale of a 4% holding in HUBCO.

The Rights Issue in contemplation of the Turbogás and EME acquisitions was completed in September with a 91.2% take up and raised net proceeds of £286 million.

Funding from minorities includes cash injections from partners towards the EME portfolio acquisition, Tihama and Al Kamil.

Balance sheet

A summarised, reclassified presentation of the Group balance sheet is set out below:

	Year ended 31 December 2004 £m	Year ended 31 December 2003 £m
Fixed assets		
Intangibles and tangibles	**3,656**	2,049
Investments	**1,251**	536
Other long-term assets	**581**	3
Total fixed assets	**5,488**	2,588
Net current liabilities (excluding short-term debt)	**(150)**	(93)
Provisions and creditors due after more than one year (excluding debt)	**(537)**	(243)
Net debt	**(2,739)**	(692)
Net assets	**2,062**	1,560
Gearing	**133%**	44%
Debt capitalisation	**57%**	31%

Net assets at 31 December 2004 increased by £502 million to £2,062 million, as compared with £1,560 million as at 31 December 2003. This comprises an increase in shareholders' funds arising from the Rights Issue and retained profits for the year offset by a net loss arising on retranslation of our net investment in foreign entities. Minority interests have also increased since 2003 as a result of the sale of the 35% shareholding in Al Kamil and the minority interest of 30% of our acquisition of EME and 25% of our acquisition of Turbogás.

The acquisitions of Turbogás and the EME assets have fundamentally changed the balance sheet of the Group, with fixed assets and investments almost doubling in size. The acquisitions are highly leveraged due to the contracted nature of the assets acquired, causing debt capitalisation to rise to 57%. Long-term assets mainly represent long-term receivables in respect of leased assets.

Net debt at 31 December 2004 has increased to £2,739 million from £692 million in 2003. The increase in debt is principally due to the cost of the EME and Turbogás acquisitions, the construction of Tihama, together with £1,219 million of net debt on the balance sheets of the acquired subsidiaries.

Net debt and capital structure

Group net debt at 31 December comprised:

	2004 £m	2003 £m
Cash and liquid resources	**612**	743
Convertible bond	**(158)**	(200)
Secured bank loans	**(3,193)**	(1,235)
Net debt	**(2,739)**	(692)

The above net debt of £2,739 million excludes the Group's share of joint ventures' and associates' net debt of £1,452 million (2003: £712 million). These obligations are generally secured by the assets of the respective joint venture or associate borrower and are not guaranteed by International Power plc or any other Group company. In view of the significance of this amount, it has been disclosed separately. The large year on year increase in net debt is principally due to the acquisition of the EME portfolio.

Paiton, Indonesia

TREASURY POLICY SEEKS TO ENSURE THAT ADEQUATE FINANCIAL RESOURCES ARE AVAILABLE FOR THE DEVELOPMENT OF THE GROUP'S BUSINESS WHILE MANAGING ITS CURRENCY INTEREST RATE AND COUNTER PARTY CREDIT RISKS

The Group has sufficient credit facilities in place to fund and support adequately its existing operations and to finance the purchase of new assets. These facilities comprise a revolving credit facility of US$450 million (£234 million) (expiry October 2006), the portion of the existing convertible bond of US$51 million (£29 million) (maturing November 2005) not previously 'put' by bondholders or tendered for sale by bondholders, and a convertible bond of US$252 million (£129 million) (maturing August 2023 but with bondholders having the right to 'put' the bond back to the Group in August 2010, 2013, 2018 and 2023). In addition, the Group has uncommitted bilateral credit lines from various banks at its disposal at the corporate level.

Secured non-recourse finance

The Group's financial strategy is to finance its assets by means of limited or non-recourse project financings at the asset or intermediate holding company level, wherever that is practical.

In the fourth quarter of 2003 at American National Power (ANP), our US bank group claimed technical defaults on our US non-recourse financing and therefore this debt was reported as current non-recourse debt in the 2003 accounts. In July 2004 this ANP facility was successfully restructured and refinanced and the maturity period of the debt extended to 2010. As a consequence, the non-recourse debt at ANP of US$879 million (£488 million) is now re-designated as long-term debt.

The acquisition of the EME portfolio in December 2004 resulted in an increase in net debt of £1,439 million.

Corporate and Group debt

Following the reclassification of the ANP facility as long-term debt there are no major debt maturities at corporate or Group level in 2005. Significant new capital expenditure on growth projects will be financed from existing cash resources, drawing down on bank lines or issuing new fixed rate debt, depending on market conditions at the time.

During 2004 both Standard & Poor's and Moody's reviewed the credit rating at corporate level. Standard & Poor's lowered its rating from BB to BB– with negative outlook and Moody's lowered its rating to B2 with stable outlook. This has no impact on the cost of existing facilities.

On 31 December 2004, we had aggregated debt financing of £3,351 million denominated principally in US dollars, Australian dollars, sterling, Euro, Czech koruna and Thai baht. Of this amount £100 million is due for repayment in 2005, with the majority of the remaining balance due after 2009.

Treasury and counterparty risk policy

Treasury policy seeks to ensure that adequate financial resources are available for the development of the Group's business whilst managing its currency, interest rate and counterparty credit risks. The Group's treasury policy is not to engage in speculative transactions. Group treasury acts within clearly defined guidelines that are approved by the Board. The major areas of treasury activity are set out opposite.

Currency translation exposure

In common with other international companies, the results of the Group's foreign operations are translated into sterling at the average exchange rates for the period concerned. The balance sheets of foreign operations are translated into sterling at the closing exchange rates. In order to hedge the net assets of foreign operations, borrowings are generally in the same currency as the underlying investment. The Group aims to hedge a reasonable proportion of its non-sterling assets in this way.

It is our policy not to hedge currency translation through foreign exchange contracts or currency swaps. Average and year-end sterling rates for major currencies, which are significant to the Group, were:

	Average		At 31 December	
	2004	2003	**2004**	2003
US dollar	**1.83**	1.64	**1.92**	1.79
Australian dollar	**2.48**	2.53	**2.45**	2.38
Euro	**1.46**	1.44	**1.41**	1.42
Czech koruna	**46.91**	46.20	**42.87**	45.97

Currency transaction exposure

This arises where a business unit makes actual sales and purchases in a currency other than its functional currency. Transaction exposure also arises on the remittance from overseas of dividends or surplus funds. The Group's policy is to match transaction exposure where possible, and hedge remaining transactions as soon as they are committed, by using foreign currency contracts and similar instruments.

Short-term deposits

Surplus funds are placed for short periods in investments that carry low credit risk and are readily realisable in major currencies.

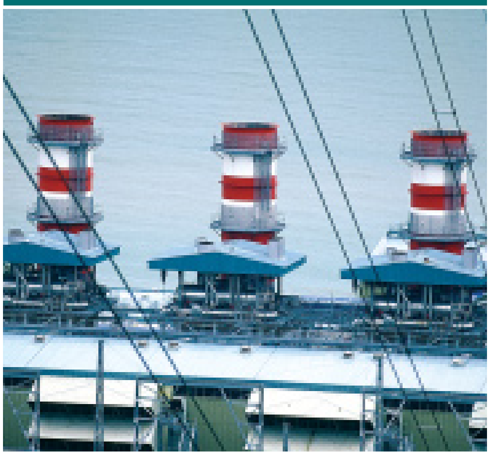
Interest rate risk

The Group's policy is to fix interest rates for a significant portion of the debt (53% as at 31 December 2004) using forward rate or interest rate swap agreements. The level of fixed interest rate debt will increase in 2005 as the hedging strategy for the EME international portfolio is implemented. Significant interest rate management programmes and instruments require specific approval of the Board. The weighted average interest of the fixed rate debt was 7%. Where project finance is utilised, our policy is to align the maturity of the debt with the contractual terms of the customer offtake agreement.

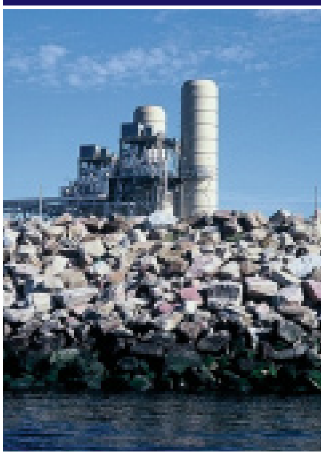
Counterparty credit risk

The Group's policy is to manage its credit exposure to trading and financial counterparties within clearly defined limits. Energy trading activities are strictly monitored and controlled through delegated authorities and procedures, which include specific criteria for the management of counterparty credit exposures in each of our key regions. Counterparty exposure via customer offtake agreements is monitored and managed by the local asset team with assistance from Group treasury where appropriate. In addition, Group treasury manages the Group-wide counterparty credit exposure on a consolidated basis, with the active and close involvement of the global risk manager. Financial counterparty credit exposure is limited to relationship banks and commercial paper with companies which have strong investment grade credit ratings.

Malakoff, Malaysia



Pelican Point, Australia



Accounting policy	Judgements/uncertainties affecting application
	Determination of the:
Income recognition	correct revenue recognition policy based on the contractual arrangements in place and the allocation of the risks and rewards of ownership of the plant appropriate accounting treatment of receipts from contractors
Fixed asset valuation	trigger events indicating impairment and measurement of fair value using projected cash flows, together with risk adjusted discount rates, or other more appropriate methods of valuation
Fair values on acquisition	fair values of assets and liabilities acquired and hence how much of the purchase price is attributed to goodwill arising on acquisition of a business
Consolidation policy – amount of influence	extent of influence the Group has over the operations and strategic direction of entities in which it holds an equity stake
Exceptional items	transactions or events which require separate disclosure as exceptional items
Taxation	appropriate provisions for taxation taking into account anticipated decisions of the tax authorities assessment of the ability to utilise tax benefits through future earnings.

A discussion follows on the policies we believe to be the most critical in considering the impact of estimates and judgements on the Group's financial position and results of operations.

Critical accounting policies and estimates

We prepare our consolidated financial statements in accordance with accounting principles generally accepted in the UK. As such, we are required to make certain estimates, judgements and assumptions that we believe are reasonable based upon the information available. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements, the reported amounts of revenue and expenses during the periods presented and the related disclosure of contingent assets and liabilities.

On an ongoing basis, we evaluate our estimates using historical experience, consultation with experts and other methods considered reasonable in the particular circumstances to ensure full compliance with UK GAAP and best practice. Actual results may differ significantly from our estimates, the effect of which is recognised in the period in which the facts that give rise to the revision become known.

Our Group accounting policies are detailed on pages 75 and 76. The table above identifies the areas where significant judgements are required, normally due to the uncertainties involved in the application of certain accounting policies.

Income recognition

The majority of our income is derived from owning and operating power plants worldwide. Where power plants sell their output into merchant markets, income is typically recognised when the output is delivered in accordance with the terms of any related hedging or forward contracts or through pool or spot mechanisms.

When power plants sell their output under long-term PPAs it is usual for the power plant owning company to receive payment (known as a 'capacity payment') for the provision of electrical capacity whether or not the offtaker requests electrical output. In these situations, where there is a long-term contract to

Umm Al Nar, UAE

Tihama (under construction), Saudi Arabia

purchase electricity output and electrical capacity, it is necessary for the Group to evaluate the contractual arrangements and determine whether they constitute a form of lease or a service contract. For those arrangements determined to be finance leases, it is also necessary to calculate the proportion of total capacity payments which should be treated as finance income, capital repayment and as a fee for service provision (based on the fair value of the Group's performance under the contract).

The Group receives amounts from contractors in respect of late commissioning and under performance of new power plants. Receipts which relate to compensation for lost revenue are treated as revenue when the compensation is due and payable by the contractor. Those receipts that relate to compensation for plants not achieving long-term performance levels specified in the original contracts are recorded as a reduction in the cost of the assets.

Fixed asset valuation

Tangible fixed assets

The original cost of greenfield developed assets includes relevant borrowings and development costs:

- Interest on borrowings relating to major capital projects with long periods of development is capitalised during construction and written off as part of the total cost over the useful life of the asset.
- Project development costs (including appropriate direct internal costs) are capitalised from the point that it is virtually certain that the project will proceed to completion.

Depreciation of plant is charged so as to write down the value of the asset to its residual value over its estimated useful life.

- Gas turbines and related equipment are depreciated over 30 years to a 10% residual value, unless the circumstances of the project or life of specific components indicate a shorter period or a lower residual value.
- Coal and hydro plant is considered on an individual basis.

Tangible fixed assets and fixed asset investments

Management regularly considers whether there are any indications of impairment to carrying values of fixed assets or investments (e.g. the impact of current adverse market conditions). Impairment reviews are generally based on risk adjusted discounted cash flow projections that inevitably require estimates of discount rates and future market prices over the remaining lives of the assets.

Fair values on acquisition

The Group is required to bring acquired assets and liabilities on to the Group balance sheet at their fair value. Power plant and equipment usually have long operating lives, and are often bought with associated long-term contracts such as PPAs. Hence determination of the fair values of these long-term assets and contracts can require a significant amount of judgement. For the EME portfolio acquisition we have contracted Standard & Poor's Corporate Value Consulting to assist us with the valuation of the acquired assets.

Consolidation policy – amount of influence

The determination of the level of influence the Group has over a business is often a mix of contractually defined and subjective factors that can be critical to the appropriate accounting treatment of entities in the consolidated accounts.

We achieve influence through Board representation and by obtaining rights of veto over significant actions. We generally treat investments where the Group holds less than 20% of the equity as trade investments. Trade investments are carried in the balance sheet at cost, less amounts written off. Income is recorded as earned only on the receipt of dividends from the investment.

Where the Group owns between 20% and 50% of the equity and has significant influence over the entity's operating and financial policies, we generally treat the entity as an associated undertaking or joint venture. Equally, where the Group holds a substantial interest (but less than 20%) in an entity and is able to exert significant influence over its operations, we treat it as an associated undertaking or joint venture. Conversely, although we generally treat a holding of more than 20% of the equity as an associated undertaking or joint venture, where the Group is unable to exert significant influence over the operations of the entity, we treat it as a trade investment.

Associated undertakings and joint ventures are accounted for using the equity method of accounting, which involves including the Group's share of operating profit, interest and tax on the respective lines of the profit and loss account, and the Group's share of net assets within the fixed asset investments caption in the balance sheet. In addition, we provide voluntary disclosure of the amount of net debt held by these entities, although in accordance with UK GAAP, this net debt is not included in the consolidated balance sheet.

The Group generally consolidates entities in which it holds in excess of 50% of the equity and where it exerts control over the strategic direction of the entity. However, if the Group were to hold in excess of 50% of the equity but was unable to exert dominant influence over the strategic direction or operations of the entity, we would account for the entity as an associated undertaking or joint venture.

Exceptional items

An item is considered exceptional if it derives from ordinary activities and is considered of such significance that separate disclosure is needed if the financial statements are to give a true and fair view. All exceptional items, other than those listed, are included under the statutory line item to which they relate. In addition, separate disclosure on the face of the profit and loss account is required for the following items:

- profit or loss on the sale or termination of an operation
- cost of a fundamental re-organisation or restructuring having a material effect on the nature and focus of the Company's operations
- profits or losses on the disposal of fixed assets.

Determining which transactions are to be considered exceptional in nature is often a subjective matter.

Taxation

The level of tax provisioning is dependent on subjective judgement as to the outcome of decisions to be made by the tax authorities in the various tax jurisdictions around the world in which International Power operates.

It is necessary to consider the extent to which deferred tax assets should be recognised based on an assessment of the extent to which they are regarded as recoverable.

International Financial Reporting Standards

Under EU legislation, all listed companies are required to report under International Financial Reporting Standards (IFRS) for accounting periods commencing on or after 1 January 2005. The first annual report and accounts for International Power plc to be presented under IFRS will be for the year ending 31 December 2005. At that time comparative information will be restated on the same basis. Interim results for the half-year ending 31 December 2005 will also be prepared on an IFRS basis.

Overview of impact

The Group intends to implement IFRS using the following transitional options as provided under IFRS 1:

- IFRS 3 Business Combinations not to be applied to combinations before 1 January 2004.
- Fixed assets will be recognised at existing net book values on adoption of IFRS.
- Derivatives not to be retrospectively marked to market in the 2004 comparatives but to be recognised at fair value on 1 January 2005, with a corresponding charge or credit to reserves.
- Cumulative foreign exchange differences in reserves will be deemed to be zero on adoption of IFRS.

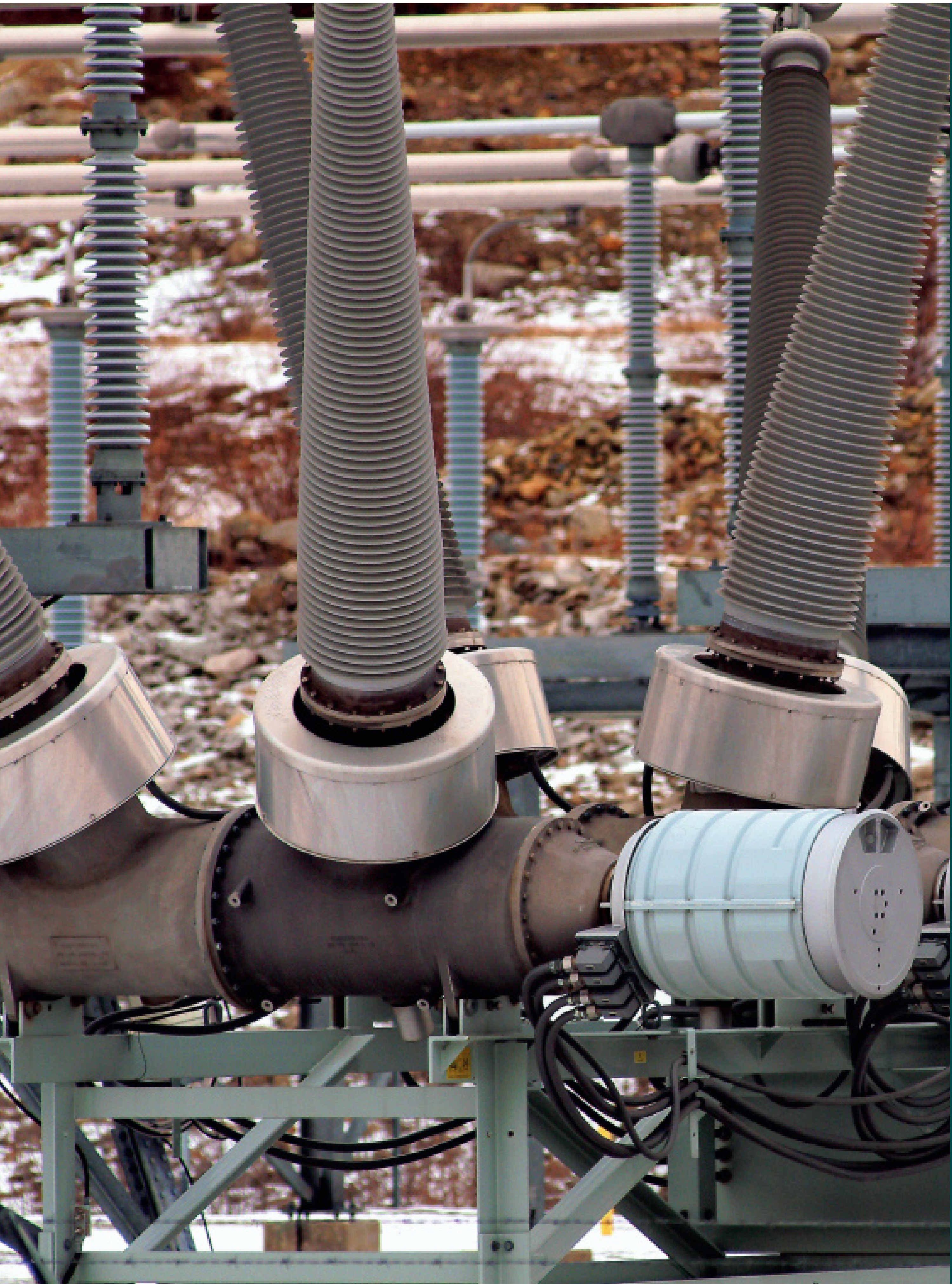
The Group will continue to review future developments in IFRS reporting and any further guidance issued by the Accounting Standards Board prior to full adoption of IFRS reporting for 2005. The transition arrangements for the Group's implementation of IFRS reporting will be finalised having considered the impacts of any developments and guidance.

The most significant areas of difference between UK GAAP and IFRS in the Group's 2004 financial information are:

- the recognition of employee benefit liabilities on the balance sheet together with associated pension fund assets. The Group intends to apply the corridor approach for recognising future valuation changes in the assets and liabilities of the schemes, reducing the impact of market volatility
- differences in accounting for deferred tax, principally with respect to fair value adjustments on acquisitions
- the cessation of goodwill amortisation
- the inclusion of a fair value charge in respect of outstanding employee share options.

The impact of these adjustments is not expected to have a material impact on the earnings or net assets of the Group in 2004.

THE FIRST ANNUAL REPORT AND ACCOUNTS TO BE PRESENTED UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS WILL BE FOR THE YEAR ENDING 31 DECEMBER 2005



BOARD OF DIRECTORS

Chairman

SIR NEVILLE SIMMS (60)

Sir Neville became a Non-Executive Director of National Power in August 1998 and was appointed Chairman of International Power in October 2000. He is currently a member of the President's Committee of the CBI, a Governor of Ashridge Management College and a Trustee of the BRE Trust. Sir Neville was a Non-Executive Director of the Bank of England from 1995 to 2002.

Executive Directors

PHILIP COX (53)

CHIEF EXECUTIVE OFFICER

Philip joined the Company on 1 May 2000 from Invensys plc and became Chief Financial Officer in October 2000. Philip was appointed Chief Executive Officer of International Power in December 2003. He has responsibility for the overall management of the business and the delivery of its strategy. He is a Non-Executive Director of Wincanton plc.

MARK WILLIAMSON (47)

CHIEF FINANCIAL OFFICER

Mark joined the Company in September 2000 from the Simon Group plc and became Group Financial Controller responsible for the Company's financial reporting. Mark was appointed Chief Financial Officer of International Power in December 2003. His responsibilities include financial control and reporting, tax and risk management.

STEVE RILEY (43)

EXECUTIVE DIRECTOR, EUROPE

Steve joined the business in 1985, holding senior positions in two UK power stations. He was appointed International Power's Managing Director, Australia in January 2000. In August 2003 he took up his current position as head of the European region.

Steve was appointed to the Board in January 2004.

TONY CONCANNON (41)

EXECUTIVE DIRECTOR, AUSTRALIA

Tony Concannon is a chartered engineer. He joined the industry in 1982 and has worked in a number of business areas including; operations, asset management, trading and international business development (based in Asia). He took on his role as International Power's Managing Director, Australia in August 2003.

Tony was appointed to the Board in January 2004.

Non-Executive Directors

ADRI BAAN (62)

NON-EXECUTIVE DIRECTOR

Adri became a Non-Executive Director of the Company in June 2002. He was previously CEO of Philips Consumer Electronics, Member of the Board of Management. He is currently on the Boards of ASMI, KVWS, ICI PLC, OCÉ and Wolters Kluwer.

ANTHONY (TONY) ISAAC (63)

NON-EXECUTIVE DIRECTOR

Tony became a Non-Executive Director of the Company in October 2000 and is the Senior Independent Director. He is the Chief Executive of The BOC Group plc and is a Non-Executive Director of Schlumberger Limited.

JOHN (JACK) TAYLOR (66)

NON-EXECUTIVE DIRECTOR

Jack became a Non-Executive Director of the Company in October 2000. He has 38 years experience in project finance, private equity and international banking. Having served as the Asian Development Bank's Director-Infrastructure, Energy and Financial Sectors Department West and Private Sector Group, following a 30-year career as a senior executive with The Chase, Jack is today Executive Advisor to the Commonwealth Disaster Management Agency Ltd. and active in private equity in the UK, Europe and Asia.

STRUAN ROBERTSON (54)

NON-EXECUTIVE DIRECTOR

Struan became a Non-Executive Director of the Company on 1 October 2004. He was Group Chief Executive of Wates Group Ltd until January 2004. Before that he had a 25-year international career with BP plc, during which time he held a number of senior roles, including Chief Executive Officer of BP Oil Trading International and Executive Chairman of BP Asia Pacific. He is the Senior Independent Director at WS Atkins plc and a Non-Executive Director at Forth Ports plc and Henderson TR Pacific Investment Trust plc.

LEFT TO RIGHT:

TONY CONCANNON
STEVE RILEY
MARK WILLIAMSON
PHILIP COX
SIR NEVILLE SIMMS
ADRI BAAN
JACK TAYLOR
TONY ISAAC
STRUAN ROBERTSON

SENIOR MANAGEMENT TEAM

PETER BARLOW

Peter is the head of corporate finance for International Power and is responsible for funding and bank relationships. Peter joined us in 1998 and has been especially involved in corporate finance, project finance and treasury activities since that time.

PENNY CHALMERS

Penny heads up our corporate services. She is responsible for Group human resources, information technology and corporate communications. Penny has 17 years' experience in the energy sector and has been with us since 1997.

GARETH GRIFFITHS

Gareth manages global trading, with responsibility for our trading operations in the UK, US and Australia. He has 12 years' experience in the industry and was previously Vice President, Marketing and Trading for our US business.

VINCE HARRIS

Vince is the head of our Asia region. He was previously CEO of HUBCO in Pakistan and responsible for managing the disposal of our Chinese assets. He is a chartered engineer and has 35 years' experience in the power generation industry.

BRUCE LEVY

Bruce runs American National Power (ANP). He joined the Company on 1 December 2004 having previously worked for US power company GPU, where he was senior Vice President and Chief Financial Officer.

SEAN NEELY

Sean manages the mergers and acquisitions group. He has 11 years' experience in the industry. As well as acquisitions, he has previous experience in strategic planning and project finance.

KEN OAKLEY

Ken manages our corporate tax function. He joined us in October 2000 and is a chartered accountant and chartered tax advisor.

STEPHEN RAMSAY

Stephen is our Company Secretary and General Counsel. He joined the Company in 1996, after 10 years as a solicitor in private practice, first working at National Wind Power and then in the international legal group before becoming Company Secretary in October 2000.

RANALD SPIERS

Ranald is head of our Middle East region. He has been with us for 12 years, having previously worked for BP Group for 12 years across a wide spectrum of industries, including petrochemicals, detergents, oil refining, downstream gas, advanced materials and aerospace.

KEN TEASDALE

Ken heads up operations and engineering. He is a chartered electrical engineer and a chartered mechanical engineer. He has over 37 years' experience in the industry and was previously CEO of Hazelwood Power Company, a 1,635 MW power station in Victoria, Australia.

LEFT TO RIGHT:

PETER BARLOW
PENNY CHALMERS
RANALD SPIERS
GARETH GRIFFITHS
KEN TEASDALE
VINCE HARRIS
STEPHEN RAMSAY
SEAN NEELY
KEN OAKLEY
BRUCE LEVY

CORPORATE GOVERNANCE

WE ARE COMMITTED TO HIGH STANDARDS OF CORPORATE GOVERNANCE AND IN THIS SECTION SET OUT HOW WE COMPLY WITH THE PRINCIPLES IN THE NEW COMBINED CODE, AND EXPLAIN OUR REASONS FOR ANY AREAS OF NON-COMPLIANCE.

Milford, Massachusetts

The Board

The full Board met 13 times during 2004 – this included additional meetings, specifically to review the EME portfolio acquisition. Tony Isaac, Tony Concannon and Jack Taylor were each unable to attend one of these meetings. All other Directors were in attendance on the relevant meeting dates. A meeting of the Chairman and the Non-Executive Directors was held without the Executive Directors being present. The Non-Executive Directors also met without the Chairman being present. This meeting was chaired by Tony Isaac, the Senior Independent Non-Executive Director, and included a review of the Chairman's performance.

From 1 January to 30 September 2004, the Board comprised the Chairman (Sir Neville Simms); four Executive Directors (Philip Cox, Mark Williamson, Tony Concannon and Steve Riley) and three Non-Executive Directors (Tony Isaac, Jack Taylor and Adri Baan). Tony Isaac is the Senior Independent Non-Executive Director. The three Non-Executive Directors are considered to be independent. On 1 October 2004 Struan Robertson joined the Board as a Non-Executive Director. He is considered to be independent.

In 2004 the effectiveness of the Board was underpinned by a balance between Executive and Non-Executive Directors. The Board believes that it has the skills and experience necessary to provide effective leadership and control of the Company.

In accordance with the Combined Code and the Company's Articles of Association, all Directors submit themselves for re-election every three years and newly appointed Directors are subject to election by shareholders at the first AGM after their appointment. Arrangements are in place to ensure that newly appointed Directors receive a comprehensive briefing on the Company, and training is provided for Directors on their roles and their legal obligations to ensure that they are fully conversant with their responsibilities as Directors. In accordance with this policy Struan Robertson visited Rugeley power station shortly after his appointment and he met with each of the functional heads who are members of the Company's management team. The newly appointed Executive Directors attended a two-day course on their role and responsibilities as Directors shortly after their appointment.

Marmara, Turkey

A programme of continuous training is provided for the Directors. Periodically the Board meets at the site of one of the Group's assets and briefings are also given at Board meetings on particular parts of the business, including regional and functional reviews. Directors are also kept informed of changes to the regulatory regime such as the revised Combined Code, new institutional investor guidelines and the US Sarbanes-Oxley Act. All of the Directors have access to the advice and services of the Company Secretary and also to external independent advice should they so wish.

The Company has in place appropriate insurance cover in respect of legal action against its Directors.

Operation of the Board

The Board has responsibility for defining strategy, ensuring the successful implementation of approved projects/ proposals and for the financial policies of the Group. It also reviews the risk policies and profile of the Group. It maintains a schedule of all matters requiring specific Board approval. Throughout 2004 this included all strategy decisions and significant capital investment proposals and acquisitions. The Board receives information on capital expenditure projects and investment proposals in advance of Board meetings, as well as management reports on the operational and financial performance of the business. Financial performance is monitored on a monthly basis and the overall performance of the Group is reviewed against approved budgets. At least once a year, the CEO presents a corporate strategy plan to the Board for review and approval. Each investment decision is made in the context of this plan.

The Board has established business values and standards for the Company, which provide a framework for the Company to balance the interests of all its stakeholders in the conduct of its business. The business values (FIRST) are set out at the front of this annual report. The Company's Code of Business Conduct has been formally adopted by the Board and is set out on the Company's website. This code includes a whistle blowing procedure.

In respect of Board performance for 2004, a questionnaire on Board performance was circulated to each Director and was initially discussed by the Executive Directors with the Chairman and the Company Secretary as a group and by the Non-Executive Directors with the Chairman and the Company Secretary as a separate group. The results of the discussions were then evaluated by the Board as a whole. Overall this evaluation confirmed that the Directors considered that the Board and its Committees worked effectively. As part of the review the Board agreed to increase the number of Remuneration Committee meetings for 2005. The contribution by individual Directors to Board and Committee meetings was considered to be high.

Chairman and Chief Executive Officer

There is a clear division of responsibilities at the head of the Company between the roles of the Chairman and the CEO. The Chairman is responsible for the leadership and effective operation of the Board, in terms of its agenda, decision making and the utilisation of the skills and experience of the Directors. He monitors, with the assistance of the Company Secretary, the information provided to the Board to ensure that it is sufficient, pertinent, timely and clear. The Chairman is also responsible for ensuring that there is effective engagement and communication with shareholders. The CEO is responsible for the running of the Company, and leading the executive and operational teams in implementing the strategies approved by the Board.

In addition to his role as Chairman of the Company, Sir Neville Simms was during 2004 Chairman of Carillion plc. The Board believes this does not compromise his role as Chairman of the Company.

Philip Cox is also a Non-Executive Director of Wincanton plc. His remuneration from this role is retained by him. His remuneration for the year ended 31 March 2004 was £28,000.

Non-Executive Directors and their function

Through membership of the Board Committees, the Non-Executive Directors have responsibilities for ensuring that systems of internal control and risk management are appropriate and effective; managing the relationship with the external auditors; evaluating the performance of management in meeting targets and objectives; setting the remuneration of Executive Directors; appointing Executive Directors; and planning senior management succession.

Board Committees

The Company has established the following committees: the Audit Committee, the Remuneration Committee and the Appointments Committee. No person other than the Committee members is entitled to attend the meetings of these committees, except at the invitation of the Committee. The full terms of reference for each Committee are available on the Company's website: **www.ipplc.com**.

Audit Committee

The Committee selects and fixes the remuneration of the external auditors and reviews the effectiveness of the external audit process. The Committee also ensures policies and procedures are in place to ensure that the external auditors remain independent. In addition to reviewing the Group's accounts, results announcements, risk management and accounting policies, the Committee monitors the effectiveness of internal control systems for the Board. The Committee monitors the work of the internal audit function and its progress against the Group's annual internal audit plan, and also reviews reports from the external auditors.

The Audit Committee is comprised of all the independent Non-Executive Directors of the Company and the Chairman. The Audit Committee Chairman is Tony Isaac, who is a Fellow of the Chartered Institute of Management Accountants and, before becoming Chief Executive of The BOC Group plc, was its Group Finance Director. The Company Secretary acts as secretary to the Committee. During 2004 the Audit Committee met on six occasions, Tony Isaac attended each of these meetings, Sir Neville Simms attended five of these meetings, Adri Baan and Jack Taylor attended four meetings each and Struan Robertson attended two meetings.

Time is set aside for the Committee to meet the external auditors without executive management present and these sessions have been extended to include the Group's head of internal audit. In addition to the members of the Committee, regular attendees at the Audit Committee meetings included representatives of the external auditors, the CEO, the Chief Financial Officer (CFO), other Executive Directors, the head of financial reporting and the head of internal audit.

Remuneration Committee

The Remuneration Committee is responsible for monitoring the performance of the Executive Directors of the Company against targets, and making recommendations to the Board on remuneration.

The Committee comprises all of the independent Non-Executive Directors of the Company and the Chairman. The Chairman of the Committee is Adri Baan. The head of human resources at International Power acts as secretary to the Committee. During 2004 the Remuneration Committee met on two occasions. Sir Neville Simms, Adri Baan and Jack Taylor attended each of these meetings whilst Tony Isaac and Struan Robertson both attended one meeting.

Appointments Committee

The Appointments Committee is responsible for matters of management succession and the identification and appointment of Directors. The Committee is comprised of the Chairman and all of the independent Non-Executive Directors of the Company. The Chairman of the Committee is Sir Neville Simms. The head of human resources also acts as secretary to the Committee. During 2004, the Committee met on one occasion. Sir Neville Simms, Adri Baan, Tony Isaac and Jack Taylor attended this meeting.

When reviewing candidates for the appointment of the new Non-Executive Director, the Appointments Committee prepared a description of the role and capabilities required for the appointment and instructed Spencer Stuart, external search consultants. The appointment of Struan Robertson was made following full evaluation of available and suitable candidates, after taking into account their past experience, their personal achievements and other factors such as their knowledge and experience of the energy industry and the business environment of International Power.

Hazelwood, Australia

Relations with shareholders

The Board is accountable to shareholders for the performance and activities of the Group. International Power ensures that its AGM provides shareholders with an opportunity to receive comprehensive information on all aspects of the Group's business activities and to question senior management about business issues and prospects.

All proxy votes are counted and the level of proxy votes lodged for each resolution is reported at the AGM. In line with best practice, the Company aims to ensure that the notice of AGM and the annual report are sent to shareholders at least 20 working days before the AGM.

International Power also runs, within the terms of the regulatory framework, frequent contact programmes with industry analysts and institutional investors to discuss matters of strategy and financial performance. Contact is made principally by the CEO and the CFO. On issues of major importance the Chairman communicates with major shareholders. The Senior Independent Non-Executive Director (Tony Isaac) is also available as an alternative point of contact if shareholders have concerns over the Chairman's performance or where contact with the Chairman would be inappropriate. At each Board meeting an update is given on movements in major shareholdings and on contact programmes between the Executive Directors and institutional shareholders. Reports issued by financial analysts on the Company are circulated to Board members. These summaries and reports enable the Directors to gain an understanding of the views and opinions of those with an interest in the Company.

All results presentations and stock exchange announcements are available to shareholders on the Company's website **www.ipplc.com**.

Accountability and audit

The Board is mindful of its responsibility to present a balanced and understandable assessment of International Power's financial position and prospects, both to investors and regulatory authorities. The annual report, preliminary, interim and quarterly results announcements are the principal means of achieving this objective.

An explanation of the respective responsibilities of the Directors and external auditors in connection with the financial statements is set out on page 69. The Directors confirm on page 68 their view that the Group is a going concern.

The Audit Committee approves all non-audit services provided by the external auditor to ensure that the objectivity and independence of the external auditor is not compromised. In line with the requirements of the Sarbanes-Oxley Act, our procedures specify the services from which the external auditor is excluded and the approval process for all other services.

Internal control

The Board has responsibility for the Group's system of internal control and for monitoring and reviewing its effectiveness.

Systems are in place to meet the requirements of the Combined Code and Turnbull Guidance and procedures and systems are being implemented to ensure compliance with the requirements of the Sarbanes-Oxley Act.

Any system of internal control is designed to manage, rather than eliminate, the risk of failure to achieve business objectives. The system can only provide reasonable, and not absolute, assurance against material financial misstatement or loss. The principal features of the Group's systems of internal control are:

Control environment

The Board encourages a culture of integrity and openness. The Company has an organisation structure with clear lines of accountability and authority across its worldwide operations, supported by appropriate reporting procedures. Each of the regional businesses is accountable to the CEO and is managed within the strategic guidelines and delegated authorities adopted by the Board. An executive management team chaired by the CEO and comprising the Executive Directors, regional directors and functional heads meets regularly to discuss issues facing the Group.

Control procedures

Control procedures have been established in each of the Company's operations to safeguard the Group's assets from loss or misuse and to ensure appropriate authorisation and recording of financial transactions. All acquisition and investment decisions are subject to disciplined investment appraisal processes. Risk management procedures are in place for the Company's operations, including its energy marketing and trading activities, which are overseen by the Global Commodities Risk Committee, which comprises executive and senior management, and is chaired by the global risk manager. The Group treasury function operates under defined policies and the oversight of the Treasury Committee, chaired by the CFO.

THE BOARD ENCOURAGES A CULTURE OF INTEGRITY AND OPENNESS. THE COMPANY HAS AN ORGANISATION STRUCTURE WITH CLEAR LINES OF ACCOUNTABILITY AND AUTHORITY ACROSS ITS WORLDWIDE OPERATIONS

Hays, Texas

Performance reporting and information

Corporate plan: Executive management submits an annual corporate plan to the Board for approval. The plan for each business unit is the quantified assessment of its planned operating and financial performance for the next financial year, together with strategic reviews for the following four years. Group management reviews the plans with each operational team. The individual plans are based on key economic and financial assumptions and incorporate an assessment of the risk and sensitivities underlying the projections.

Performance monitoring: Monthly performance and financial reports are produced for each business unit, with comparisons to budget. Reports are consolidated for overall review by executive management, together with forecasts for the profit and loss account and cash flow. Detailed reports are presented to the Board on a regular basis.

Performance review: Each business unit is subject to performance reviews with Group management regularly during the year. Actual results and forecasts for the year are compared to budget. Key operational and financial results are reviewed together with the risk profile and business environment of the reporting unit.

Investment projects: These are subject to formal review and authorisation procedures with designated levels of authority, including a review by an investment appraisal committee chaired by the CEO and comprising the Executive Directors and senior managers. Major projects are subject to Board review and approval.

Risk identification and management

There is a continuous process for identifying, evaluating and managing the key risks faced by the Company. Activities are co-ordinated by the Risk Committee, which is chaired by the CFO, and has responsibility, on behalf of the Board, for ensuring the adequacy of systems for identifying and assessing significant risks, that appropriate control systems and other mitigating actions are in place, and that residual exposures are consistent with the Company's strategy and objectives. Assessments are conducted for all material entities.

As part of the annual business planning process, the key risks associated with achievement of the business' principal objectives are identified and their impact quantified. During the year, significant changes in the risk profile are highlighted through the business performance reports. The principal risks are reviewed by the Risk Committee, which provides reports to the Board and the Audit Committee.

Energy marketing and trading

The objective of the Group's energy marketing and trading operations is to maximise the return from the purchase of fuel and the sale of the associated output.

For each of the businesses that operate in merchant energy markets, local risk committees have been established to oversee the management of the market, operational and credit risks arising from the marketing and trading activities. The committees are made up of the trading manager, global and local risk managers, Directors and senior managers.

The Group hedges its physical generating capacity by selling forward its electrical output, and purchasing its fuel input, as and when commercially appropriate and within approved control limits. This is accomplished through a range of financial and physical products. Our limited proprietary trading operations use similar methods.

Energy market risk on our asset and proprietary portfolios is measured using various techniques including Value-at-Risk (VaR). VaR is used where appropriate and provides a fair estimate of the net losses or gains which could be recognised on our portfolios over a certain period and given a certain probability; it does not provide an indication of actual results. Scenario analyses are used to estimate the economic impact of sudden market movements on the value of our portfolios. This supplements the other techniques and methodologies and captures additional market risks.

Monitoring

The Board reviews the effectiveness of established internal controls through the Audit Committee which receives reports from management, the Risk Committee, the Group's internal audit function and the external auditors on the systems of internal control and risk management arrangements.

Internal audit reviews the effectiveness of internal controls and risk management through a work programme which is based on the Company's objectives and risk profile and is agreed with the Audit Committee. Findings are reported to operational and executive management, with periodic reporting to the Audit Committee.

Business unit managers provide annual self-certification statements of compliance with procedures. These statements give assurance that controls are in operation and confirm that programmes are in place to address any weaknesses in internal control. The certification process embraces all areas of material risk. Internal audit reviews the statements and reports any significant issues to the Audit Committee.

Compliance with the Combined Code

There were three areas where the Board was not fully compliant with the requirements of the revised Combined Code throughout 2004. Until 1 October 2004 there was a majority of Executive Directors over the Non-Executive Directors. This was due to the appointment of two new Executive Directors on 1 January 2004. At that time the Board considered it appropriate to strengthen the base of the executive team. In response to these appointments the Board sought the appointment of an additional independent Non-Executive Director and appointed Struan Robertson to the Board on 1 October 2004.

Throughout 2004, the Chairman of the Board, Sir Neville Simms, was a member of both the Audit and Remuneration Committees. The Chairman of each of these committees is an independent Non-Executive Director and there are at least two other independent Non-Executive Directors as members of each of the committees. Therefore Sir Neville Simms was not in a position to exert any control over the affairs of the respective committees. Due to Sir Neville Simms' role in communicating with institutional shareholders on remuneration matters and the importance of the Audit Committee in reviewing the financial statements and the internal controls of the Company, the Board considered it appropriate for the Chairman to sit on each of the Remuneration Committee and the Audit Committee.

The Senior Independent Director did not have any direct communication with institutional investors, primarily to avoid potential confusion over channels of communication. To date, no institutional shareholder has requested such communication.

In all other respects, the Company has complied with the provisions of the Combined Code throughout the period of the review.

US corporate governance compliance

The Company has securities registered in the US and, as a result, it is required to comply with those provisions of the Sarbanes-Oxley Act 2002 (the Act) as it applies to foreign private issuers. The Board continues to monitor the new rules arising from the Act and arrangements are also being developed to ensure that the Company will be able to report on its systems of internal controls over financial reporting as required for the year ending 31 December 2006.

As recommended by the US Securities and Exchange Commission (SEC), the Company has established a Disclosure Committee comprising the Company Secretary, the head of internal audit and representatives of the investor relations, finance and company secretariat departments. The Committee meets regularly and is responsible for performing an oversight and advisory role in the disclosure process for the content and form of the annual report and Form 20-F. The Committee makes recommendations to the CEO, the CFO and the executive management on the adequacy of processes to permit the signing of certifications required by the Act. The Committee also reviews the Group's compliance with the requirements of the Act.

In November 2003, the SEC approved changes to listing standards of the New York Stock Exchange (NYSE) related to the corporate governance practices of listed companies. Under these rules, listed foreign private issuers, such as International Power, must disclose any significant ways in which their corporate governance practices differ from those followed by US domestic companies under the NYSE listing standards. There are no significant differences in the corporate governance practices undertaken by International Power as compared to those followed by US domestic companies under the NYSE standards. Under the terms of the NYSE rules, Sir Neville Simms is deemed to be an independent Director as all the payments he receives from the Company are in respect of Directors' fees and therefore his membership of the Audit and Remuneration Committees is in accordance with the requirements of the NYSE corporate governance rules. The terms of reference of the Appointments Committee only relate to succession issues rather than corporate governance principles, which are currently reserved to the Board as a whole.

THE COMPANY HAS SECURITIES REGISTERED IN THE US AND, AS A RESULT, IT IS REQUIRED TO COMPLY WITH THOSE PROVISIONS OF THE SARBANES-OXLEY ACT 2002 AS IT APPLIES TO FOREIGN PRIVATE ISSUERS

CORPORATE SOCIAL RESPONSIBILITY

OUR AIM IS TO ENSURE THAT INTERNATIONAL POWER CONTINUES TO BE KNOWN THROUGHOUT THE WORLD AS A RESPONSIBLE, EFFICIENT AND SUCCESSFUL COMPANY. OUR STAKEHOLDERS – OUR EMPLOYEES, REGULATORS, SHAREHOLDERS, CUSTOMERS, SUPPLIERS AND HOST COMMUNITIES – EXPECT NOTHING LESS OF US.

First Hydro, UK

Today's fast-changing world relies increasingly upon electricity. It also demands responsibility from the industry that produces it. For a global wholesale generating company like International Power, this equates to fair and ethical principles to govern the way we manage and conduct our business. It means working more smartly – by ensuring our key competences, technical expertise and best practices are properly implemented over a widely dispersed and diverse range of assets to produce power more safely and cleanly.

At stake is our reputation. Our aim is to ensure that International Power continues to be known throughout the world as a responsible, efficient and successful company. Our stakeholders – our employees, regulators, shareholders, customers, suppliers and host communities – expect nothing less of us.

This strong commitment to corporate social responsibility (CSR) flows from the top. The Board is briefed regularly on our CSR performance. Our three new Executive Directors attended an Institute of Directors' training course in 2004, which included concepts of corporate governance and CSR issues.

Establishing a sound reputation starts at ground level. We work hard to build long-term sustainable partnerships in the communities in which we operate – particularly for our assets in developing countries. Here International Power's investment in local healthcare and education provides additional benefits for employees, their families and the wider community. As well as striving to improve life generally, we also donate funds to specific community projects.

CSR also covers the way we regard, develop and reward our employees. Details of this are contained in the Employees section on page 52 of this report.

As with any large industrial process, the environmental impact arising from electricity generation is now subject to international as well as regional and local scrutiny and regulation. Our continuing obligation is to manage our growing portfolio of assets so as to reduce the environmental impact of our activities.

Our ability to deliver better performance is demonstrated by our track record in competitive energy markets which is based on our heritage in the power industry. By disseminating technical expertise widely throughout the Company, we strive to raise overall performance. This has commercial as well as environmental benefits. Effective management systems increase transparency and accountability. By publishing key performance data, we demonstrate publicly how we are putting our principles into practice.

Where we are not the sole owner of an asset we seek to establish our CSR standards and principles with our partners, for instance through influence at the asset Board level.

In March our CSR performance was formally acknowledged and we are now included within the FTSE4GOOD index, which identifies companies that meet globally recognised corporate responsibility standards. The FTSE4GOOD index covers environmental sustainability, stakeholder relationships and upholding and supporting universal human rights.

2001 Flagship Project

The Citizens' Foundation (TCF) school, HUBCO-IPGD Campus in Pakistan, was officially opened in April 2004 and the junior section has been successfully running for a full year. The first and second year pupils of the secondary school are now in class. This school is built to the very high standard of TCF, a non-government organisation which, in partnership with industry, continues to build schools throughout Pakistan.

The school will eventually teach 500 children, many of whom would not have received a secondary education before the school was built.

Policy

Since 2003, International Power has been working to a set of Board-approved values known as FIRST:

F Financial discipline

I Integrity of communication

R Respect for the individual

S Substance with style

T Team first culture.

FIRST is translated into practical guidance through International Power's business policies. These cover the environment, health and safety, equal opportunities, procurement, ethical business practices, conduct in the community and charitable contributions. A staff handbook, the International Power Code of Business Conduct, which incorporates all relevant International Power policies, was approved by the Board to guide the Company's activities in all regions and has been distributed throughout the Group.

All our health, safety and environmental policies underwent systematic review and re-approval during 2004.

Keeping people informed

Communicating with different groups of stakeholders is an important part of CSR management. In addition to our annual report to shareholders, we brief and provide information on-line for our stakeholders to enable them to monitor our performance. We listen to what they say and respond to their on-going need for information on company business.

To ensure effective communication with our employees, initiatives include the International Power Global Forum. This draws together staff from all global locations and levels and allows them to take part in discussions on company related issues. The next Global Forum will take place in September 2005.

More informal information is sent to employees in a printed newsletter, three of which were distributed worldwide in 2004. The newsletter contains articles and employee news, submitted by staff, as well as Company news. Many of our regional businesses or individual power stations also issue specific information to employees and the local community on items of local interest.

2002 Flagship Project

This project backed the development of an energy garden at Deeside power station. The garden has been designed as a showcase for various forms of alternative energy generation with interactive and sensory displays.

As an educational resource, linked to the national curriculum, the energy garden's support materials also cover health, safety and a wide spectrum of environmental issues, including recycling, sustainable lifestyles, transport and water management.

2004 saw the launch of our new extranet site – ImPact – which can be accessed via the internet by our employees throughout the world. ImPact was built with input from staff in all regions and provides a wealth of information including our performance, policies, latest news, awards, community projects and CSR case studies.

Each asset at local level conducts direct contact with regulators. We continue to monitor and represent the Company's interests on current and future regional, national and international regulation covering our activities.

Any organisation or individual may visit our corporate website – **www.ipplc.com** – for up-to-date information about the Company and its activities. This information is supplemented by more detailed asset-specific information on individual websites.

Management

During 2004, our Health, Safety and Environment Committee met four times to manage and communicate HSE issues company-wide. It supports the more regular local HSE committee meetings. Continuous communication with individual assets is carried out on an 'as required' basis. Health, safety and environment issues were reported, through the CEO, at main Board meetings throughout the year.

We work with suppliers to ensure that they understand and can respond to our CSR policies. During 2004 we set up a project to review the CSR practices of our major coal suppliers. We have now established an ongoing programme which requires them to report annually to us on their own health, safety and environmental policies and performance.

As well as monitoring performance, the Health, Safety and Environment Committee identifies and pools best practice and encourages employees to learn from the experience of their colleagues around the world. The Take 5 initiative was one which emerged from our Hazelwood site in Australia in 2004. It prompts employees to approach their work with extra care through following five basic and simple steps:

1 Stop, step back, think through the task.

2 Go through the task and identify hazards.

3 Assess the risk.

4 Make the changes to control the risks.

5 Do the job safely.

Take 5 will now be progressively incorporated into the safety ethos of our power stations in all regions during 2005.

During 2004, International Power introduced Behavioural Safety Training systems at the Deeside and Hazelwood sites. Though recognising that our assets may differ widely, we are keen to ensure that staff receive the most appropriate health and safety training. Behavioural Safety Training will therefore be implemented progressively at other sites.

By evaluating initiatives and incidents from inside and outside the Company, we are able to refine our health and safety systems. Information is distributed company-wide as Health and Safety Information Memoranda. Lessons learned are used to promote awareness and encourage best practice.

We actively encourage our plants to achieve certification to recognised management systems. The majority have already reached the ISO 14001 standard. A rolling programme for the implementation of ISO 14001 has now been established across all five of our wholly-owned US-based assets, with the target date for an approved system at each site by the end of 2005.

During 2004 our Kot Addu power station was the first industrial plant in Pakistan to become accredited to all three management systems standards; ISO 14001, OHSAS 18001 and ISO 9001.

Positive improvement

By stepping up our focus and emphasis on health and safety in 2004, we have achieved a reduction in the number of lost time incidents across our assets. Our Milford plant in North America has reached 3,000 days without a lost time incident, Hub power station in Pakistan has reached 2,000 days while others including Pego, Pelican Point, Synergen, Marmara, Pluak Daeng, Hays, Bellingham and Midlothian, have all achieved 1,000 days.

As a wholesale electricity generator, we recognise the impact our business has on the environment. During 2004, by utilising the latest technology and optimising the way we operate our assets, we achieved improvements in our environmental performance. In the key performance indicators we reduced our output of SO_2, NO_x and CO_2.

Recognition and benchmarking

Power production is a complex process and many of our assets operate in competitive markets. Although our power stations throughout the world may use different fuels and different technologies to generate electricity, the way we record and report our CSR performance must be undertaken in a consistent and transparent way. By working to the Global Reporting Initiative and the Association of British Insurers' reporting guidelines we, and our stakeholders, may check and compare our performance with that of other power companies. International Power's annual web-based CSR report is now produced in line with these accepted guidelines.

Demonstrating excellence

For the second consecutive year HUBCO in Pakistan has won the ROSPA high commendation sector award for the electricity industry. The award recognises HUBCO's highest standards of occupational safety and their commitment to continue to raise health and safety standards at the power station.

Hazelwood was awarded a national commendation for health and safety by the Minerals Council of Australia at their annual awards ceremony. The award recognises committed leadership and a strong and consistent safety conscious culture across the whole site.

In the US, our Midlothian and Hays sites both received the Texas Environmental Excellence award from the Texas Commission on Environmental Quality in 2004. The award recognises the use of innovative technology.

The plants are using clean burning technology and water conservation strategies, making ANP the first and only power producer in Texas to use sequentially fired combustion techniques to produce cleaner power, while greatly reducing gas emissions.

The plants' pioneering technology efficiently converts fuel into usable energy while reducing NO_x and CO emissions by as much as 90%. In addition, to conserve water, they use air rather than water as a cooling agent in eight of their ten turbines.

Two turbines at the Hays site recycle reclaimed wastewater from the city of San Marcos, resulting in an annual saving of 100 million gallons of water.

Targets

International Power has established a systematic twin approach to CSR target setting. Some targets are set at asset level by regional directors. These include specific local targets which would be inappropriate for other sites or regions.

Other generic targets are set at corporate level. This allows management to identify key areas for improvement across the Company.

Some targets set in 2004 will continue and be expanded year-on-year as part of an ongoing improvement programme. New performance targets are also added each year, as needed.

Future regulations

As always, one of our key objectives is to comply with all applicable legislation at local, regional, national and international level. We also have to keep abreast of all forthcoming legislation likely to affect our business. Assessing the likely ramifications for individual assets is the responsibility of the Company's Health, Safety and Environment Committee.

2003 Flagship Project

In late 2003, EOP in the Czech Republic submitted a proposal to improve schools in its region, at a cost of £100,000.

The main task was a major upgrade of the teaching facilities in the local Opatovice School. Improvements included a new roof, windows, thermal insulation and modern toilets for the children. The work took place during the summer of 2004 and was ready for the new autumn term.

The second and third phases of the scheme included buying new IT equipment and teaching aids for the village primary schools of Ceperka and Dritec. Equipment included fully networked PCs, software and support equipment such as printers, data projector, scanner and digital camera. The equipment provides modern technologies to teach different subjects and foreign languages. It was installed in the autumn term and children are already deriving much benefit from it.

The revised Large Combustion Plant Directive and the EU Emissions Trading Directive will impact our European assets. We have continued to participate in industry-wide discussions to advise the UK Department of the Environment, Food and Rural Affairs and the Environment Agency for England and Wales on the implementation of both Directives. This is to ensure that the industry's view is voiced in terms of potential impact across the entire sector. International Power has strategies in place to enable our business to comply with the requirements of these key pieces of legislation.

We have also been proactive in assessing the EU Emissions Trading Scheme covering our carbon allocations and the potential impact for each of our European plants. The scheme came into operation in January 2005.

Charitable giving

The Company's Charities and Donations Committee oversees corporate charity awards. The Committee is responsible for International Power's flagship projects (see case studies) which provide annual funding for community-based projects. On a local level, each of our assets has an annual fund for charitable projects in their area. The Committee is also responsible for International Power's match funding scheme. This enables employees to apply to the Company to match any money they have raised for good causes.

During 2004 International Power and its subsidiaries contributed £683,679 to charitable causes and other community projects. Companies in which we have a minority shareholding (associates, joint ventures and trade investments) contributed a further £137,612.

Flagship projects

Our flagship projects – most of which were proposed by staff – have been running for three years. They are community projects funded annually by International Power. Flagship projects can range in size and scope. But they all have the same aim: improving quality of life in different corners of the world.

Our responses to the Tsunami disaster

Since the Tsunami disaster, the Company's main aim has been to support locally co-ordinated efforts to help those who lost loved ones, homes or essential facilities in their villages. We believe this is best achieved by targeting aid at specific projects, mostly at a local level.

The total amount the Company and its associated companies are giving is just over US$470,000 (£247,368). Details of the initiatives are located on our website.

EMPLOYEES

INTERNATIONAL POWER OPERATES IN AN INCREASINGLY COMPLEX BUSINESS ENVIRONMENT. WE PLACE A HIGH PRIORITY ON THE RECRUITMENT, RETENTION AND TRAINING OF STAFF AT ALL LEVELS, WHETHER EMPLOYED BY US DIRECTLY OR BY ANY OF OUR SUBSIDIARIES, JOINT VENTURES OR ASSOCIATES.

We operate an incentive weighted compensation scheme which we believe rewards and develops staff on the following bases:

- Achievement of tangible personal objectives: annual targets are set for all personnel, calibrated at levels designed to ensure that individuals are able to contribute to the attainment of these objectives.
- Professional and educational advancement: we promote and facilitate mid-career training, internal and external seminars, personal development plans and other educational programmes. In addition, we encourage our employees to participate actively in their personal development and in relevant professional organisations.
- Leadership: we expect our employees to exercise leadership in their dealings with colleagues, partners, customers and other contract parties.

This all relies on a foundation of personal integrity. We endeavour to ensure that all of our staff conduct themselves, internally and externally, in a manner of the highest integrity.

Clear communication links are critical to enhance business and commercial awareness throughout our business. Corporate publications, the International Power website and extranet, employee awareness briefings from executive management and team briefings are all used to promote communications and an understanding of the development and application of policies and strategy. We use the latest technology to aid rapid communication with all staff around the world, as well as regularly holding global Employee Forums.

Equal opportunities

The Group is committed to equal opportunities, both from a sense of social responsibility and also because it makes sound business sense to benefit from the wide ranging knowledge and experience of individuals in all sectors of society. This commitment to equal opportunities means that decisions to appoint, reward, train, develop and promote are taken purely on the basis of skills and abilities, as matched against the requirements of the job. The Group values its reputation as a caring employer and seeks to attract and retain high calibre employees. Opportunities for training are given a high priority to ensure that all individuals can contribute to their

Blackstone, Massachusetts

own career development. This approach extends itself to the fair treatment of people with disabilities in relation to their recruitment, training and development.

Employee share plans

International Power has in place a number of share-based plans under which employees of the Group and its subsidiary companies may acquire Ordinary Shares in International Power plc. These plans form an integral part of the Group's strategy to provide appropriate reward and retention strategies for employees, to align employee and shareholder interests through incentive targets based on clear operational and financial criteria and to recruit, motivate and retain employees.

These employee share plans are:

- the 2002 Performance Share Plan (an annual plan open to Executive Directors and a small number of senior managers)
- the International Power Approved Executive Share Option Scheme (a discretionary plan open to selected UK resident employees)
- the International Power Unapproved Executive Share Option Plan (a discretionary plan for selected UK-based employees)
- the Global Executive Share Option Plan (a discretionary plan for executives resident outside of the UK)
- the International Power Sharesave Plan (open to all UK resident employees)
- the International Power Global Sharesave Plan (open to employees in certain jurisdictions outside of the UK).

All of the listed plans are currently in operation.

Executive Share Options have been granted to executives in five countries outside the UK and the Global Sharesave Plan is now in operation in four countries outside the UK. As the Group continues to grow and employee numbers continue to increase, we anticipate that the extension of share plans to overseas jurisdictions will continue apace.

Executive Directors (Philip Cox, Mark Williamson, Tony Concannon and Steve Riley) participate in the 2002 Performance Share Plan, the Approved and Unapproved Executive Share Option Plans and the International Power Sharesave Plan.

The vesting of any awards made under the 2002 Performance Share Plan, and the ability to exercise options granted under the Approved and Unapproved Executive Share Option Plans and the Global Executive Share Option Plan, are all subject to the satisfaction of performance conditions. Information on the relevant performance conditions for each award or option grant under each plan is given in the Directors' remuneration report. The exercise of options under the Sharesave Plan is not subject to any performance condition.

Following the Rights Issue, the Remuneration Committee, in accordance with the plan rules, adjusted the number of options and shares under the above plans, the option prices, and the associated performance conditions. All the details referred to in the remuneration report reflect these adjustments.

DIRECTORS' REMUNERATION REPORT

THE SETTING OF REMUNERATION POLICY AND THE DETERMINATION OF THE COMPENSATION OF EXECUTIVE DIRECTORS IS UNDERTAKEN ON BEHALF OF THE BOARD BY THE REMUNERATION COMMITTEE.

The Committee has access to external independent advice in relation to remuneration. During the year the Remuneration Committee appointed Towers Perrin to provide specialist advice on Director and senior management remuneration. Towers Perrin did not undertake any other services on behalf of the Company during the year ended 31 December 2004.

In addition, it received advice from James Richards, head of human resources, with regard to all aspects of remuneration. The CEO attended Committee meetings to report on Executive Directors' performance (other than his own).

This report to the shareholders by the Committee covers the following: remuneration policy (including information on share options, long-term incentive plans, Directors' service contracts and Directors' pension benefits); Directors' aggregate remuneration and compensation; and Directors' interests in the Company's shares.

Remuneration policy

The Company's remuneration policy for each Executive Director takes account of the changing nature of the business in both the UK and overseas. In order to compete with and meet these challenges, the Committee has designed executive remuneration along the following principles:

- Total remuneration levels that will retain and motivate top quality executives.
- All remuneration packages have a significant performance-related element.
- Incentives are based on meeting specific, measurable performance objectives, and align executives' rewards with creating value for our shareholders.
- Total remuneration packages that include significant opportunities to acquire International Power shares consistent with our strategy of reinvestment and building a strong share ownership culture.

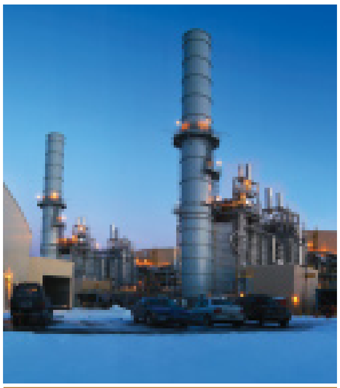
This policy applies to the current year and the Committee intends to continue it for the foreseeable future, taking into account developing market practice.

At the start of each financial year the Remuneration Committee establishes a framework of individual and corporate performance targets against which performance is measured.

Consideration is also given to remuneration levels in comparator companies both within the UK and internationally. The Committee also has regard to the pay of staff and management generally within the Group, to ensure that an appropriate balance is maintained in remuneration levels.

In order to maintain market level remuneration packages, in 2004 the Remuneration Committee increased the maximum level of bonuses available to Executive Directors from 60% of base salary to 70%, for implementation in the 2005 financial year onwards. This is detailed in this report.


Pluak Daeng, Thailand


Bellingham, Massachusetts

Elements of remuneration

Executive Directors receive a remuneration package aligned with short and medium-term corporate and personal targets. The package comprises a market competitive base salary; performance related annual bonus (satisfied part in cash and part in shares); medium and long-term share related incentives; pension benefits; and other benefits including a health care programme and a company car allowance.

With regard to the performance related elements of Executive Director remuneration packages, they are structured to provide significant awards for superior performance.

Main fixed and performance related elements of remuneration	
Fixed elements	**Performance elements**
Base salary	Annual bonus (paid part in cash and part in shares)
Pension	Performance Share Plan
Benefits (e.g. car allowance, healthcare)	Executive Share Option Scheme

The total value of the fixed elements of remuneration referred to in the table above represents 137% of base salary. The value of the performance related elements (annual bonus and long-term incentives) represents 270% of base salary (260% for 2004). The level of remuneration actually receivable in respect of the performance related elements will be dependent upon the extent to which the relevant performance conditions are achieved over the relevant performance period.

Base salary as at 1 January 2005	
Name	**Salary**
Philip Cox	£525,000
Mark Williamson	£310,000
Tony Concannon	£285,000
Steve Riley	£285,000

The International Power annual performance bonus is a non-pensionable payment for achieving targets set by the Board (including EPS, cash flow and personal targets). The maximum annual bonus opportunity for Executive Directors was set at 60% of base salary for the performance year 1 January to 31 December 2004. As set out in last year's annual report, in order to increase the share ownership of Executive Directors and senior management, and to further increase the alignment of the remuneration package to shareholder return, the bonus award for 2003, 2004 and 2005 will be made part in cash and part in shares.

For the 2004 performance period the Committee reviewed the performance of each Executive Director against their qualitative and quantitative objectives. In addition they agreed that the new executive team had worked well in this their first year together, in particular to deliver the ANP refinancing and the EME acquisition whilst maintaining good operational results from the regions.

The Committee agreed that, taking into consideration the above and without setting precedent, the Remuneration Committee would use its discretionary powers to award the Executive Directors the maximum bonus for 2004. This resulted in the following awards:

	Cash bonus	**Shares**
Philip Cox	£142,500	142,500
Mark Williamson	£75,000	75,000
Tony Concannon	£70,500	70,500
Steve Riley	£70,500	70,500

The shares referred to above will be released to each Executive Director on 14 March 2005. The details of these payments are set out in the Directors' aggregate remuneration table on page 62.

As part of International Power's share retention arrangements, these shares (less a proportion of the shares sold to meet taxation liabilities) are required to be held until January 2007. An Executive Director may dispose of these shares prior to January 2007 if his total beneficial interest in the shares of the Company is equal to or greater than 100% of his base salary.

The bonus payable for the performance year 2005 will also be paid part in cash and part in shares, subject to the above retention arrangements.

The maximum target bonus levels for 2005 have been established on the following basis:

	Maximum 2005 bonus achievable				
	Personal	EPS (Group)	Free cash flow (Group)	PBIT (Region)	Free cash flow (Region)
Philip Cox	10%	50%	10%	–	–
Mark Williamson	10%	50%	10%	–	–
Tony Concannon	10%	–	–	50%	10%
Steve Riley	10%	–	–	50%	10%

Selection of performance criteria

For the 2002 Performance Share Plan and the Approved and Unapproved Executive Share Option Plans shown overleaf, the performance conditions have been aligned with the key objective of growth in EPS of the Company.

The Remuneration Committee has chosen EPS growth as the performance measure for its share plans to ensure that there is an objective measure of relative performance and the Committee has decided to measure the relative growth in EPS taking into account growth in the Retail Price Index. This choice of EPS growth recognises that International Power is a UK-based company that operates principally outside the UK, that there is no comparator group of companies against which the Company's performance can adequately be measured in terms of Total Shareholder Return (TSR), and that EPS is an objective financial measure that can be tracked. Whilst the Committee recognises that this is not a measure that is universally accepted by shareholders, the Committee believes that the targets set are challenging and, if achieved, will demonstrate significant financial performance on the part of the Directors and employees of the Company.

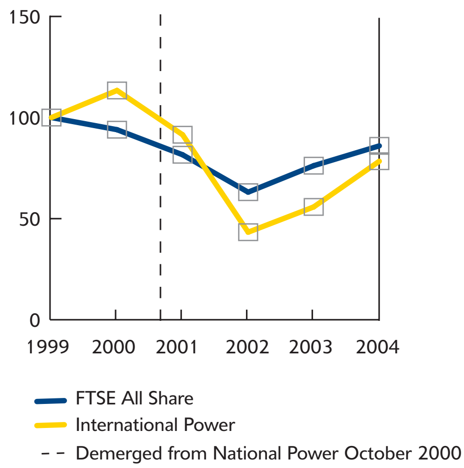
This approach will continue to be adopted for further awards under the 2002 Performance Share Plan and grants under the Approved and Unapproved Executive Share Option Plans.

The Remuneration Committee will assess the level of performance in respect of any performance condition objectively.

Given that the principal performance measure for the Company's Share Plans is based on growth in EPS, the Committee will take into account, and adjust appropriately for, the enhancement effects of any purchase and subsequent cancellation of shares, or placing of shares into treasury, by the Company.

Total shareholder return

As required by the Directors' remuneration report regulations, below is a graph showing TSR for the Company as marked against a broadbased market equity index over the last five years. The index that has been used is the FTSE All Share, of which the Company is a constituent member.



Share Plans for Executive Directors: performance conditions

2002 Performance Share Plan

The annual awards made under this Plan will normally vest after the end of a three-year period. Each award attracts a performance condition that reflects EPS. The performance conditions for awards made to date are as follows:

Date of award	Performance period	Minimum performance condition	Maximum performance condition	Vesting period
24 May 2002	1 January 2002 to 31 December 2004	30% of the award will vest if average annual EPS growth over the Performance Period is not less than RPI+7%	100% of the award will vest if average annual EPS growth over the Performance Period is equal to or greater than RPI+12%.	Vesting will be pro-rated for EPS growth between these two points.
		Failed to meet performance condition		
10 March 2003 (Philip Cox only *)	1 January 2003 to 31 December 2005	30% of the award will vest if EPS performance for the year ended 31 December 2005 is not less than 9.7p.	100% of the award will vest if EPS performance for the year ended 31 December 2005 is equal to or greater than 11.5p.	Vesting will be pro-rated for EPS performance between these two points.
10 March 2003	1 January 2003 to 31 December 2005	30% of the award will vest if EPS performance for the year ended 31 December 2005 is not less than 9.7p.	100% of the award will vest if EPS performance for the year ended 31 December 2005 is equal to or greater than 13.0p.	Vesting will be pro-rated for EPS performance between these two points.
2 March 2004	1 January 2004 to 31 December 2006	30% of the award will vest if EPS performance for the year ended 31 December 2006 is not less than 8.2p.	100% of the award will vest if EPS performance for the year ended 31 December 2006 is equal to or greater than 11.5p.	Vesting will be pro-rated for EPS performance between these two points.

* As part of the Company's 2003 succession management plan, a special conditional award was made in March 2003 to Philip Cox.

Executive Directors receive an annual incentive conditional award of shares to the value of 100% of their base salary, subject to performance conditions. Mark Williamson, Tony Concannon and Steve Riley participate in the 2002 and 2003 awards up to 50% of their base salary and, following their appointment as Executive Directors, received a Conditional Award of 100% of their base salary in the 2004 award.

2005 awards

After the release of its preliminary results, the Company will award Executive Directors 100% of their base salary in conditional shares under the 2002 Performance Share Plan. This award will be subject to an EPS performance condition. Details of the awards and the performance condition attached will be set out in a Stock Exchange announcement. Shares will vest subject to the Remuneration Committee being satisfied with the level of achievement of the applicable performance condition.

Approved and Unapproved Executive Share Option Plans

Pre-Demerger 'Legacy' Share Options

In accordance with the rules at the time, there are no performance conditions attached to the National Power 'Legacy' Unapproved Options granted to Tony Concannon and Steve Riley prior to the demerger of National Power.

International Power Share Options

The options granted under this Plan will normally become exercisable after the end of a three-year period. Each grant attracts a performance condition that reflects EPS. There will be no retesting of performance conditions applicable to each option grant. The performance conditions for options granted made to date are as follows:

Date of award	Performance period	Minimum performance condition	Maximum performance condition	Vesting period
3 October 2000	1 January 2000 to 31 December 2003	Fully exercisable if average annual growth in normalised earnings per International Power share for the financial reporting period ending on 31 December 2000 to the reporting period ending on 31 December 2003 is equal to or exceeds 7%.		
22 March 2001	1 January 2000 to 31 December 2003	Fully exercisable if average annual growth in normalised earnings per International Power share for the financial reporting period ending on 31 December 2000 to the reporting period ending on 31 December 2003 is equal to or exceeds 7%. Performance condition met		
24 May 2002	1 January 2002 to 31 December 2004	Fully exercisable if average annual EPS growth over the Performance Period (being 1 January 2002 to 31 December 2004) is not less than RPI+4%. Failed to meet performance condition		
10 March 2003	1 January 2003 to 31 December 2005	30% of the award will vest if EPS performance for the year ending 31 December 2005 is not less than 9.7p.	100% of the award will vest if EPS performance for the year ending 31 December 2005 is equal to or greater than 11.5p.	Vesting will be pro-rated for EPS performance between these two points.
2 March 2004	1 January 2004 to 31 December 2006	Fully exercisable if EPS for the 2006 financial year is not less than 8.7p.		

2000 and 2001 Executive Share Options

Mark Williamson, Tony Concannon and Steve Riley participate in the 2000 and 2001 Executive Share Option Scheme at 50% of base salary for each option grant.

2002 and 2003 Executive Share Options

Under these grants, Philip Cox was given Executive Share Options to the value of 100% of his base salary. Each of Mark Williamson, Tony Concannon and Steve Riley participate in these grants to the value of 50% of their base salary at the time of the award.

2004 Executive Share Options

Under this grant all Executive Directors were awarded Executive Share Options to the value of 100% of their base salary.

2005 Executive Share Options

After the release of its preliminary results, the Company will grant Executive Directors 100% of their base salary in Executive Share Options under the Unapproved Executive Share Option Plan. The exercise of these Options will be subject to an EPS performance condition. Details of the grant and the performance condition attached will be set out in a Stock Exchange announcement.

Directors' service contracts

Service contract – Philip Cox

Philip Cox has a service contract subject to 12-months' notice by the Company. For termination other than for cause, he may receive a payment of 125% of annual basic salary (which includes the 12-months' notice) to take account of the value of contractual benefits. The date upon which this contract was entered into was 25 February 2003.

Service contracts – Mark Williamson, Steve Riley and Tony Concannon

Mark Williamson, Steve Riley and Tony Concannon have service contracts which are subject to 12-months' notice by the Company. For termination by the Company, an Executive Director may receive a payment of 125% of annual basic salary (which includes the 12-months' notice) which will be paid on a monthly basis until the Executive Director secures alternative employment, up to a maximum of 12 monthly payments. The date upon which these contracts were entered into was 23 February 2004.

Service contracts – Non-Executive Directors

The Chairman of International Power plc, Sir Neville Simms, has a letter of appointment with a 12-month notice period. The letter of appointment was signed on 22 February 2000. The other Non-Executive Directors are appointed on a three-year fixed-term, annual fixed-fee basis.

The following table summarises the appointment and termination dates for Directors:

Non-Executive Directors	**Date contract entered into**	**Contract expiry**
Sir Neville Simms	22 February 2000	12 months' notice
Tony Isaac	2 October 2000	AGM May 2006
Adri Baan	30 May 2002	AGM May 2006
Jack Taylor	2 October 2000	31 December 2005
Struan Robertson	1 August 2004	AGM May 2005

Sir Neville Simms' contract will expire at the 2010 AGM, following his 65th birthday, or earlier, subject to the above notice period.

Executive Directors		
Philip Cox	25 February 2003	12-months' notice
Mark Williamson	23 February 2004	12-months' notice
Tony Concannon	23 February 2004	12-months' notice
Steve Riley	23 February 2004	12-months' notice

Executive Director contracts automatically terminate on the date they reach normal retirement age which is 22 September 2011 for Philip Cox, 29 December 2017 for Mark Williamson, 17 December 2023 for Tony Concannon and 16 August 2021 for Steve Riley.

Non-Executive Directors' fees and shareholding requirements

The Company last increased the fees of our Chairman and Non-Executive Directors on 1 July 2003. The fees are set out in the Directors' aggregate remuneration table on page 62. In order to receive the increased level of fees, the Chairman and Non-Executive Directors have committed to use the net value of the increase, each year, to purchase International Power shares. In addition, as part of a new shareholding requirement, they will also be required to hold these shares until their appointment terminates.

As part of this arrangement, the Chairman and Non-Executive Directors acquired the following shares in March 2004:

Sir Neville Simms	15,377
Tony Isaac	6,582
Adri Baan	6,582
Jack Taylor	4,383

The structure of any further review of the Chairman's or Non-Executive Directors' fees will be agreed at the time of that review, and may not involve the requirement to purchase shares over and above the arrangement set out above. Save as set out above, no remuneration or other benefits are provided as consideration for the performance of their duties.

Audit

The detail of the Directors' remuneration, pensions and interests in share options and long-term incentive plans as disclosed on pages 61 to 66 have been audited by the Company's external auditors.

Directors' pension benefits

The pension arrangements for Philip Cox and Mark Williamson are provided through the Senior Section of the International Power Group of the Electricity Supply Pension Scheme, which is a scheme approved by the Inland Revenue. The scheme provides for: a normal retirement age of 60; an accrual rate of one thirtieth of pensionable salary; four times salary death-in-service benefits; a widow's pension of two-thirds of executive's pension; and executive's contribution of 6% of salary up to 15% of Inland Revenue earnings limits.

The benefits provided through the scheme are restricted by Inland Revenue earnings limits. These arrangements are supplemented by the Company making contributions to personal pensions, life assurance, and a Funded Unapproved Retirement Benefit Scheme, up to a cost to the Company of 30% of salary (which includes the cost of the benefit provided through the Senior Section of the International Power Group of the Electricity Supply Pension Scheme).

The pension arrangements for Tony Concannon and Steve Riley are also provided through the Senior Section of the International Power Group of the Electricity Supply Pension Scheme. As they are not restricted by the Inland Revenue earnings limit, the scheme provides for them: a normal retirement age of 60; an accrual rate of one forty-fifth of pensionable salary; four times salary death-in-service benefits; a widow's pension of two-thirds of executive's pension; and executive's contribution of 6% of salary. The Company does not supplement this arrangement.

	Accrued benefit			Transfer value of accrued benefit			
		Increase in year					
	At 31 December 2004	including inflation	excluding inflation	At 31 December 2004	At 31 December 2003	Increase less Directors' contributions	Transfer value of increase in accrued pension excluding inflation less Directors' contribution
	£	£	£	£	£	£	£
Philip Cox	7,200	3,700	3,600	106,400	44,600	46,700	38,400
Mark Williamson	14,700	4,400	4,200	164,100	96,400	52,700	31,400
Steve Riley	65,200	34,000	33,200	686,100	278,200	393,900	334,700
Tony Concannon	61,300	37,100	36,400	579,600	194,300	373,000	331,700

- The pension entitlement shown is that which would be paid annually on retirement based on service to the end of the year. In addition to the pension shown above for service prior to 2 October 2000, Mark Williamson has an entitlement to an accrued lump sum of £325, Steve Riley has an entitlement to an accrued lump sum of £132,405, and Tony Concannon has an entitlement to an accrued lump sum of £125,669. The normal retirement age is 60.
- Dependants' pensions on death are 58% of members' pension in respect of service prior to 2 October 2000 and two-thirds of members' pension in respect of service thereafter. On death in service a lump sum of four times salary is payable. On death within the first five years of retirement, a lump sum is payable equal to the balance outstanding of the first five years' pension payments.
- Post-retirement increases are expected to be in line with inflation (guaranteed up to the level of 5% p.a. and discretionary above that level).
- The transfer value has been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11.
- Members of the pension scheme have the option to pay Additional Voluntary Contributions; neither the contributions nor the resulting benefits are included in the above table.
- In addition to the above entitlements, during the year contributions of £86,819 were paid to a funded unapproved retirement benefit scheme in respect of Philip Cox, and £53,778 were paid to a funded unapproved retirement benefit scheme in respect of Mark Williamson.

The Committee is considering the implications of the change in pensions legislation, which will be effective from 1 April 2006.

2004 Directors' remuneration and interests

Directors' aggregate remuneration

The table below shows the aggregate remuneration of the International Power plc Directors for the year ended 31 December 2004.

	Salary £	Fees £	Performance related bonus - cash £	Performance related bonus - shares £	Payment in lieu of pension £	Other benefits £	Aggregate remuneration year to 31 December 2004 £	Aggregate remuneration year to 31 December 2003 £
Sir Neville Simms	–	210,000	–	–	–	–	210,000	192,500
Philip Cox	475,000	–	142,500	254,363	91,675	15,863	979,401	610,021
Mark Williamson	250,000	–	75,000	133,875	54,862	13,122	526,859	20,499
Tony Concannon	235,000	–	70,500	125,843	–	89,243	520,586	–
Steve Riley	235,000	–	70,500	125,843	–	124,836	556,179	–
David Crane	–	–	–	–	–	–	–	582,925
Tony Isaac	–	50,000	–	–	–	–	50,000	42,500
Adri Baan	–	45,000	–	–	–	–	45,000	37,500
Jack Taylor	–	40,000	–	–	–	–	40,000	35,000
Struan Robertson	–	10,000	–	–	–	–	10,000	–
Peter Giller	–	–	–	–	–	–	–	100,000
Total	1,195,000	355,000	358,500	639,924	146,537	243,064	2,938,025	1,620,945

1. The International Power plc Non-Executive Directors' basic fee, which covers Board membership (i.e. attendance at Board meetings, general duties as Directors, and their membership of Board Committees) is £40,000. In addition, Tony Isaac receives an additional fee of £5,000 per annum for his role as Senior Independent Director. Tony Isaac also receives £5,000 per annum for his role as Chairman of the Audit Committee, and Adri Baan receives an additional fee of £5,000 per annum for his role as Chairman of the Remuneration Committee. Struan Robertson joined the Company on 1 October 2004.

2. As part of Peter Giller's role as Deputy Chairman and Non-Executive Director, he received a fee of £100,000. This arrangement terminated on 31 December 2003.

3. Sir Neville Simms' fee is £210,000 per annum.

4. Philip Cox was appointed Chief Executive Officer on 11 December 2003. His salary is included in the above table. The Payment in lieu of pension detailed in the above table sets out the contributions made to Philip Cox's Death In Service insurance premium and Funded Unapproved Retirement Benefits Scheme. He also received a company car allowance and private medical insurance, both of which are included in Other benefits. The value of the Performance related bonus-share in the above table has been calculated using a share price of 178.50p (being the mid-market quoted price for 9 March 2005).

5. Mark Williamson was appointed an Executive Director on 11 December 2003. His salary is included in the above table. The Payment in lieu of pension detailed in the above table sets out the contributions made to his Death In Service insurance premium and Funded Unapproved Retirement Benefits Scheme. He also received a company car allowance and private medical insurance, both of which are included in Other benefits. The value of the Performance related bonus-share in the above table has been calculated using a share price of 178.50p (being the mid-market quoted price for 9 March 2005).

6. Tony Concannon was appointed an Executive Director on 1 January 2004. His salary is included in the above table. He also received a company car allowance and private medical insurance, both of which are included in Other benefits. Also included in Other benefits is the value of his relocation and expatriate support. The value of the Performance related bonus-share in the above table has been calculated using a share price of 178.50p (being the mid-market quoted price for 9 March 2005).

7. Steve Riley was appointed an Executive Director on 1 January 2004. His salary is included in the above table. He also received a company car allowance and private medical insurance, both of which are included in Other benefits. Also included in Other benefits is the value of his relocation and repatriation support. The value of the Performance related bonus-share in the above table has been calculated using a share price of 178.50p (being the mid-market quoted price for 9 March 2005).

The following information shows the interests of the Directors as at the end of the financial year in the Company's Long-Term Incentive Plans, Executive Share Option Plans and the Sharesave Plan. Additionally, as both Tony Concannon and Steve Riley were appointed Directors of the Company on the first day of the current financial year, full information on the interests of each of Tony Concannon and Steve Riley in the same plans is also given in this section, in the interests of full disclosure.

Long-term incentive plans

2002 Performance Share Plan

Directors who served during the year

	No. of shares under award as at 1 January 2004	Conditional awards made during the year	Date of award	Market value of an Ordinary Share as at date of award (pence)	End of performance period	No. of shares under award as at 31 December 2004
Philip Cox	926,220	–	24 May 2002	174.50p	31 December 2004	167,051
		–	10 March 2003	62.32p	31 December 2005	759,169
		384,529	2 March 2004	123.53p	31 December 2006	384,529
Total awards	926,220	384,529				1,310,749
Mark Williamson	134,579	–	24 May 2002	174.50p	31 December 2004	35,415
		–	10 March 2003	62.32p	31 December 2005	99,164
		202,384	2 March 2004	123.53p	31 December 2006	202,384
Total awards	134,579	202,384				336,963
Tony Concannon	92,276	–	24 May 2002	174.50p	31 December 2004	24,282
		–	10 March 2003	62.32p	31 December 2005	67,994
		190,240	2 March 2004	123.53p	31 December 2006	190,240
Total awards	92,276	190,240				282,516
Steve Riley	120,113	–	24 May 2002	174.50p	31 December 2004	31,608
		–	10 March 2003	62.32p	31 December 2005	88,505
		190,240	2 March 2004	123.53p	31 December 2006	190,240
Total awards	120,113	190,240				310,353

Executive share options

Directors who served during the year

	Approved /Unapproved	No. of shares under option as at 1 January 2004	Granted /(lapsed) during the year	Exercise price per share	Exercise period from	Exercise period to	No. of shares under option as at 31 December 2004
Philip Cox	A	17,191		174.50	24.05.2005	24.05.2012	17,191
	U	149,859		174.50	24.05.2005	24.05.2012	149,859
	U	561,616		62.32	10.03.2006	10.03.2013	561,616
	U		384,529	123.53	02.03.2007	02.03.2014	384,529
Total options		728,666	384,529				1,113,195
Mark Williamson	A	5,403		277.55	02.10.2003	02.10.2010	5,403
	U	30,624		277.55	02.10.2003	02.10.2010	30,624
	A	7,168		209.22	22.03.2004	22.03.2011	7,168
	U	16,728		209.22	22.03.2004	22.03.2011	16,728
	U	35,415		174.50	24.05.2005	24.05.2012	35,415
	U	99,164		62.32	10.03.2006	10.03.2013	99,164
	U		202,384	123.53	02.03.2007	02.03.2014	202,384
Total options		194,502	202,384				396,886
Tony Concannon	U	6,770*	(6,770)	299.31	30.11.1997	30.11.2004	–
	U	7,189		287.76	23.12.1999	23.12.2006	7,189
	U	6,950		343.73	02.12.2000	02.12.2007	6,950
	U	7,873		313.92	01.12.2001	01.12.2008	7,873
	A	3,377		277.55	02.10.2003	02.10.2010	3,377
	U	19,139		277.55	02.10.2003	02.10.2010	19,139
	A	4,480		209.22	22.03.2004	22.03.2011	4,480
	U	10,455		209.22	22.03.2004	22.03.2011	10,455
	A	6,447		174.50	24.05.2005	24.05.2012	6,447
	U	17,835		174.50	24.05.2005	24.05.2012	17,835
	U	67,994		62.32	10.03.2006	10.03.2013	67,994
	U		190,240	123.53	02.03.2007	02.03.2014	190,240
Total options		158,509	183,470				341,979
Steve Riley	U	12,722		272.55	13.12.1998	13.12.2005	12,722
	U	12,302		287.76	23.12.1999	23.12.2006	12,302
	U	12,001		343.73	02.12.2000	02.12.2007	12,001
	U	13,904		313.92	01.12.2001	01.12.2008	13,904
	A	5,674		277.55	02.10.2003	02.10.2010	5,674
	U	32,155		277.55	02.10.2003	02.10.2010	32,155
	A	6,810		209.22	22.03.2004	22.03.2011	6,810
	U	18,282		209.22	22.03.2004	22.03.2011	18,282
	U	31,608		174.50	24.05.2005	24.05.2012	31,608
	U	88,505		62.32	10.03.2006	10.03.2013	88,505
	U		190,240	123.53	02.03.2007	02.03.2014	190,240
Total options		233,963	190,240				424,203

* Lapsed on 30.11.2004

Sharesave Options

Directors who served during the year

	No. of shares under option as at 1 January 2004	Granted during the year	Exercise price per share	Exercise period from	Exercise period to	No. of shares under option as at 31 Dec 2004
Philip Cox	20,499	–	80.12p	24 December 2007	24 June 2008	20,499
Total Options						20,499
Mark Williamson	11,793	–	80.12p	24 December 2005	24 June 2006	11,793
Total Options						11,793
Tony Concannon	9,435	–	80.12p	24 December 2005	24 June 2006	9,435
Total Options						9,435
Steve Riley	11,793	–	80.12p	24 December 2005	24 June 2006	11,793
Total Options						11,793

The middle market quotation for an Ordinary Share of the Company on 31 December 2004 was 154.50p and the daily quotations during the period ranged from 108.84p to 160.75p.

2002 Performance Share Plan Share Option

In respect of awards made on 2 March 2004 under the 2002 Performance Share Plan to Directors and eligible employees, the Company did not need to acquire further shares to meet this award. There were sufficient shares already available in the Trust.

Shares held in trust

As at 31 December 2004, a total of 3,607,734 Ordinary Shares of the Company were held in two separate Employee Share Ownership Trusts (31 December 2003: 3,003,312). The Directors (together with all other employees of the Company and its subsidiaries) being potential beneficiaries of these shares have an interest in all of these shares. Of these shares, 1,273,138 were purchased in 2002 in respect of awards made under the 2002 Performance Share Plan at a cost (net of administration expenses) of £2.5 million. 255,102 of these shares were released at the end of 2002 to Peter Giller. An additional 1,800,000 shares were acquired by the Employee Share Ownership Trusts on 28 March 2003 at a total cost (net of administration expenses) of £1.5 million for the purposes of the bonus and share retention plan. An additional 571,710 shares were acquired by the Employee Share Ownership Trusts on 31 December 2004 at a total cost (net of administration expenses) of £887,497 for the purpose of a bonus award to employees (excluding Directors) as part of the EME acquisition. In line with recommended practice the fund balances are being written down to £nil over the period of vesting to which they relate. The book value of the shares placed in Trust as at 31 December 2004 was £2 million (31 December 2003: £2 million).

In respect of awards made to Directors under the Performance Share Plan as at the date of this report, the number of shares that may vest to Directors if full performance of the relevant performance condition is achieved is 2,240,581. Shares held in trust for this Plan relate to the Conditional Awards made in 2002.

Summary of LTIPs

Directors as at 31 December 2004

Award Date	No. of shares under award	Market value at date of award	Prospective date of vesting
24 May 2002	258,356	174.50p	May 2005
10 March 2003	1,014,832	62.32p	March 2006
2 March 2004	967,393	123.53p	March 2007
Total	**2,240,581**		

Details of the performance conditions that apply with respect to the ability to exercise options under both the Approved and Unapproved Executive Share Option Plans, detailed opposite, are given on page 59.

Summary of Unexercised Executive Share Options

Directors as at 31 December 2004

Grant date	No. of Options	Exercisable price	Date exercisable
13 December 1995[3]	12,722	272.55p	1998–2005
23 December 1996[3]	19,491	287.76p	1999–2006
2 December 1997[3]	18,951	343.73p	2000–2007
1 December 1998[3]	21,777	313.92p	2001–2008
3 October 2000[1]	14,454	277.55p	2003–2010
3 October 2000[2]	81,918	277.55p	2003–2010
22 March 2001[1]	18,458	209.22p	2004–2011
22 March 2001[2]	45,465	209.22p	2004–2011
24 May 2002[1]	23,638	174.50p	2005–2012
24 May 2002[2]	234,717	174.50p	2005–2012
10 March 2003[2]	817,279	62.32p	2006–2013
2 March 2004[2]	967,393	123.53p	2007–2014
Total	**2,276,263**		

[1] Approved Executive Share Options
[2] Unapproved Executive Share Options
[3] National Power 'Legacy' Unapproved Executive Share Options

Summary of Unexercised Sharesave Options

Directors as at 31 December 2004

Grant date	No. of Options	Exercisable price	Date exercisable
1 October 2002	33,021	80.12p	24 Dec 2005–24 June 2006
1 October 2002	20,499	80.12p	24 Dec 2007–24 June 2008
Total	**53,520**		

Directors' beneficial interests

Directors as at 31 December 2004

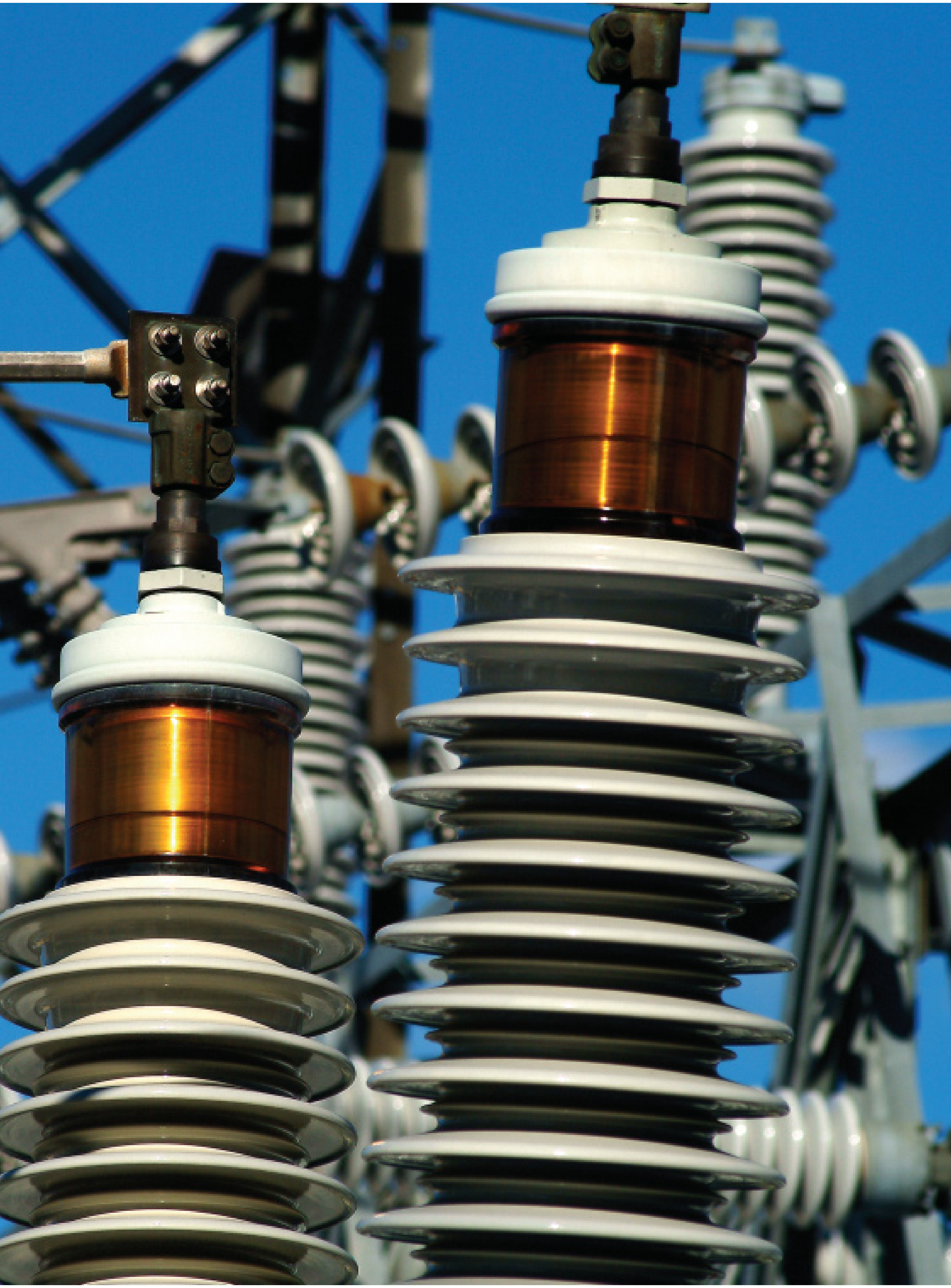
	As at 31 December 2004			As at 1 January 2004 (or date of appointment if later)		
Director	**Ordinary Shares**	**Executive Options**	**Sharesave Options**	Ordinary Shares	Executive Options	Sharesave Options
Adri Baan	**33,892**	–	–	18,901	–	–
Philip Cox	**89,285**	**1,113,195**	**20,499**	25,000	728,666	20,499
Tony Concannon	**20,962**	**341,979**	**9,435**	2,744	158,509	9,435
Steve Riley	**41,552**	**424,203**	**11,793**	15,195	233,963	11,793
Tony Isaac	**20,592**	–	–	8,901	–	–
Sir Neville Simms	**167,751**	–	–	110,000	–	–
Jack Taylor	**13,280**	–	–	7,595	–	–
Mark Williamson	**61,568**	**396,886**	**11,793**	28,207	194,502	11,793
Struan Robertson	–	–	–	–	–	–

No Director had, at any time during the financial year, any beneficial interest in the shares of any subsidiary undertaking.

Adri Baan

Chairman of the Remuneration Committee
On behalf of the Board of Directors of International Power plc

9 March 2005



DIRECTORS' REPORT

Introduction

The Directors submit their report and the audited financial statements of International Power plc (the Company) for the year ended 31 December 2004. The principal activity of the Company is to act as the holding company for a group of companies and a number of associated companies and joint ventures (the Group). The principal activities of the Group are the generation and sale of electricity.

Key information

The following sections form part of this Directors' report:

Dividend

The Directors propose to pay a dividend of 2.5p per Ordinary Share in respect of the year ended 31 December 2004.

Charitable and political donations

The Company does not make political donations. Details of charitable donations are set out on page 51.

Research and development

Pure research is not a core element of the business of the Company. For the period under review, the Company did not undertake any expenditure on research and development. The Company will look to take advantage of technical advances as they arise and will continue to seek to develop power stations in the regions in which the Group operates making effective use of current and new technology as it arises.

Share capital

During the period 1 January to 31 December 2004 the Company did not purchase any of its Ordinary Shares. On 27 September the Company issued 365,540,834 Ordinary Shares at a price of 82p in accordance with the terms of the Rights Issue set out in the listing particulars dated 20 August 2004.

Resolutions will be proposed at the 2005 AGM to renew for a further year the Directors' general authority to allot shares; to renew for a year the partial disapplication of shareholders' statutory pre-emption rights over Ordinary Shares and, to renew the authority to purchase a proportion of the Company's shares.

An explanation of these and other resolutions being proposed at the 2005 AGM will be provided in the Notice of AGM, which will be sent to shareholders during April 2005.

Shares held in trust

As at 31 December 2004 3,607,734 Ordinary Shares of the Company were held in trust for the benefit of employees of the Company and its subsidiaries. These shares had a nominal value of £1,803,867 and a market value of £5,492,775. The employee share plans for which these shares may be utilised are the 2002 Performance Share Plan and the bonus and share retention plans.

Substantial shareholdings

As at the date of this report, the Company is aware of interests in 3% or more of the issued share capital of the Company on behalf of the organisations as shown in the table opposite.

Substantial shareholdings	**Number of shares**
Legal and General Investment Management Limited	44,525,820* 4.02%†
Standard Life Investments	44,273,403 3.01%
AXA	39,905,357* 3.57%†
Morley Fund Managers	37,221,635* 3.36%†

* Announced Pre Rights Issue
† Percentage figure relates to issued share capital Pre Rights Issue

Going concern

The Directors are satisfied that the Company and the Group have adequate resources to continue to operate for the foreseeable future. Accordingly, the Directors continue to adopt the 'going concern' basis for the preparation of the accounts.

Auditors

A resolution to re-appoint KPMG Audit Plc as auditors of the Company and to authorise the Directors to agree their remuneration will be proposed at the forthcoming AGM.

Prompt payment policy

The Company aims to observe the highest standard of business practice as both a buyer and seller of products and services. The Company's average number of days outstanding in respect of trade creditors at 31 December 2004 was 33 days.

By order of the Board

Stephen Ramsay
Company Secretary
9 March 2005

Statement of Directors' responsibilities

In respect of the preparation of the financial statements

The following statement, which should be read in conjunction with the statement of auditor's responsibilities included in their report below, is made with a view to distinguishing for shareholders the respective responsibilities of the Directors and auditors in relation to the financial statements. Company law requires the Directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Company and of the Group and of the profit or loss for that period. In preparing those 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 accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company and the Group will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and of the Group and to enable them to ensure that the 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 Group and to prevent and detect fraud and other irregularities.

Independent auditor's report

To the members of International Power plc

We have audited the financial statements on pages 70 to 103. We have also audited the information in the Directors' remuneration report that is described as having been audited. 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 are responsible for preparing the annual report and the Directors' remuneration report. As described above, this includes responsibility for preparing the financial statements in accordance with applicable UK law and accounting standards. Our responsibilities, as independent auditors, are established in the UK by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' report is not consistent with the financial statements, if 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 transactions with the Group is not disclosed.

We review whether the corporate governance statement on page 45 reflects the Company's compliance with the nine provisions of the 2003 FRC Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the annual report, including the corporate governance statement and the unaudited part of the Directors' remuneration report, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards 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 and the part of the Directors' remuneration report to be audited. 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 Group'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 and the part of the Directors' remuneration report to be audited 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 and the part of the Directors' remuneration report to be audited.

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2004 and of the profit of the Group for the year then ended;
- the financial statements and the part of the Directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc
Chartered accountants
Registered auditor
9 March 2005

KPMG Audit Plc

8 Salisbury Square
London
EC4Y 8BB

Consolidated profit and loss account

FOR THE YEAR ENDED 31 DECEMBER 2004

Note		Year ended 31 December 2004 Excluding exceptional items £m	Year ended 31 December 2004 Exceptional items £m	Year ended 31 December 2004 Including exceptional items £m	Year ended 31 December 2003 Excluding exceptional items £m	Year ended 31 December 2003 Exceptional items £m	Year ended 31 December 2003 Including exceptional items £m
1	Turnover: Group and share of joint ventures and associates	**1,267**	**–**	**1,267**	1,273	–	1,273
	Less: share of joint ventures' turnover	**(144)**	**–**	**(144)**	(136)	–	(136)
	Less: share of associates' turnover	**(355)**	**–**	**(355)**	(285)	–	(285)
1	**Group turnover**	**768**	**–**	**768**	852	–	852
	From continuing operations	**711**	**–**	**711**	852	–	852
	From acquisitions	**57**	**–**	**57**	–	–	–
2/8	Net operating costs	**(658)**	**11**	**(647)**	(727)	(404)	(1,131)
2	**Operating profit/(loss)**	**110**	**11**	**121**	125	(404)	(279)
	From continuing operations	**94**	**11**	**105**	125	(404)	(279)
	From acquisitions	**16**	**–**	**16**	–	–	–
	Share of operating profit of:						
	Joint ventures	**39**	**–**	**39**	32	–	32
8	Associates	**138**	**–**	**138**	95	35	130
	Income from investments	**–**	**–**	**–**	33	–	33
1/8	**Operating profit/(loss) and investment income**	**287**	**11**	**298**	285	(369)	(84)
8	Non-operating exceptional items:						
	Profit on sale of fixed asset investments	**–**	**4**	**4**	–	27	27
1	**Profit/(loss) on ordinary activities before interest and taxation**	**287**	**15**	**302**	285	(342)	(57)
4	Interest receivable and similar income	**30**	**–**	**30**	42	–	42
5/8	Interest payable and similar charges	**(107)**	**(31)**	**(138)**	(121)	(16)	(137)
5	Share of net interest of joint ventures and associates	**(46)**	**–**	**(46)**	(32)	–	(32)
	Net interest	**(123)**	**(31)**	**(154)**	(111)	(16)	(127)
3	**Profit/(loss) on ordinary activities before taxation**	**164**	**(16)**	**148**	174	(358)	(184)
8/9	Tax (charge)/credit on profit/(loss) on ordinary activities	**(45)**	**–**	**(45)**	(54)	26	(28)
	Profit/(loss) on ordinary activities after taxation	**119**	**(16)**	**103**	120	(332)	(212)
	Minority interests – equity	**(11)**	**2**	**(9)**	(7)	–	(7)
	Profit/(loss) for the financial year	**108**	**(14)**	**94**	113	(332)	(219)
10	Dividends	**(37)**	–	**(37)**	–	–	–
	Retained profit/(loss)	**71**	**(14)**	**57**	113	(332)	(219)
12	**Earnings/(loss) per share:**						
	Basic	**8.3p**		**7.2p**	9.1p		(17.6)p
	Diluted	**8.2p**		**7.1p**	9.0p		(17.6)p

Consolidated balance sheet

AT 31 DECEMBER 2004

Note		Group 31 December 2004 £m	Group 31 December 2003 (restated) £m
	Fixed assets		
	Intangible fixed assets:		
13	Goodwill	**8**	7
13	Negative goodwill	**(6)**	(6)
	Net goodwill	**2**	1
14	Tangible fixed assets	**3,654**	2,048
15	Fixed asset investments:		
	Joint ventures:		
	Share of gross assets	**642**	337
	Share of gross liabilities	**(330)**	(211)
	Net investment	**312**	126
	Associates	**853**	315
	Other investments	**86**	95
	Total fixed asset investments	**1,251**	536
	Total fixed assets	**4,907**	2,585
	Current assets		
16	Stocks	**87**	65
17	Debtors: amounts falling due within one year	**234**	157
	Debtors: amounts falling due after more than one year	**581**	3
	Total debtors	**815**	160
18	Investments	**201**	70
	Cash at bank and in hand	**411**	673
	Total current assets	**1,514**	968
19	**Creditors: amounts falling due within one year:**		
	Secured bank loans	**(71)**	(531)
	Other current liabilities (including convertible debt)	**(500)**	(315)
	Creditors: amounts falling due within one year	**(571)**	(846)
	Net current assets	**943**	122
	Total assets less current liabilities	**5,850**	2,707
20	**Creditors: amounts falling due after more than one year (including convertible debt)**	**(3,384)**	(909)
21	**Provisions for liabilities and charges**	**(404)**	(238)
1	**Net assets**	**2,062**	1,560
	Capital and reserves		
23/24	Called up share capital	**737**	554
24	Share premium account	**392**	289
24	Capital redemption reserve	**145**	145
24	Capital reserve	**422**	422
24	Profit and loss account	**129**	111
24	**Shareholders' funds – equity**	**1,825**	1,521
	Minority interests – equity	**237**	39
	Total equity	**2,062**	1,560

The accounts were approved by the Board of Directors on 9 March 2005 and signed on its behalf by

Philip Cox
Chief Executive Officer

Mark Williamson
Chief Financial Officer

Balance sheet

AT 31 DECEMBER 2004

Note		Company 31 December 2004 £m	Company 31 December 2003 (restated) £m
	Fixed assets		
14	Tangible assets	**2**	1
15	Investments:		
	Subsidiary undertakings	**3,214**	1,847
	Other investments	**2**	1
	Total fixed asset investments	**3,216**	1,848
	Total fixed assets	**3,218**	1,849
	Current assets		
17	Debtors	**186**	247
	Cash at bank and in hand	**182**	478
	Total current assets	**368**	725
19	**Creditors: amounts falling due within one year**	**(1,572)**	(890)
	Net current liabilities	**(1,204)**	(165)
	Total assets less current liabilities	**2,014**	1,684
20	**Creditors: amounts falling due after more than one year**	**–**	–
21	**Provisions for liabilities and charges**	**(36)**	(38)
	Net assets	**1,978**	1,646
	Capital and reserves		
23/24	Called up share capital	**737**	554
24	Share premium account	**392**	289
24	Capital redemption reserve	**145**	145
24	Capital reserve	**415**	415
24	Profit and loss account	**289**	243
	Shareholders' funds – equity	**1,978**	1,646

The accounts were approved by the Board of Directors on 9 March 2005 and signed on its behalf by

Philip Cox
Chief Executive Officer

Mark Williamson
Chief Financial Officer

Consolidated cash flow statement

FOR THE YEAR ENDED 31 DECEMBER 2004

Note		Year ended 31 December 2004 £m	Year ended 31 December 2003 £m
25	Net cash inflow from operating activities	**198**	184
25	Dividends received from joint ventures and associates	**69**	101
		267	285
25	Returns on investments and servicing of finance – ordinary	**(109)**	(84)
25	Returns on investments and servicing of finance – exceptional	**(26)**	(4)
		(135)	(88)
	Taxation	**(20)**	(14)
25	Capital expenditure and financial investment – ordinary	**(273)**	(74)
25	Capital expenditure and financial investment – exceptional	**–**	11
		(273)	(63)
25	Acquisitions and disposals – ordinary	**(1,143)**	–
25	Acquisitions and disposals – exceptional	**17**	24
		(1,126)	24
	Net cash (outflow)/inflow before management of liquid resources and financing activities	**(1,287)**	144
	Management of liquid resources	**(32)**	(20)
25	Financing activities	**1,068**	(260)
	Decrease in cash in the year	**(251)**	(136)

Consolidated reconciliation of net cash flow to movement in net debt

FOR THE YEAR ENDED 31 DECEMBER 2004

Note		Year ended 31 December 2004 £m	Year ended 31 December 2003 £m
27	Decrease in cash in the year	**(251)**	(136)
27	Cash (inflow)/outflow from (increase)/decrease in debt financing	**(617)**	247
27	Cash outflow from increase in liquid resources	**32**	20
	Change in net debt resulting from cash flows	**(836)**	131
	Liquid resources and debt acquired with subsidiaries	**(1,271)**	–
	Foreign exchange movement	**32**	11
	Other non-cash movements	**28**	(22)
	Movement in net debt in the year	**(2,047)**	120
	Net debt at the start of the year	**(692)**	(812)
27	**Net debt at the end of the year**	**(2,739)**	(692)

Consolidated statement of total recognised gains and losses

FOR THE YEAR ENDED 31 DECEMBER 2004

	Year ended 31 December 2004 £m	Year ended 31 December 2003 £m
Profit/(loss) for the financial year	**94**	(219)
Exchange differences on the retranslation of net investments (net of £1 million tax (2003: £7 million))	**(39)**	15
Total recognised gains and losses relating to the financial year	**55**	(204)

Reconciliation of movements in shareholders' funds – equity

FOR THE YEAR ENDED 31 DECEMBER 2004

	Year ended 31 December 2004 £m	Year ended 31 December 2003 (restated) £m
Profit/(loss) for the financial year	**94**	(219)
Dividends	**(37)**	–
	57	(219)
Other recognised gains and losses relating to the year (net)	**(39)**	15
Issue of shares (net of issue costs)	**286**	–
Purchase of own shares	**–**	(2)
Share buyback	**–**	(13)
Net addition to/(reduction from) shareholders' funds	**304**	(219)
Shareholders' funds at 1 January – previously reported	**1,523**	1,740
Prior year adjustment*	**(2)**	–
Shareholders' funds at 1 January – restated	**1,521**	1,740
Closing shareholders' funds	**1,825**	1,521

*Restated for the adoption of UITF 38 Accounting for ESOP Trusts (see note xvii – New accounting standards on page 76).

Notes to the accounts

FOR THE YEAR ENDED 31 DECEMBER 2004

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Group's financial statements, except for changes arising from the application of UITF 38 (Accounting for ESOP Trusts). This mainly deals with the balance sheet accounting treatment for our shares and does not have a material impact on Group earnings. Comparative figures have been restated accordingly (see note xvii).

ACCOUNTING POLICIES

i Basis of preparation of accounts

The financial statements of International Power plc and its subsidiary undertakings (the Group) are prepared under the historical cost convention and in accordance with applicable accounting standards, except for the departures noted below.

Certain energy-based futures contracts used for proprietary trading purposes are marked to market using externally derived market prices. This is a departure from the general provisions of Schedule 4 of the Companies Act 1985. An explanation of this departure is given in note xv.

ii Basis of consolidation and goodwill

The consolidated financial statements include the financial statements of the Company and all of its subsidiary undertakings up to 31 December 2004. The results of subsidiary undertakings acquired or disposed of in the period are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

An associate is an undertaking in which the Group has a long-term participating interest, usually from 20% to 50% of the equity voting rights, and over which it exercises significant influence. A joint venture is an undertaking in which the Group has a long-term participating interest and over which it exercises joint control. The Group's share of the profits less losses of associates and of joint ventures is included in the consolidated profit and loss account and its interest in their net assets is included in fixed asset investments in the consolidated balance sheet.

Purchased goodwill (both positive and negative) arising on consolidation in respect of acquisitions before 1 April 1998, when FRS 10 (Goodwill and Intangible Assets) was adopted, was set off against reserves in the year of acquisition. When a subsequent disposal occurs any related goodwill previously set off to reserves is taken back through the profit and loss account as part of the profit or loss on disposal.

Purchased goodwill (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) arising on consolidation in respect of acquisitions since 1 April 1998 is capitalised. Positive goodwill is fully amortised by equal annual instalments over its estimated useful life, currently not more than 20 years.

Negative goodwill arising on consolidation in respect of acquisitions since 1 April 1998 is included within fixed assets and released to the profit and loss account in the periods in which the fair values of the non-monetary assets purchased on the same acquisition are recovered, whether through amortisation or sale.

On the subsequent disposal or termination of a business acquired since 1 April 1998, the profit or loss on disposal or termination is calculated after charging/(crediting) the unamortised amount of any related goodwill/(negative goodwill).

In the Company's financial statements, investments in subsidiary undertakings, associates and joint ventures are stated at cost less amounts written off.

iii Income recognition

Turnover from electric power generation is recognised as described below.

Certain power plants sell their output in merchant markets. In these situations, the electricity is sold at market prices through existing power exchanges, pool arrangements or through bilateral contracts with third parties. In these situations, turnover for energy sales is recognised as output is delivered in accordance with the terms of any related hedging or forward contracts or through pool or spot mechanisms.

Other power plants sell their output under long-term power purchase agreements (PPAs). Under such arrangements it is usual for the Group to receive payment for the provision of electrical capacity whether or not the off-taker requests the electrical output (capacity payments) and for the variable costs of production (energy payments). In such situations, turnover is recognised in respect of capacity payments either as finance income in accordance with note x (where the PPA is considered to contain a finance lease) and/or as energy sales in accordance with the contractual terms, to the extent that the capacity has been made available to the contracted off-taker during the period. Energy payments are recognised in turnover as energy sales in all cases as the contracted power is delivered.

Where the PPAs extend over more than one accounting period, turnover for energy sales is recognised in each accounting period at the fair value of the Group's performance under the contract in each period.

Liquidated damages (LDs), in respect of late commissioning, are included in other operating income. Proprietary trading income is recognised on the basis of completed contracts and the mark-to-market value of outstanding contracts at the period end.

iv Pension costs

For defined benefit arrangements, pension contributions are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives. The regular cost is attributed to individual years using the projected unit credit method. Variations in pension costs, which are identified as a result of actuarial valuations, are amortised over the average expected remaining working lives of employees. Differences between the amounts funded and the amounts charged to the profit and loss account are treated as either provisions or prepayments in the balance sheet.

For defined contribution arrangements, contributions are charged to the profit and loss account as they fall due.

v Environmental liabilities

Provision for environmental liabilities is made when expenditure on remedial work is probable and the Group is obliged, either legally or constructively through its environmental policies, to undertake such work. Where the amount is expected to be incurred over the long-term, the amount recognised is the present value of the estimated future expenditure and the unwinding of the discount is included within interest payable and similar charges.

vi Foreign exchange

On consolidation The profits or losses of subsidiary undertakings, associates and joint ventures are translated into sterling at average rates of exchange for the period. The net assets of subsidiary undertakings and net investments in associates and joint ventures are translated at closing rates of exchange ruling at the balance sheet date. Exchange differences which relate to the translation of subsidiaries and net investments in associates and joint ventures and of matching foreign currency borrowings and derivatives are taken directly to group reserves and are shown in the statement of total recognised gains and losses.

Individual company Transactions in foreign currencies are translated into local currencies of individual entities at the exchange rate ruling at the date of transaction unless related or matching forward foreign exchange contracts have been entered into when the rate specified in the contract is used. At the year end, monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date or, where appropriate, at the hedged contracted rate. Any gain or loss arising on the restatement of such balances is taken to the profit and loss account.

vii Interest

Interest on borrowings relating to major capital projects with long periods of development is capitalised during their construction and written-off as part of the total cost over the useful life of the asset. All other interest is charged to the profit and loss account as incurred.

viii Tangible fixed assets

Tangible fixed assets are stated at original cost less accumulated depreciation and any provision for impairment in value. In the case of assets constructed by the Group, related works, commissioning and borrowing costs as defined under FRS 15 (Tangible Fixed Assets) are included in cost. Assets in the course of construction are included in tangible fixed assets on the basis of expenditure incurred at the balance sheet date.

Notes to the accounts continued

Depreciation is calculated so as to write-down the cost of tangible fixed assets to their residual value evenly over their estimated useful lives. Estimated useful lives are reviewed periodically, taking into account commercial and technological obsolescence as well as normal wear and tear, provision being made where the carrying value may not be recoverable.

Tangible fixed assets are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. When a review for impairment is conducted, the recoverable amount is assessed by reference to the net present value of expected future cash flows of the relevant income generating unit or disposal value, if higher. If an asset is impaired, a provision is made to reduce its carrying amount to the estimated recoverable amount. The discount rate applied is based upon the Group's weighted average cost of capital with appropriate adjustment for risks associated with the relevant unit.

The depreciation charge is based on the following estimates of useful lives

	Years
Power plants	20-60
Fixtures, fittings, tools and equipment	3-10
Computer equipment and software	3-5
Civil works	25-80
Combined cycle gas turbine (CCGT) hot gas path parts, on average	2-4
Leasehold improvements	Life of lease

Freehold land is not depreciated.

Project development costs are principally incurred in identifying and developing investment opportunities and typically include feasibility studies, pre-bid costs, legal, professional and other related advisory costs. These costs (including appropriate direct internal costs) are recognised as expenses as incurred, except that directly attributable costs are capitalised from the point that it is both virtually certain that a project will proceed to completion and the net cash inflows will recover the costs capitalised. Such capitalised costs are amortised over the life of the related property or contract.

ix Decommissioning costs

Provision is made for the estimated decommissioning costs at the end of the useful economic life of the Group's power stations and generating assets, if and when a legal or constructive obligation arises, on a discounted basis. The amount provided represents the present value of the expected costs. An amount equivalent to the initial provision is capitalised within tangible fixed assets and is depreciated over the useful lives of the related assets. The unwinding of the discount is included in interest payable and similar charges.

x Leased assets

As lessor Power plants specifically designated to fulfil the requirements of long-term PPAs are classified as either tangible fixed assets or as long-term financial assets depending on the allocation of risks between the Group and the off-taker.

Where the Group has access to the benefits of the power plant and exposure to the risks inherent in those benefits the power plant is capitalised and depreciated over its useful economic life.

Where the off-taker has the principal risks and rewards of ownership of the power plant, through its contractual arrangements with the Group, the power plant is classified as a long-term financial asset. As discussed in note iii, capacity payments are apportioned between capacity repayments relating to the provision of the property, finance income and energy sales. The finance income element of the capacity payment is recognised as turnover, using a rate of return specific to the property to give a constant periodic rate of return on the net investment in each period. The energy sales element of the capacity payment is recognised as turnover as it is earned.

The amounts due from lessees under finance leases are recorded in the balance sheet as financial assets, classified as debtors, at the amount of the net investment in the lease after making provision for bad and doubtful debts receivable.

As lessee Assets leased under finance leases are capitalised and depreciated over the shorter of the lease periods and the estimated operational lives of the assets. The interest element of the finance lease repayments is charged to the profit and loss account in proportion to the balance of the capital repayments outstanding. Rentals payable under operating leases are charged to the profit and loss account on a straight-line basis.

xi Fixed asset investments

Fixed asset investments (other than joint ventures and associates which are discussed in note ii) are stated at cost less provision for any impairment.

xii Current asset investments

Current asset investments are stated at the lower of cost and market value. These are included as liquid resources within the cash flow statement.

xiii Stocks

Plant spares, operating stocks of fuel and consumables are valued at the lower of cost and net realisable value. These are included as current assets.

xiv Deferred taxation

Deferred taxation is provided on timing differences, arising from the different treatment for accounts and taxation purposes of transactions and events recognised in the financial statements of the current year and previous years. Deferred taxation is calculated at the rates at which it is estimated that tax will arise. Deferred tax assets and liabilities are not discounted.

xv Hedging and financial instruments

The Group uses a range of derivative instruments, including interest rate swaps, options, energy-based futures contracts and foreign exchange contracts and swaps. Derivative instruments are used for hedging purposes, apart from energy-based futures contracts, some of which are used for proprietary trading purposes. Interest differentials on derivative instruments are charged to the profit and loss account as interest costs in the period to which they relate. Accounting for foreign currency transactions is described in the foreign exchange policy in note vi. Changes in the market value of futures trading contracts are reflected in the profit and loss account in the period in which the change occurs.

Energy-based futures contracts used for proprietary trading purposes are marked to market using externally derived market prices and subsequent movements in the fair value reflected through the profit and loss account. This is not in accordance with the general provisions of Schedule 4 of the Companies Act 1985, which requires that these contracts be stated at the lower of cost and net realisable value or that, if revalued, any revaluation difference be taken to a revaluation reserve. However, the Directors consider that these requirements would fail to provide a true and fair view of the results for the year since the marketability of energy trading contracts enables decisions to be taken continually on whether to hold or sell them. Accordingly the measurement of profit in any period is properly made by reference to market values. The effect of the departure on the financial statements is to increase the profit for the year by £1 million (2003: reduce the loss for the year by £1 million) and increase the net assets at 31 December 2004 by £3 million (2003: decrease net assets by £4 million).

xvi Debt instruments

New borrowings are stated at net proceeds received after deduction of issue costs. The issue costs of debt instruments are charged to the profit and loss account over the life of the instrument at a constant rate of return on the carrying amount.

xvii New accounting standards UITF Abstract 38 Accounting for ESOP Trusts

This standard requires the assets and liabilities of the Group's ESOP trust to be recognised in the Group's financial statements where there is de facto control of those assets and liabilities. The Company's own shares held by the ESOP trust should be deducted from shareholders' funds until they vest unconditionally with employees. Prior to adoption of UITF 38, the Company's own shares held by the ESOP trust were recognised as an asset on the balance sheet at the lower of cost and estimated net realisable value. The new standard is effective for periods ending on or after 22 June 2004. All primary statements and notes to the accounts have been restated accordingly.

Compliance with UITF 38 has reduced the 2003 investments and shareholders' funds by £2 million (2002: nil). The net profit for 2004 and 2003 was not materially affected.

1 GROUP SEGMENTAL ANALYSIS

	Year ended 31 December 2004			Year ended 31 December 2003		
	Subsidiaries £m	**Share of joint ventures and associates £m**	**Total £m**	Subsidiaries £m	Share of joint ventures and associates £m	Total £m
a) By class of business						
Group turnover						
Electricity generation	**768**	**499**	**1,267**	852	421	1,273
Profit/(loss) before interest and taxation (excluding exceptional items)						
Electricity generation	**143**	**177**	**320**	153	160	313
Corporate costs	**(33)**	**–**	**(33)**	(28)	–	(28)
	110	**177**	**287**	125	160	285
b) By geographical area						
Group turnover						
North America	**188**	**72**	**260**	344	70	414
Europe	**308**	**212**	**520**	239	235	474
Middle East	**24**	**30**	**54**	21	12	33
Australia	**223**	**8**	**231**	224	–	224
Asia	**25**	**177**	**202**	24	104	128
	768	**499**	**1,267**	852	421	1,273
Profit/(loss) before interest and taxation (excluding all exceptional items)						
North America	**(29)**	**16**	**(13)**	(13)	15	2
Europe	**52**	**61**	**113**	38	65	103
Middle East	**13**	**16**	**29**	18	5	23
Australia	**98**	**6**	**104**	101	–	101
Asia	**9**	**78**	**87**	9	75	84
	143	**177**	**320**	153	160	313
Corporate costs	**(33)**	**–**	**(33)**	(28)	–	(28)
	110	**177**	**287**	125	160	285

An analysis of exceptional items is given in note 8.

On 17 December 2004, International Power completed the acquisition of the international generation portfolio of Edison Mission Energy (see note 26). During the period since acquisition turnover of £22 million and operating profits of £9 million are included within the consolidated profit and loss account.

On 4 November 2004, International Power completed the acquisition of Turbogás (see note 26). During the period since acquisition turnover of £35 million and operating profit of £7 million are included within the consolidated profit and loss account.

The profit before interest and taxation after exceptional items are for Europe profit of £124 million and Asia profit of £91 million (2003: North America loss of £402 million; Europe profit of £110 million and Asia profit of £139 million).

North America loss before interest and taxation for subsidiaries includes other income in respect of the late commissioning and performance recovery of new power plants amounting to £3 million (year ended 31 December 2003: £27 million).

Sales of electricity generated in each geographic region are made solely to customers in the same geographical area.

With effect from 1 January 2004, we have reverted to equity accounting for our 36% stake in KAPCO and now account for it as an associated undertaking. KAPCO had previously been accounted for as a trade investment with dividend receipts recorded in income from investments. To aid comparability the dividends received in 2003 have been included in the share of joint ventures and associates column for the 2003 comparatives in the above table.

Notes to the accounts continued

1 GROUP SEGMENTAL ANALYSIS continued

	Year ended 31 December 2004			Year ended 31 December 2003 (restated)		
	Subsidiaries £m	**Share of joint ventures and associates £m**	**Total £m**	Subsidiaries £m	Share of joint ventures and associates £m	Total £m
c) Net assets employed by geographical area						
North America	**566**	**182**	**748**	638	33	671
Europe	**1,675**	**323**	**1,998**	326	223	549
Middle East	**144**	**45**	**189**	69	3	72
Australia	**1,704**	**33**	**1,737**	968	8	976
Asia	**60**	**582**	**642**	53	262	315
Corporate and development	**(93)**	**–**	**(93)**	(58)	–	(58)
Net operating assets	**4,056**	**1,165**	**5,221**	1,996	529	2,525
Borrowings	**(3,351)**		**(3,351)**	(1,435)		(1,435)
Cash and short-term deposits	**612**		**612**	743		743
Deferred tax	**(354)**		**(354)**	(205)		(205)
Corporation tax	**(83)**		**(83)**	(86)		(86)
Goodwill on acquisition	**17**		**17**	18		18
Net assets per consolidated balance sheet	**897**		**2,062**	1,031		1,560

To aid comparability the investment in KAPCO in 2003 has been included in the share of joint ventures and associates column for the 2003 comparatives in the above table.

2 OPERATING PROFIT

	Year ended 31 December 2004 £m	Year ended 31 December 2003 £m
Excluding exceptional items:		
Group turnover	**768**	852
Cost of sales	**(672)**	(729)
Gross profit	**96**	123
Other operating costs	**(42)**	(64)
Other operating income	**56**	66
Operating profit	**110**	125

Other operating income includes compensation for the late commissioning of plant, billings in respect of operations and maintenance services and profits on sale of development sites. Exceptional items would reduce other operating costs by £11 million (2003: increase cost of sales by £404 million).

Group turnover includes the following amounts of finance income:

	Year ended 31 December 2004 £m	Year ended 31 December 2003 £m
Group (including share of associated undertakings and joint ventures)	**144**	108
Less: share of associated undertakings and joint ventures	**(138)**	(108)
	6	–

3 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	Year ended 31 December 2004 £m	Year ended 31 December 2003 £m
Profit on ordinary activities before taxation is stated after charging/(crediting):		
Depreciation of tangible fixed assets	**85**	108
Other amortisation	**–**	1
Development costs net of recoveries and amounts capitalised	**3**	14
Operating exceptional items (note 8)	**(11)**	369
Property lease rentals payable (net of recoveries)	**–**	3
Auditors' remuneration – statutory audit:		
Fees due to the lead auditor KPMG Audit Plc	**1.2**	1.0
Fees due to other auditors	**0.6**	0.1
	1.8	1.1
Auditors' remuneration – other fees paid to the lead auditors and their associates for services:		
Audit-related regulatory reporting services (including services to the Company of £0.4 million)	**0.4**	0.3
Further assurance services (including services to the Company of £0.1 million)	**0.2**	0.1

Statutory fees paid to the lead auditor includes £0.7 million (2003: £0.5 million) in respect of the audit of the Company.

Expenditure on audit-related regulatory reporting services in 2004 principally related to review of interim financial statements, US regulatory reporting requirements and transition to IFRS.

Further assurance services in 2004 related principally to due diligence assistance and corporate social responsibility reviews. During 2004, additional fees of £1.3 million were paid to KPMG Audit Plc for assurance services provided in connection with the Group's acquisitions of the international assets of Edison Mission Energy. These fees have been capitalised as part of the costs of acquisition.

The Audit Committee and the firm of external auditors have safeguards to avoid the possibility that the auditors' objectivity and independence could be compromised. These safeguards include the implementation of a policy on the use of the external auditor for non-audit related services. This policy incorporates the provisions of the Sarbanes-Oxley Act 2002 and subsequent Securities and Exchange Commission (SEC) rules.

Where it is deemed that the work to be undertaken is of a nature that is generally considered reasonable to be completed by the auditor of the Group for sound commercial and practical reasons, the conduct of such work will be permissible provided that it has been pre-approved by the Audit Committee. Examples of pre-approved services include the completion of regulatory audits, provision of taxation and regulatory advice, reporting to the SEC and the completion of certain financial due diligence work. All these services are also subject to a predefined fee limit. Any work performed in excess of this limit must be approved by the Chief Financial Officer and the Audit Committee.

4 INTEREST RECEIVABLE AND SIMILAR INCOME

	Year ended 31 December 2004 £m	Year ended 31 December 2003 £m
Group interest receivable and similar income		
Interest receivable and similar income	**30**	23
Foreign exchange gains (net)	**–**	19
Total Group interest receivable and similar income	**30**	42

Notes to the accounts continued

5 INTEREST PAYABLE AND SIMILAR CHARGES

	Year ended 31 December 2004 £m	Year ended 31 December 2003 £m
a) Group interest payable and similar charges		
Interest on:		
Bank loans and overdrafts	**103**	101
Other borrowings	**12**	22
	115	123
Interest capitalised	**(8)**	(2)
Group interest payable and similar charges – ordinary	**107**	121
Exceptional interest (note 8)	**31**	16
Total Group interest payable and similar charges	**138**	137
b) Interest payable of joint ventures and associates		
Share of interest payable of joint ventures	**12**	10
Share of interest payable of associates	**34**	22
Total interest payable of joint ventures and associates	**46**	32

6 DIRECTORS' AND EMPLOYEES' REMUNERATION

a) Directors' remuneration

Details of Directors' remuneration are set out on pages 54 to 66.

b) Employees' remuneration

	Year ended 31 December 2004 £m	Year ended 31 December 2003 £m
Salaries and other staff costs, including Directors' remuneration were as follows:		
Wages and salaries	**82**	68
Social security costs	**4**	4
Pension costs (note 7)	**7**	6
Total employees' remuneration	**93**	78
Less: amounts capitalised as part of assets in the course of construction	**–**	(1)
Total staff costs	**93**	77

Employee numbers	Year ended 31 December 2004 No.	Year ended 31 December 2003 No.
Average number of employees during the financial year, analysed by geographic segment was:		
North America	**201**	212
Europe	**804**	746
Middle East	**639**	342
Australia	**570**	591
Asia	**349**	362
Corporate and development	**187**	163
Total average number of employees	**2,750**	2,416

7 PENSION SCHEME FUNDING

UK: The majority of pensions for UK employees are funded through the industry-wide scheme, the Electricity Supply Pension Scheme (ESPS) which is a defined benefit scheme with assets invested in separate trustee administered funds. The ESPS is divided into sections, and the International Power Group of ESPS was opened to members on 1 April 2002 and employees' past service rights were transferred into the Group later that year.

The majority of employees taken on in First Hydro, as part of the acquisition of the EME portfolio, are members of another section of the ESPS, Energy Mission Energy Group.

Pension costs for 2004 have been calculated using assumptions consistent with those used for the 31 March 2003 funding valuation.

The pension cost for 2004 is £4 million, comprising £3 million regular cost and £1 million variation cost (2003: £3 million).

The principal assumptions used to calculate these pension costs are set out below:

Pre-retirement investment return	6.6% pa
Post-retirement investment return	5.1% pa
Salary increases	4.1% pa
Pension increases in deferment	2.7% pa
Pension increases in payment	2.7% pa

The actuarial value of assets in the International Power section of the ESPS as at 31 March 2004, the date of the latest formal actuarial valuation, was £47 million. The accrued liabilities valued on the projected unit method using assumptions set out below, were £56 million. The market value of assets was, therefore, 84% of accrued liabilities. Arrangements have been made to make good the past service deficit over the average future working lifetime of the membership (calculated to be approximately 12 years).

The principal assumptions used for the 31 March 2004 valuation are:

Pre-retirement investment return	6.7% pa
Post-retirement investment return	5.2% pa
Salary increases	4.4% pa
Pension increases in deferment	3.0% pa
Pension increases in payment	3.0% pa

The actuarial value of assets in the Edison Mission Energy section of the ESPS as at 31 March 2004, the date of the latest formal actuarial valuation, was £30 million. The accrued liabilities valued on the projected unit credit method using assumptions set out below, were £40 million. The market value of assets was therefore 75% of accrued liabilities. Arrangements have been made to make good the past service deficit over the average future working lifetime of the membership (calculated to be approximately 15 years).

The principal assumptions used for the 31 March 2004 valuation are:

Pre-retirement investment return	6.7% pa
Post-retirement investment return	5.2% pa
Salary increases	4.4% pa
Pension increases in deferment	2.9% pa
Pension increases in payment	2.8% pa

AUSTRALIA: Employees at Hazelwood and Loy Yang B participate in a standard Australian superannuation fund called Equipsuper. This plan provides benefits primarily for employees in the electricity, gas and water industry, and was developed from the scheme sponsored by the State Electricity Commission of Victoria. Employees at Synergen participate in the Electricity Industry Superannuation Scheme.

At 31 December 2004, the total market value of assets was 100% of accrued liabilities. The assets were £70 million and liabilities £70 million. The pension cost for 2004 was £2 million (2003: £2 million).

The principal assumptions are set out below:

Valuation date	**31 December 2004**
Investment return	4.5% pa
Salary increases	4.0% pa
Pensions increases	n/a

In other countries employees are members of local social security schemes and in some cases defined contribution plans. The charge for 2004 in respect of defined contribution plans was £1 million (2003: £1 million).

FRS 17

In accordance with the requirements of FRS 17 (Retirement Benefits), this note discloses the main financial assumptions made in valuing the liabilities of the schemes and the fair value of assets held. However, as permitted by FRS 17, the costs, accruals and prepayments recorded in the financial statements continue to be reported under the requirements of SSAP 24 (Accounting for Pension Costs).

Notes to the accounts continued

7 PENSION SCHEME FUNDING continued

The valuation used for FRS 17 disclosures for the UK schemes has been based on the most recent actuarial valuations at 31 March 2003 and 31 March 2004, and updated by qualified independent actuaries to take account of the requirements of FRS 17 to assess the liabilities of the schemes at 31 December 2004.

The Group operates a number of defined benefit schemes for employees of its overseas businesses. Full actuarial valuations of these schemes have been carried out within the last three years and results have been updated to 31 December 2004 by qualified independent actuaries.

The assumptions used to calculate scheme liabilities under FRS 17 are:

	31 December 2004		31 December 2003		31 December 2002		31 December 2001	
	UK %	**Australia %**	UK %	Australia %	UK %	Australia %	UK %	Australia %
Financial assumptions								
Discount rate	**5.3**	**4.5**	5.4	7.5	5.5	7.0	5.8	7.3
Rate of increase in salaries	**4.4**	**4.0**	4.3	4.0	3.8	4.0	4.0	4.0
Inflation rate	**2.9**	**3.0**	2.8	3.0	2.3	3.5	2.5	3.0
Increase to deferred benefits during deferment	**3.0**	**n/a**	2.9	n/a	2.5	n/a	2.6	n/a
Increases to pensions payments	**2.9**	**n/a**	2.9	n/a	2.5	n/a	2.6	n/a

The amounts required to be disclosed by FRS 17 in respect of the performance statements were:

Analysis of amounts that would have been charged to operating profit in respect of defined benefit schemes

	Group	
	2004 £m	2003 £m
Current service	**(5)**	(5)
Past service cost	**–**	–
Curtailment cost	**(1)**	–
Total operating charge	**(6)**	(5)

Analysis of amounts that would have been credited/(charged) to other finance income

	Group	
	2004 £m	2003 £m
Expected return on schemes' assets	**7**	5
Interest on schemes' liabilities	**(7)**	(5)
Net return	**–**	–

Analysis of amounts that would have been recognised in the consolidated statement of total recognised gains and losses

	Group	
	2004 £m	2003 £m
Actual return less expected return on schemes' assets	**9**	5
Experience gains/(losses) arising on schemes' liabilities	**–**	(3)
Changes in the assumptions underlying the present value of schemes' liabilities	**(11)**	(7)
Currency translation adjustment	**–**	1
Actuarial loss recognised in the consolidated statement of total recognised gains and losses	**(2)**	(4)

History of experience gains and losses

	Group		
	2004	2003	2002
Difference between the actual and expected return on schemes' assets:			
Amount (£m)	**9**	5	(11)
Percentage of schemes' assets	**6%**	5%	15%
Experience gains and losses on schemes' liabilities:			
Amount (£m)	**–**	(3)	(1)
Percentage of the present value schemes' liabilities	**0%**	3%	1%
Total amount recognised in the consolidated statement of total recognised gains and losses:			
Amount (£m)	**(2)**	(4)	(17)
Percentage of the present value of schemes' liabilities	**1%**	4%	22%

	31 December 2004 UK %	31 December 2004 Australia %	31 December 2003 UK %	31 December 2003 Australia %	31 December 2002 UK %	31 December 2002 Australia %	31 December 2001 UK %	31 December 2001 Australia %
The assets in the schemes and expected rates of return (weighted averages) were:								
Long-term rate of return expected								
Equities	**7.5**	**7.3**	7.8	7.6	7.0	7.5	7.4	7.5
Bonds	**4.9**	**4.8**	5.1	4.8	4.5	5.5	4.9	5.5
Other	**6.0**	**5.5**	6.6	6.1	4.8	5.5	–	5.5

	UK £m	Australia £m	Total £m	UK £m	Australia £m	Total £m	UK £m	Australia £m	Total £m	UK £m	Australia £m	Total £m
Assets in schemes												
Equities	**66**	**44**	**110**	36	35	71	27	24	51	19	23	42
Bonds	**11**	**16**	**27**	5	14	19	4	12	16	16	12	28
Other	**12**	**10**	**22**	4	5	9	3	4	7	–	5	5
Total market value of assets	**89**	**70**	**159**	45	54	99	34	40	74	35	40	75
Present value of scheme liabilities	**(114)**	**(70)**	**(184)**	(58)	(50)	(108)	(43)	(36)	(79)	(39)	(25)	(64)
(Deficit)/surplus in the scheme	**(25)**	**–**	**(25)**	(13)	4	(9)	(9)	4	(5)	(4)	15	11
Related deferred tax asset/(liability)	**8**	**–**	**8**	4	(1)	3	3	(1)	2	1	(5)	(4)
Net pension (liability)/asset	**(17)**	**–**	**(17)**	(9)	3	(6)	(6)	3	(3)	(3)	10	7

Other assets principally comprise property and cash.

If the above amounts had been recognised in the financial statements, the Group's net assets and profit and loss reserve at 31 December would be as follows:

	Group 2004 £m	2003 (restated) £m	2002 (restated) £m	2001 £m
Net assets				
Net assets excluding pension (liability)/asset	**2,062**	1,560	1,769	1,697
FRS 17 pension (liability)/asset	**(17)**	(6)	(3)	7
Amounts recognised on acquisition	**10**	–	–	–
Net assets including FRS 17 pension (liability)/asset	**2,055**	1,554	1,766	1,704
Reserves				
Profit and loss reserve excluding net pension (liability)/asset	**129**	111	330	260
Net pension (liability)/asset	**(17)**	(6)	(3)	7
Profit and loss reserve including FRS 17 pension (liability)/asset	**112**	105	327	267

	Group 2004 £m	2003 £m
Movement in deficit during the year:		
Deficit in the schemes at the beginning of the year	**(9)**	(5)
Current service cost	**(5)**	(5)
Curtailment	**(1)**	–
Contributions	**6**	5
Past service cost	**–**	–
Other finance income	**–**	–
Acquisitions	**(14)**	–
Actuarial loss	**(2)**	(4)
Deficit in the schemes at the end of the year	**(25)**	(9)

Notes to the accounts continued

8 EXCEPTIONAL ITEMS

	Year ended 31 December 2004 £m	Year ended 31 December 2003 £m
Net operating exceptional items credited/(charged):		
Release of a guarantee on sale of Elcogas	11	–
Impairment of US plant	–	(404)
Reversal of HUBCO impairment	–	35
Net operating exceptional items	**11**	(369)
Non-operating exceptional items credited:		
Profit on partial disposal of holding in HUBCO	4	17
Profit on disposal of a Czech fixed asset investment	–	7
Release of provision raised for sale of Chinese operations	–	3
Non-operating exceptional items	**4**	27
Exceptional interest charges:		
US swap termination costs	(15)	–
Other refinancing costs	(16)	–
Write off of unamortised finance charges	–	(16)
Exceptional interest payable and similar charges	**(31)**	(16)
Total exceptional items before attributable taxation	**(16)**	(358)
Taxation on exceptional items	–	26
Total exceptional items after attributable taxation	**(16)**	(332)

9 TAX ON PROFIT ON ORDINARY ACTIVITIES

	Year ended 31 December 2004 £m	Year ended 31 December 2003 £m
a) Analysis of charge in year		
Current taxation		
UK corporation tax (credit)/charge at 30% (year ended 31 December 2003: 30%)	(2)	26
Foreign taxation	18	13
Share of joint ventures' taxation	4	2
Share of associates' taxation	13	16
Total current taxation charge for year	**33**	57
Deferred taxation		
Origination and reversal of timing differences	12	(30)
Share of joint ventures' deferred taxation	–	1
Total deferred taxation charge/(credit) for year	**12**	(29)
Total taxation for the year	**45**	28

Included in the tax on profit are the following amounts relating to exceptional items:		
Operating exceptional items (deferred tax)	–	(27)
Non-operating exceptional items (current tax)	–	2
Exceptional interest charges (current tax)	–	(1)
Taxation credit on exceptional items	–	(26)

b) Reconciliation of current tax rate

The tax charge for the year on ordinary activities varied from the standard rate of UK corporation tax as follows:

	Year ended 31 December 2004			Year ended 31 December 2003		
	Current tax £m	**Deferred tax £m**	**Total £m**	Current tax £m	Deferred tax £m	Total £m
Corporation tax at 30%	**49**	**–**	**49**	52	–	52
Permanent differences	**18**	**–**	**18**	6	–	6
Origination or reversal of timing differences	**(12)**	**12**	**–**	2	(2)	–
Tax holidays	**(12)**	**–**	**(12)**	(10)	–	(10)
Adjustment in relation to prior years	**(3)**	**–**	**(3)**	–	–	–
Effect of tax rate applied to overseas earnings	**(7)**	**–**	**(7)**	6	–	6
Tax charge for the year before exceptional items	**33**	**12**	**45**	56	(2)	54
Exceptional items	**–**	**–**	**–**	1	(27)	(26)
Tax charge for the year	**33**	**12**	**45**	57	(29)	28

10 DIVIDENDS

	Year ended 31 December 2004 £m	Year ended 31 December 2003 £m
Proposed final dividend of 2.5p per Ordinary Share payable on 8 July 2005	**37**	–

11 PROFIT OF THE PARENT COMPANY

The profit of the parent company for the financial year amounted to £83 million (year ended 31 December 2003: profit of £121 million). By virtue of Section 230(4) of the Companies Act 1985, the Company is exempt from presenting a separate profit and loss account.

12 EARNINGS/(LOSS) PER SHARE

	Year ended 31 December 2004 pence	Year ended 31 December 2003 (restated) pence
a) Earnings per share – basic		
Before exceptional items	**8.3**	9.1
After exceptional items	**7.2**	(17.6)

b) Earnings per share – diluted		
Before exceptional items	**8.2**	9.0
After exceptional items	**7.1**	(17.6)

c) Basis of calculation – earnings	**£m**	£m
Profit attributable to shareholders before exceptional items	**108**	113
Exceptional items	**(14)**	(332)
Profit/(loss) attributable to shareholders after exceptional items	**94**	(219)

d) Basis of calculation – number of Ordinary Shares	**Million**	Million
Weighted average number of issued Ordinary Shares	**1,308.3**	1,247.8
Weighted average number of shares held by Employee Share Ownership Plans (ESOPs)	**(2.8)**	(3.6)
	1,305.5	1,244.2
Dilutive potential Ordinary Shares:		
Employee share schemes	**10.9**	10.3
Convertible bond	**3.0**	–
Weighted average number of Ordinary Shares taking account of applicable dilutive instruments	**1,319.4**	1,254.5

Notes to the accounts continued

12 EARNINGS PER SHARE continued

On 30 July 2004, the Company announced a Rights Issue and, following approval of the required resolutions at the subsequent Extraordinary General Meeting, 366 million shares were issued at 82p per share on the basis of 33 new Ordinary Shares for every 100 Ordinary Shares then held.

The actual cum rights price on 20 August 2004, the last day of quotation cum rights, was 147p per share and the theoretical ex rights per price for an Ordinary Share was therefore 131p per share. The comparative earnings per share are shown after applying the factor 131/147 to the published figures for 2003.

FRS 14 requires presentation of diluted earnings per share when a company could be called upon to issue shares that would decrease net profit or increase net loss per share. A net loss per share would only be increased by the exercise of out-of-the-money share options. Since it seems inappropriate to assume that option holders would act irrationally, no adjustment has been made for out-of-the-money options and hence in 2003 diluted EPS (after exceptional items) equals basic EPS (after exceptional items).

13 INTANGIBLE FIXED ASSETS

The Group	Goodwill £m	Negative goodwill £m	Total £m
Cost			
At 1 January 2004	11	(11)	–
Exchange rate differences	1	–	1
At 31 December 2004	**12**	**(11)**	**1**
Amortisation			
At 1 January 2004	(4)	5	1
(Charged)/credited in the year	–	–	–
At 31 December 2004	**(4)**	**5**	**1**
Net book value at 31 December 2004	**8**	**(6)**	**2**
Net book value at 31 December 2003	7	(6)	1

Goodwill arising on the acquisition of joint ventures and associated undertakings is set out in note 15 – fixed asset investments.

14 TANGIBLE FIXED ASSETS

a) The Group	Freehold land and buildings £m	Plant, machinery and equipment £m	Assets in course of construction £m	Total £m
Cost				
At 1 January 2004	89	3,013	23	3,125
Additions	7	44	188	239
Subsidiary undertakings acquired	80	1,416	–	1,496
Reclassifications and transfers	–	43	(46)	(3)
Disposals	–	(2)	–	(2)
Exchange rate differences	(2)	(71)	(4)	(77)
At 31 December 2004	**174**	**4,443**	**161**	**4,778**
Depreciation and diminution in value				
At 1 January 2004	22	1,055	–	1,077
Provided during the year	3	82	–	85
Disposals	–	(2)	–	(2)
Exchange rate differences	–	(36)	–	(36)
At 31 December 2004	**25**	**1,099**	**–**	**1,124**
Net book value at 31 December 2004	**149**	**3,344**	**161**	**3,654**
Net book value at 31 December 2003	67	1,958	23	2,048

Interest capitalised in the year was £8 million. On a cumulative basis, the net book value of interest capitalised is £84 million (2003: £85 million). The total value of land that is not depreciated included within freehold land and buildings is £47 million (31 December 2003: £27 million).

b) The Company	Freehold land and buildings £m	Plant, machinery and equipment £m	Total £m
Cost			
At 1 January 2004	1	5	6
Additions	1	1	2
At 31 December 2004	**2**	**6**	**8**
Depreciation and diminution in value			
At 1 January 2004	1	4	5
Provided during the year	–	1	1
At 31 December 2004	1	5	6
Net book value at 31 December 2004	**1**	**1**	**2**
Net book value at 31 December 2003	–	1	1

15 FIXED ASSET INVESTMENTS

a) The Group	Joint ventures: Share of net assets £m	Joint ventures: Loans £m	Associated undertakings: Share of net assets £m	Associated undertakings: Loans £m	Associated undertakings: Goodwill £m	Other investments £m	Total £m
At 1 January 2004 (as originally stated)	126	–	298	–	17	97	538
Prior year adjustment	–	–	–	–	–	(2)	(2)
At 1 January 2004 (as restated)	126	–	298	–	17	95	536
Share of post-tax profit	24	–	89	–	(2)	–	111
Additions	16	11	–	37	–	3	67
On acquisition of investments	127	17	248	173	–	79	644
Distribution and loan repayments	(14)	–	(59)	–	–	–	(73)
Disposals	–	–	(13)	–	–	(3)	(16)
Reclassifications and transfers	–	–	88	–	–	(88)	–
Exchange rate differences	5	–	(25)	2	–	–	(18)
At 31 December 2004	**284**	**28**	**626**	**212**	**15**	**86**	**1,251**

Included within the Group's share of net assets of joint ventures and associated undertakings is net debt of £1,452 million (31 December 2003: £712 million). These obligations are generally secured by the assets of the respective joint venture or associate borrower and are not guaranteed by International Power plc or any other Group company.

The prior year adjustment is explained in note xvii in the notes to the accounts on page 76.

Group share of associated undertakings' net assets	31 December 2004 £m	31 December 2003 £m
Share of fixed and long-term assets	**1,890**	821
Share of current assets	**432**	226
	2,322	1,047
Share of liabilities due within one year	**(274)**	(79)
Share of liabilities due after more than one year	**(1,210)**	(670)
	(1,484)	(749)
Share of net assets	**838**	298

Group share of joint ventures' net assets	31 December 2004 £m	31 December 2003 £m
Share of fixed and long-term assets	**554**	302
Share of current assets	**88**	35
	642	337
Share of liabilities due within one year	**(50)**	(37)
Share of liabilities due after more than one year	**(280)**	(174)
	(330)	(211)
Share of net assets	**312**	126

Notes to the accounts continued

15 FIXED ASSET INVESTMENTS continued

At 31 December 2004 the Group investments that are listed on a recognised stock market are those in The Hub Power Company Limited (HUBCO) and Malakoff Berhad. Both are associated undertakings. The Group's share of HUBCO was valued at £54 million (2003: £90 million) on the major Pakistan stock markets and the Group's share in Malakoff Berhad was valued at £159 million (2003: £128 million) on the Kuala Lumpur stock market. Market values for Group shareholdings in these investments were in excess of the respective book values at the year end.

A subsidiary, Al Kamil, is listed on the Muscat Securities Market and was valued at £14 million on 31 December 2004 (2003: not listed).

	Subsidiary undertakings			
b) The Company	**Investment £m**	**Loans £m**	**Other investments £m**	**Total £m**
At 1 January 2004 (as previously stated)	1,428	419	3	1,850
Prior year adjustment	–	–	(2)	(2)
At 1 January 2004 (as restated)	1,428	419	1	1,848
Additions	1,110	209	2	1,321
Capitalisation of loan due from subsidiary undertaking	99	–	–	99
Distribution and loan repayments	–	(33)	–	(33)
Disposals	–	–	(1)	(1)
Exchange rate differences	–	(18)	–	(18)
At 31 December 2004	**2,637**	**577**	**2**	**3,216**

Details of the principal subsidiary undertakings, associates and joint ventures are provided in note 33.

The prior year adjustment is explained in note xvii in the notes to the accounts on page 76.

16 STOCKS

	Group		Company	
	31 December 2004 £m	31 December 2003 £m	**31 December 2004 £m**	31 December 2003 £m
Plant spares	**13**	18	**–**	–
Fuel stocks	**40**	18	**–**	–
Consumables	**34**	29	**–**	–
Total stocks	**87**	65	**–**	–

17 DEBTORS

	Group		Company	
	31 December 2004 £m	31 December 2003 £m	**31 December 2004 £m**	31 December 2003 £m
Amounts falling due within one year:				
Trade debtors	**106**	50	**–**	–
Due from subsidiary undertakings	**–**	–	**111**	217
Amounts receivable under finance leases	**11**	–	**–**	–
Other debtors	**65**	54	**73**	27
Prepayments and accrued income	**52**	53	**2**	3
Total amounts falling due within one year	**234**	157	**186**	247
Amounts recoverable after more than one year:				
Amounts receivable under finance leases	**484**	–	**–**	–
Amounts due from associates	**27**	–	**–**	–
Other debtors	**70**	3	**–**	–
Total amounts falling due after more than one year	**581**	3	**–**	–
Total debtors	**815**	160	**186**	247

	31 December 2004 £m	31 December 2003 £m
Net investment in finance leases comprises:		
Total amounts receivable	**978**	–
Less: interest allocated to future periods	**(483)**	–
	495	–

Rentals receivable under finance leases by the Group during the year amounted to £6 million (2003: nil). The cost of assets acquired by the Group during the year for onwards finance leasing was £487 million (2003: nil).

18 CURRENT ASSET INVESTMENTS

	Group		Company	
	31 December 2004 £m	31 December 2003 £m	31 December 2004 £m	31 December 2003 £m
Current asset investments	**201**	70	**–**	–

Current asset investments are primarily short-term money market deposits used for fund management and treasury purposes. These balances are generally restricted, primarily to secure amounts required for debt payments and letter of credit expenses.

19 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Company	
	31 December 2004 £m	31 December 2003 £m	31 December 2004 £m	31 December 2003 £m
Trade creditors	**104**	71	**5**	1
Amounts due to subsidiary undertakings	**–**	–	**1,448**	814
Other creditors	**108**	58	**14**	14
Proposed dividend	**37**	–	**37**	–
Other taxation and social security	**–**	–	**1**	1
Corporation tax	**83**	86	**15**	19
Accruals and deferred income	**139**	100	**52**	41
Bank loans (secured)	**71**	531	**–**	–
2% Convertible US Dollar Bonds 2005	**29**	–	**–**	–
Total creditors: amounts falling due within one year	**571**	846	**1,572**	890

The bank loans are secured by fixed and floating charges over the assets of certain subsidiary undertakings. Substantially all of the Group's power stations, generating assets and other operating assets are financed under non-recourse facilities.

Secured bank loans
Secured bank loans are those where the obligation to repay lies solely with the subsidiary and are secured solely on the assets of the subsidiary concerned.

At 31 December 2003, we were in discussions with bank groups in relation to claimed technical defaults on the non-recourse debt for the US merchant portfolio. In July 2004, the US debt facility was successfully refinanced and the debt has been reclassified to long-term.

Convertible bonds

2% Convertible US Dollar Bonds 2005
On 24 November 2000, International Power (Cayman) Limited, a wholly-owned subsidiary company incorporated in the Cayman Islands, issued US$357 million 2% convertible notes due 2005, convertible into preference shares of International Power (Cayman) Limited at the holder's option, exchangeable for Ordinary Shares of, and unconditionally guaranteed on a senior unsecured basis by, International Power plc.

The notes are convertible into Ordinary Shares of International Power plc at a conversion price of 300p at any time between 4 January 2001 and 23 November 2005. 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 (Cayman) Limited. Investors may elect to receive their Ordinary Shares in the form of American Depositary Receipts.

The 'unput' convertible unsecured notes will be redeemed on 24 November 2005 at a redemption price of 112.4% of its principal amount. Accordingly the convertible bond is now shown within short-term liabilities.

Notes to the accounts continued

20 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Group		Company	
	31 December 2004 £m	31 December 2003 £m	**31 December 2004 £m**	31 December 2003 £m
Other creditors	**133**	5	–	–
Bank loans (secured):				
Between one and five years	**1,330**	262	–	–
Over five years	**1,638**	442	–	–
Total bank loans	**2,968**	704	–	–
Preferred equity facility	**154**	–	–	–
2% Convertible US Dollar Bonds 2005	**–**	62	–	–
3.75% Convertible US Dollar Bonds 2023	**129**	138	–	–
Total bonds	**129**	200	–	–
Total creditors: amounts falling due after more than one year	**3,384**	909	–	–

The bank loans are secured by fixed and floating charges over the assets of certain subsidiary undertakings. Substantially all of the Group's power stations, generating assets and other operating assets are financed under non-recourse facilities.

Preferred equity facility

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

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 new owner of the acquired EME portfolio.

The preference shares entitle the holder to a preferred dividend coupon of USD 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) Limited, 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) Limited's obligations to Mitsui & Co of Japan and Mitsui Power Ventures Limited.

Convertible bonds

3.75% Convertible US Dollar Bonds

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 200p at any time between 2 October 2003 and 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.

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.

Premium on redemption of convertible bonds

Provision is made for the possible premium on redemption of the 2005 and 2023 convertible bonds. This is included within the carrying amount of the bonds. At 31 December 2004, the amount accrued was £1 million (31 December 2003: £4 million). The finance cost charged in the profit and loss account comprises the aggregate of the coupon on the convertible unsecured notes and the proportion of the premium on redemption that relates to the financial year.

21 PROVISIONS FOR LIABILITIES AND CHARGES

a) The Group

	Deferred tax £m	**Rationalisation and restructuring £m**	**Other £m**	**Total £m**
At 1 January 2004	205	9	24	238
On acquisition of subsidiary undertakings	130	–	17	147
Charged to profit and loss	15	–	1	16
Credited to profit and loss	(3)	(1)	–	(4)
Transfer to corporation tax	(2)	–	–	(2)
Foreign exchange	9	–	–	9
At 31 December 2004	**354**	**8**	**42**	**404**

The majority of the rationalisation and restructuring provision relates to liabilities in respect of onerous property leases and employee-related compensation. Other provisions primarily comprise amounts provided for long service and annual leave liabilities and for mine site restoration. These liabilities are not expected to arise in the short-term.

b) The Company	**Deferred tax £m**	**Rationalisation and restructuring £m**	**Total £m**
At 1 January 2004	30	8	38
Credited to the profit and loss account	(1)	(1)	(2)
At 31 December 2004	**29**	**7**	**36**

22 DEFERRED TAXATION

Deferred taxation accounted for in the consolidated balance sheet and the potential amounts of deferred taxation are:

	31 December 2004 £m	31 December 2003 £m
Full potential deferred tax liabilities		
Tangible fixed assets accelerated capital allowances	**(297)**	(175)
Other timing differences	**(108)**	(21)
Dividends of overseas subsidiary undertakings	**(16)**	(16)
Total gross deferred tax liabilities	**(421)**	(212)
Less: deferred tax liabilities not provided	**–**	–
Total deferred tax liabilities provided	**(421)**	(212)
Full potential deferred tax assets		
Provisions	**8**	3
Tax losses	**166**	86
Other timing differences	**20**	35
Total gross deferred tax assets	**194**	124
Less: deferred tax assets not recognised	**(127)**	(117)
Total deferred tax asset recognised	**67**	7
Net deferred tax liability recognised	**(354)**	(205)

Deferred tax assets would be offset against suitable taxable profits when they arise.

23 SHARE CAPITAL

	Authorised Ordinary Shares of 50p	**£m**	**Issued and fully paid Ordinary Shares of 50p**	**£m**
At 1 January 2004	1,700,000,000	850	1,107,091,994	554
Increase in authorised share capital	566,000,000	283	–	–
Issue of shares	–	–	365,540,834	183
Issue of shares under the Sharesave Scheme	–	–	33,077	–
Issue of shares under Executive Share Option Scheme	–	–	603,161	–
At 31 December 2004	**2,266,000,000**	**1,133**	**1,473,269,066**	**737**

Rights Issue
The Company's Rights Issue closed on 14 September 2004. A total of 366 million Ordinary Shares were issued at 82p per share in a 33 for 100 Rights Issue. Of the total £286 million raised net of £14 million expenses, £183 million was credited to share capital and £103 million to the share premium account.

Deferred Shares
The Company has 21 Deferred Shares of 1 pence each in issue. These shares were issued to ensure the demerger was effected as efficiently as possible. The holders of Deferred Shares have no rights to receive dividends or to attend or vote at any general meeting.

Unclassified Share
Further to the redemption of the Special Share in August 2000, the Company's authorised share capital includes one unclassified share of £1.

Notes to the accounts continued

23 SHARE CAPITAL continued

Employee Share Plans

a) Share Options Plans

The Company operates the following employee share plans for which shares may be issued by the Company out of authorised but unissued share capital upon exercise of options: the 2002 Performance Share Plan; the UK Approved and Unapproved Executive Share Option Plans; the Global Executive Share Option Plan; the UK Approved Sharesave Plan and the Global Sharesave Plan. The UK Approved Sharesave Plan and the Global Sharesave Plan are savings related and enable employees to invest up to a maximum of £250 per month.

		Number of Ordinary Shares (millions)			
Note		Sharesave Schemes	Executive Share Option Schemes	Performance Share Plan	Total
i)	Outstanding at 1 January 2004	6.0	22.7	3.8	32.5
	Adjusted post Rights Issue	0.3	3.3	0.5	4.1
	Granted	–	6.4	–	6.4
	Exercised (ii)/lapsed	(0.3)	(2.7)	–	(3.0)
i)	**Total options outstanding at 31 December 2004**	**6.0**	**29.7**	**4.3**	**40.0**

			Number of Ordinary Shares	
i) Options outstanding	**Option price**	**Date exercisable**	**31 December 2004**	31 December 2003
Sharesave Schemes	250.00p	2003	–	775
	188.00p	2004	–	12,159
	167.37p	2006	10,082	8,976
	178.06p	2004	7,496	6,780
	178.06p	2006	6,631	7,592
	80.12p	2005	1,100,049	1,076,670
	80.12p	2007	2,693,549	2,492,950
	97.93p	2006	119,227	291,557
	97.93p	2008	72,817	216,667
	70.33p	2006	888,915	875,724
	70.33p	2008	780,259	748,259
	97.93p	2006	128,354	118,400
	97.93p	2008	156,103	151,834
Executive Share Option Schemes	297.94p	1996-2003	–	52,935
	336.21p	1997-2004	–	101,858
	272.55p	1998-2005	294,581	290,736
	287.76p	1999-2006	489,158	472,639
	343.73p	2000-2007	574,892	555,541
	313.92p	2001-2008	776,425	761,052
	331.42p	2002-2007	–	33,206
	277.55p	2003-2010	2,864,320	2,689,810
	209.22p	2004-2011	2,044,424	1,935,593
	193.19p	2004-2011	186,197	165,778
	174.50p	2005-2012	4,050,234	4,038,393
	62.32p	2006-2013	11,354,245	11,609,290
	123.53p	2007-2014	7,136,359	–
Performance Share Plan 2002	74.79p	2005-2006	4,276,215	3,807,057
Total options outstanding			**40,010,532**	32,522,231

ii) Options exercised (pre Rights Issue)	**Option price**	**Number of options**	**Nominal value £**	**Consideration £**
Executive Share Option Schemes	70.00p	603,161	301,580	422,213
Sharesave Schemes	90.00p	28,275	14,138	25,448
	79.00p	3,493	1,746	2,759
Total options exercised during the year		**634,929**	**317,464**	**450,420**

b) 2002 Performance Share Plan

At the AGM in May 2002, shareholders approved the establishment of the 2002 Performance Share Plan. In respect of the 2003 award, the Company granted to the Trustee an option to acquire 3,807,057 Ordinary Shares in the Company at an option price of 84 pence per share. Following the Rights Issue the number of shares under option was increased to 4,276,215 and the option price was adjusted to 74.79 pence per share. This option can only be exercised to the extent required to satisfy conditional awards made on 10 March 2003 under the Performance Share Plan. These conditional awards can only vest after the end of the relevant performance period and only to the extent to which the performance conditions have been achieved. The performance period ends on 31 December 2005. No shares were released in respect of this share plan during 2003.

c) Managers' share bonus arrangements

During 2004 a total of 571,710 shares in International Power were acquired in respect of a project incentive arrangement for staff (excluding Executive Directors) for a consideration of £887,497. These shares have been placed in an Employee Share Ownership Trust.

d) Employee Share Schemes

The Group takes advantage of the exemption granted under UITF 17 (revised) (Employee Share Schemes) whereby no compensation expense need be recorded for SAYE employee schemes.

24 RESERVES

a) The Group	**Share capital £m**	**Share premium account £m**	**Capital redemption reserve £m**	**Capital reserve £m**	**Profit and loss account £m**	**Total shareholders' funds – equity £m**
At 1 January 2004 – as previously stated	554	289	145	422	113	1,523
Prior year adjustment	–	–	–	–	(2)	(2)
At 1 January 2004 – restated	554	289	145	422	111	1,521
Rights Issue	183	103	–	–	–	286
Profit for the financial year	–	–	–	–	94	94
Exchange differences on retranslation of net investments	–	–	–	–	(39)	(39)
Dividend proposed	–	–	–	–	(37)	(37)
At 31 December 2004	**737**	**392**	**145**	**422**	**129**	**1,825**

b) The Company	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
At 1 January 2004 – as previously stated	554	289	145	415	245	1,648
Prior year adjustment	–	–	–	–	(2)	(2)
At 1 January 2004 – restated	554	289	145	415	243	1,646
Rights Issue	183	103	–	–	–	286
Profit for the financial year	–	–	–	–	83	83
Dividend proposed	–	–	–	–	(37)	(37)
At 31 December 2004	**737**	**392**	**145**	**415**	**289**	**1,978**

The share premium account, capital redemption reserve and capital reserve are not distributable.

The application of UITF 38 (Accounting for ESOP trusts) has required the investment in International Power's own shares to be reclassified in the balance sheet as a deduction from shareholders' funds.

A number of International Power plc Ordinary Shares are held in Employee Share Ownership Trusts (ESOTs). These shares are held by the ESOTs to meet awards made under a number of employee share plans (see note 23). At 31 December 2004, the ESOTs held a total of 3,607,734 International Power plc Ordinary Shares (2003: 3,003,312). At 31 December 2004, the market value of these shares was £5,492,775 (2003: £3,709,090). The maximum number of shares required to meet all outstanding awards (assuming full vesting of those awards) as at 31 December 2004 was 7,772,077 (2003: 4,649,228).

The cumulative amount of goodwill set off to reserves prior to the adoption of FRS 10 on acquisition of subsidiary undertakings is £95 million (31 December 2003: £95 million). £124 million (2003: £143 million) of the Company's profit and loss reserve is not distributable as it arose from unrealised gains on intra-group transfers.

Notes to the accounts continued

25 NOTES TO THE CASH FLOW STATEMENT

Note	a) Reconciliation of operating profit to net cash inflow from operating activities	Year ended 31 December 2004 £m	Year ended 31 December 2003 £m
	Operating profit/(loss)	**121**	(279)
	Impairment	**–**	404
	Release of guarantee on sale of Elcogas	**(11)**	–
		110	125
14	Depreciation	**85**	108
	Other amortisation	**–**	1
	Movement in working capital:		
	Increase in stocks	**(6)**	(5)
	Decrease/(increase) in debtors	**8**	(25)
	Increase/(decrease) in creditors	**1**	(13)
	Decrease in provisions	**–**	(7)
	Net cash inflow from operating activities	**198**	184

b) Dividends received from joint ventures and associates	2004 £m	2003 £m
Dividends from joint ventures	**10**	10
Dividends from associates	**59**	91
Total dividends received from joint ventures and associates	**69**	101

To aid comparability dividends from KAPCO have been included in the share of associates' dividends for 2003 in the above table.

c) Returns on investments and servicing of finance	2004 £m	2003 £m
Other interest and dividends received	**29**	26
Debt and loan interest paid	**(105)**	(105)
Debt issue costs paid	**(30)**	(3)
Dividends paid to minority shareholders	**(3)**	(2)
Returns on investments and servicing of finance – ordinary	**(109)**	(84)
Returns on investments and servicing of finance – exceptional:		
Refinancing and swap termination costs	**(26)**	(4)
Net cash outflow from returns on investments and servicing of finance	**(135)**	(88)

d) Capital expenditure and financial investment	2004 £m	2003 £m
Purchase of tangible fixed assets:		
Maintenance	**(59)**	(64)
Growth	**(158)**	(57)
Purchase of tangible fixed assets	**(217)**	(121)
Receipts from sale of fixed assets	**–**	1
Compensation for long-term performance shortfalls	**5**	56
Investment in joint ventures and associates	**(64)**	(8)
Return on investment in joint venture	**4**	–
Other financial investment	**(1)**	(2)
Net cash outflow from capital expenditure and financial investment – ordinary	**(273)**	(74)
Net cash outflow from capital expenditure and financial investment – exceptional:		
Receipts from sale of fixed asset investment	–	11
Net cash outflow from capital expenditure and financial investment	**(273)**	(63)

Note	e) Acquisitions and disposals		
26	Purchase of the EME portfolio	**(1,060)**	–
26	Purchase of Turbogás	**(135)**	–
26	Net cash acquired with subsidiaries	**52**	–
	Acquisitions and disposals – ordinary	**(1,143)**	–
	Receipts from partial disposal of investment in HUBCO	**17**	21
	Receipts from sale of subsidaries	**–**	3
	Acquisitions and disposals – exceptional	**17**	24
	Net cash (outflow)/inflow from acquisitions and disposals	**(1,126)**	24

	f) Financing activities		
23	Share buyback	**–**	(13)
	Proceeds from share issue	**286**	–
	Funding from minorities	**165**	–
27	Bank loans	**617**	(247)
	Net cash inflow/(outflow) from financing activities	**1,068**	(260)

26 ACQUISITIONS

a) Edison Mission Energy

On 17 December 2004, International Power completed the acquisition of the international generation portfolio of Edison Mission Energy (the EME portfolio), in a 70:30 partnership with Mitsui Power Ventures Limited, a subsidiary of Mitsui & Co of Japan, for a consideration of US$2,079 million. The acquisition method of accounting has been adopted for the acquisition and the results have been consolidated since 17 December 2004. The completed acquisition includes all the EME portfolio, as detailed in the Shareholders' Circular dated 5 November 2004, except for: CBK, a 396 MW (net) hydro scheme in the Philippines; Tri Energy, a 175 MW (net) gas fired plant in Thailand and Doga, a 144 MW (net) gas fired plant in Turkey.

The details of the transaction, results and provisional fair value adjustments arising from the change in ownership are shown below:

	Book value £m	Fair value adjustments: UK GAAP and accounting policy alignment £m	Fair value adjustments: Revaluations £m	Fair value to the Group £m
Intangible fixed assets	169	(169)	–	–
Tangible fixed assets	1,457	(162)	196	1,491
Investments	494	36	114	644
Stocks	9	–	–	9
Debtors: amounts due within one year	78	(11)	–	67
Debtors: amounts due after more than one year	15	28	37	80
Current investments	98	–	–	98
Cash at bank and in hand	31	–	–	31
Creditors: amounts falling due within one year	(93)	2	–	(91)
Creditors: amounts falling due after more than one year	(1,269)	39	98	(1,132)
Provisions for liabilities and charges	(207)	149	(62)	(120)
Minority shareholders' interests	(2)	(1)	(1)	(4)
Total assets acquired	780	(89)	382	1,073
Consideration (including acquisition costs)				**1,073**

Satisfied by:	
Cash consideration paid at balance sheet date	1,060
Cash consideration not yet paid at balance sheet date	13
Cash at bank and in hand acquired	(31)
Net cash outflow to the Group	**1,042**

Notes to the accounts continued

26 ACQUISITIONS continued

a) Edison Mission Energy continued

The EME portfolio generated a net cash inflow from operating activities of £7 million from 17 December 2004 to 31 December 2004.

Mitsui Power Ventures Limited has a 30% minority interest in the total assets acquired net of the acquisition debt used to acquire the EME portfolio.

EME prepares its accounts under US GAAP. The fair value adjustments for the alignment of accounting policies reflect the adoption of Group accounting policies, principally in respect of eliminating historical acquisition goodwill, eliminating historical step up adjustments to the carrying value of tangible fixed assets at acquisition, capitalisation and depreciation of outage costs, changing the asset recognition of certain power plants which sell their output under long-term PPAs from tangible fixed assets to finance lease debtors, taking derivatives for hedging off balance sheet and providing for deferred tax on timing differences rather than temporary differences.

The revaluation adjustments are made to reflect the fair value of the net assets acquired and principally represent for tangible fixed assets the recognition of plant at the lower of depreciated replacement cost and value in use, the revaluation of debt instruments to market value, the recognition of unprovided amounts in respect of onerous contracts and other liabilities. The revaluation of investments comprises the Group's share of those revaluation adjustments outlined above applicable to the joint ventures and associates in which the Group has acquired an interest. No goodwill arises on the acquisition.

Due to the proximity of the acquisition to the balance sheet date, the fair values attributed to the EME portfolio are provisional and may be revised.

The unaudited results of the EME portfolio, based on EME's accounting policies under US GAAP prior to the acquisition and excluding fair value adjustments arising from the acquisition, for the year ended 31 December 2003 and from 1 January 2004 to 16 December 2004 are shown below, expressed in US dollars. Therefore the numbers presented do not take account of the impact of the adjustments outlined above.

Results	Period from 1 January 2004 to 16 December 2004 (unaudited) US$m	Year ended 31 December 2003 (unaudited) US$m
Turnover	**666**	646
Operating profit	**198**	163
Profit on ordinary activities before taxation	**233**	162
Taxation	**(31)**	(40)
Profit on ordinary activities after taxation	**202**	122
Minority interests	**(6)**	(6)
Profit for the financial year	**196**	116

b) Turbogás

On 4 November 2004, International Power completed the acquisition of a 75% shareholding in the Turbogás 990 MW CCGT power station in Portugal, for a consideration of €195 million. The results of Turbogás have been consolidated from this date using the acquisition method.

The details of the transaction and fair value adjustments arising from the change in ownership are shown below:

		Fair value adjustments		
	Book value £m	UK GAAP and accounting policy alignment £m	Revaluations £m	Fair value to the Group £m
Tangible fixed assets	328	(323)	–	5
Stocks	6	–	–	6
Debtors: amounts due within one year	13	11	(2)	22
Debtors: amounts due after more than one year	–	432	66	498
Cash at bank and in hand	21	–	–	21
Creditors: amounts falling due within one year	(35)	–	–	(35)
Creditors: amounts falling due after more than one year	(320)	–	–	(320)
Provisions for liabilities and charges	–	–	(27)	(27)
Total assets acquired	13	120	37	170
Minority shareholders' interests				(35)
Share of assets acquired				**135**

Satisfied by:	
Cash consideration	135
Cash at bank and in hand acquired	(21)
Net cash outflow to the Group	**114**

In the period from 4 November 2004 to 31 December 2004, Turbogás contributed £7 million to the Group's net operating cash flows, paid £2 million in respect of net returns on investments and servicing of finance and paid £1 million in respect of taxation.

Turbogás prepares its accounts under Portuguese GAAP. The fair value adjustments for the alignment of accounting policies reflect the adoption of Group accounting policies, principally in respect of changing the asset recognition of the power plant, which sells its output under a long-term PPA, from a tangible fixed asset to a finance lease debtor.

The revaluation adjustments are made to reflect the fair value of the net assets acquired and principally represent the revaluation of the finance lease debtor to fair value and the recognition of unprovided amounts in respect of tax liabilities. No goodwill arises on the acquisition.

In the year ended 31 December 2003 the unaudited profit after tax of Turbogás (based on its accounting policies prior to the acquisition) was £4 million. In the period from 1 January 2004 to 3 November 2004 Turbogás recorded profit after tax of £14 million. No minority interests were reflected in these Turbogás results.

27 NET DEBT

	1 January 2004 £m	Exchange differences £m	On acquisition of subsidiaries (excluding cash) £m	Other non-cash movements £m	Cash flow £m	31 December 2004 £m
Cash						
Cash at bank and in hand	**673**	(11)	–	–	(251)	**411**
Liquid resources						
Current asset investments	**70**	1	98	–	32	**201**
Debt financing						
Loans due within one year	**(531)**	34	(39)	466	(1)	**(71)**
Loans due after more than one year	**(704)**	(5)	(1,330)	(437)	(646)	**(3,122)**
Convertible bonds	**(200)**	13	–	(1)	30	**(158)**
Total debt financing	**(1,435)**	42	(1,369)	28	(617)	**(3,351)**
Total net debt	**(692)**	32	(1,271)	28	(836)	**(2,739)**

28 FINANCIAL INSTRUMENTS

A discussion of the Group's objectives and policies with regard to risk management and the use of financial instruments can be found in the Operating and Financial Review. Financial instruments comprise net debt (see note 27) together with other instruments deemed to be financial instruments including long-term debtors and creditors and provisions for liabilities and charges.

a) Short-term debtors and creditors

Short-term debtors and creditors have been excluded from all the following disclosures other than the currency risk disclosures as relevant. The fair value of short-term debtors and creditors approximates to the carrying value because of their short maturity. In accordance with FRS 13 (Derivatives and Other Financial Instruments), deferred tax has been excluded from the following disclosures.

b) Interest rate risk profile of financial liabilities

The interest rate profile of the financial liabilities of the Group as at 31 December 2004 was:

	31 December 2004			31 December 2003		
Currency	**Total financial liabilities £m**	**Floating rate financial liabilities £m**	**Fixed rate financial liabilities £m**	Total financial liabilities £m	Floating rate financial liabilities £m	Fixed rate financial liabilities £m
Sterling	**542**	**22**	**520**	91	7	84
US dollar	**1,171**	**706**	**465**	767	128	639
Australian dollar	**1,330**	**638**	**692**	554	117	437
Euro	**424**	**388**	**36**	–	–	–
Czech koruna	**52**	**12**	**40**	46	9	37
Others	**15**	**1**	**14**	15	–	15
Total	**3,534**	**1,767**	**1,767**	1,473	261	1,212

All the Group's creditors falling due within one year (other than bank and other borrowings) are excluded from the above tables either due to the exclusion of short-term items or because they do not meet the definition of financial liabilities. There are no material financial liabilities on which interest is not paid.

The effect of the Group interest swaps was to classify £692 million of floating rate Australian dollar borrowings, £103 million of floating rate US dollar borrowings, £71 million of floating rate sterling borrowings, £40 million of floating rate Czech koruna borrowings and £36 million of floating rate Euro borrowings all at fixed rate in the above table.

In addition to the above, the Group's provisions are considered to be floating rate financial liabilities as, in establishing the provisions, the cash flows have been discounted.

The floating rate financial liabilities comprise bank borrowings bearing interest rates fixed in advance for various time periods up to 12 months by reference to LIBOR for that time period. The figures in the following tables take into account interest rate and currency swaps used to manage the interest rate and currency profile of financial liabilities and financial assets.

Notes to the accounts continued

28 FINANCIAL INSTRUMENTS continued

b) Interest rate risk profile of financial liabilities continued

Currency	31 December 2004 Fixed rate financial liabilities Weighted average interest rate %	Weighted average period for which rate is fixed Years	31 December 2003 Fixed rate financial liabilities Weighted average interest rate %	Weighted average period for which rate is fixed Years
Sterling	**8.74**	**15**	7.09	5
US dollar	**5.82**	**11**	6.16	2
Australian dollar	**7.92**	**4**	8.01	6
Euro	**6.82**	**3**	–	–
Czech koruna	**3.98**	**2**	3.98	3
Others	**7.25**	**2**	7.25	3
Weighted average	**7.49**	**9**	6.84	4

c) Interest rate risk profile of financial assets

The Group had the following financial assets as at 31 December 2004:

	31 December 2004			31 December 2003		
Currency	Total £m	Floating rate financial assets £m	Fixed rate financial assets £m	Total £m	Floating rate financial assets £m	Fixed rate financial assets £m
Sterling	**246**	**246**	**–**	412	412	–
US dollar	**139**	**139**	**–**	147	147	–
Australian dollar	**208**	**198**	**10**	157	157	–
Euro	**578**	**104**	**474**	2	2	–
Czech koruna	**4**	**4**	**–**	21	21	–
Others	**18**	**18**	**–**	7	7	–
Total	**1,193**	**709**	**484**	746	746	–

The cash deposits comprise deposits placed in money market funds, and a variety of investments with maturities up to three months. All investments are in publicly quoted stocks or treasury instruments. Letters of credit totalling £97 million are supported on a cash collateral basis at 31 December 2004.

The above table includes finance lease receivables which are analysed as follows:

	31 December 2004 Fixed rate financial assets Weighted average interest rate %	Weighted average period for which rate is fixed Years	31 December 2003 Fixed rate financial assets Weighted average interest rate %	Weighted average period for which rate is fixed Years
Australian dollar	**7.15**	**3**	–	–
Euro	**7.89**	**14**	–	–
Weighted average	**7.87**	**14**	–	–

d) Currency exposures

As explained on page 29 of the Operating and Financial Review, the Group's objective in managing the currency exposures arising during the normal course of business (in other words, its structural currency exposures) is to fully hedge all known contractual currency exposures, where possible. As at 31 December 2004 and 31 December 2003, these exposures were not considered to be material.

Currency exposures comprise the monetary assets and monetary liabilities of the Group that are not denominated in the operating (or 'functional') currency of the operating unit involved, other than certain non-sterling borrowings treated as hedges of net investments in overseas operations. For major currencies, it is not Group policy to hedge currency translation through forward contracts or currency swaps.

e) Maturity of financial liabilities

The maturity profile of the Group's financial liabilities, other than short-term creditors and accruals, was as follows:

	31 December 2004 £m	31 December 2003 £m
In one year or less, or on demand	**100**	531
In more than one year but not more than two years	**106**	97
In more than two years but not more than five years	**622**	249
In more than five years	**2,706**	596
Total	**3,534**	1,473

f) Borrowing facilities

The Group has substantial borrowing facilities available to it. The undrawn committed facilities available at 31 December 2004 in respect of which all conditions precedent have been met at that date amount to £700 million.

	31 December 2004			31 December 2003	
	Facility £m	**Undrawn £m**	**Available £m**	Undrawn £m	Available £m
US$450 million Corporate revolving credit facility (October 2006)[1]	**234**	**78**	**78**	129	129
US$50 million ANP Funding 1 revolving credit facility (May 2010)	**26**	**18**	**18**	50	–
US$40 million ANP Funding 1 bank support facility (cancelled)	**–**	**–**	**–**	22	–
Czk1,000 million EOP revolving credit facility (May 2007)	**23**	**20**	**20**	22	22
US$488 million Tihama term facility (December 2021)	**254**	**181**	**181**	–	–
AU$92 million Canunda facility (December 2014)	**38**	**12**	**12**	–	–
£30 million Corporate letter of credit facility[2]	**30**	**11**	**11**	1	1
£95 million subsidiary facilities in various currencies	**95**	**66**	**66**	7	3
Total	**700**	**386**	**386**	231	155

1. The drawn element of the US$450 million Corporate revolving credit facility relates to letters of credit issued.

2. These facilities include a £30 million letter of credit facility which becomes committed for any letters of credit that have been drawn. At 31 December 2004, £19 million of letters of credit had been drawn from this facility.

Uncommitted facilities available at 31 December 2004 were:

	31 December 2004			31 December 2003		
Facility	**Total £m**	**Drawn £m**	**Undrawn £m**	Total £m	Drawn £m	Undrawn £m
Bank borrowings and overdraft facilities	**22**	**–**	**22**	25	–	25
ANP Funding 1 working capital facility	**31**	**–**	**31**	–	–	–
£13 million subsidiary facilities in various currencies	**13**	**3**	**10**	5	–	5
	66	**3**	**63**	30	–	30

Bank borrowing facilities are normally reaffirmed by the banks annually although they can theoretically be withdrawn at any time.

g) Fair values of financial assets and liabilities

Set out below is a comparison by category of book values and fair values of all the Group's financial assets and liabilities as at 31 December 2004.

	31 December 2004		31 December 2003	
Primary financial instruments held or issued to finance the Group's operations	**Book value £m**	**Fair value £m**	Book value £m	Fair value £m
Short-term borrowings and current portion of long-term borrowings	**(100)**	**(100)**	(531)	(531)
Long-term borrowings	**(3,434)**	**(3,465)**	(942)	(953)
Cash deposits and current asset investments	**1,193**	**1,193**	746	746

Notes to the accounts continued

28 FINANCIAL INSTRUMENTS continued

g) Fair values of financial assets and liabilities continued

Derivative financial instruments held to manage the interest rate, currency profile and exposure to energy prices	Book value £m	Fair value £m	Gain/ (loss) £m	Year ended 31 December 2004 Gross gain £m	Year ended 31 December 2004 Gross (loss) £m	Year ended 31 December 2003 Gross gain £m	Year ended 31 December 2003 Gross (loss) £m
Interest rate swaps and similar instruments	**–**	**(38)**	**(38)**	**–**	**(38)**	–	(38)
Energy derivatives	**–**	**16**	**16**	**90**	**(74)**	100	(63)

In addition to the above, the Group holds energy derivatives for trading purposes with a book value and fair value of £3 million (gross gain of £37 million, gross loss of £34 million).

The methods and assumptions used to estimate fair values of financial instruments are as follows:

i) For investments of up to three months, trade debtors, other debtors and prepayments, trade creditors, other current liabilities, long-term and short-term borrowings, the book value approximates to fair value because of their short maturity.

ii) The fair value of investments maturing after three months has been estimated using quoted market prices.

iii) The fair value of long-term borrowings and interest rate swaps has been calculated using market prices when available or the net present value of future cash flows arising.

iv) The fair value of the Group's forward exchange contracts, foreign currency swaps and foreign currency options has been calculated using the market rates in effect at the balance sheet dates.

v) The fair value of energy derivatives is measured using value at risk and other methodologies that provide a consistent measure of risk across diverse energy products. Within the above fair values, only the financial assets and liabilities have been marked-to-market as defined by the requirements of the accounting standard.

h) Hedges

As explained on page 29 of the Operating and Financial Review, the Group's policy is to hedge the following exposures:

i) Interest rate risk – using interest rate swaps, options and forward rate agreements.

ii) Structural and transactional currency exposures – using currency borrowings, forward foreign currency contracts, currency options and swaps.

iii) Currency exposures on future expected sales – using currency swaps, forward foreign currency contracts, currency options and swaps.

iv) Energy price fluctuations – using physical hedges through the operation of energy supply and trading activities together with financial products.

Gains and losses on instruments used for hedging are not recognised until the exposure that is being hedged is itself recognised or expires. Unrecognised gains and losses on instruments used for hedging, and the movements therein, are as follows:

	Debt £m	Foreign exchange £m	Energy derivatives £m	Total net gain/(loss) £m
Unrecognised gains and (losses) on hedges at 1 January 2004	(38)	–	37	(1)
Gains and (losses) arising in previous years that were recognised in the year ended 31 December 2004	(15)	–	33	18
Gains and (losses) arising in previous years that were not recognised in the year ended 31 December 2004	(23)	–	4	(19)
Gains and (losses) arising in the year ended 31 December 2004 that were not recognised in the year	(15)	–	12	(3)
Unrecognised gains and (losses) on hedges at 31 December 2004	(38)	–	16	(22)
Of which:				
Gains and (losses) expected to be recognised in the year ended 31 December 2005	(2)	–	16	14
Gains and (losses) expected to be recognised in the year ended 31 December 2006 or later	(36)	–	–	(36)

The hedging of structural currency exposures associated with foreign currency net investments is recognised in the consolidated balance sheet.

29 COMMITMENTS

a) Lease and capital commitments		Group 31 December 2004 £m	Group 31 December 2003 £m	Company 31 December 2004 £m	Company 31 December 2003 £m
Capital commitments: contracted but not provided		**182**	75	**–**	–
Property leases (annual commitment):	expiring within one year	**1**	1	**–**	–
	expiring between one and five years	**–**	–	**–**	–
	expiring after five years	**5**	5	**5**	5

b) Fuel purchase and transportation commitments

At 31 December 2004, the Group's subsidiaries had contractual commitments to purchase and/or transport coal and fuel oil. Based on contract provisions, which consist of fixed prices, subject to adjustment clauses in some cases, these minimum commitments are currently estimated to aggregate £107 million (2003: £117 million) expiring within one year, £195 million (2003: £90 million) expiring between one and five years and £98 million (2003: £89 million) expiring after more than five years.

30 CONTINGENT LIABILITIES AND CONTINGENT ASSETS

a) Legal proceedings against the Company

The Company is aware of the following matters, which involve or may involve legal proceedings against the Group:

i) Claims and potential claims by or on behalf of current and former employees, including former employees of the Central Electricity Generating Board (CEGB) and contractors in respect of industrial illness and injury.

RWE NPower has agreed to indemnify International Power on an after-tax basis to the extent of 50% of any liability that the Company may incur whether directly or indirectly as a consequence of those proceedings to the extent such liability is not insured by Electra Insurance Limited.

ii) In 1994 separate complaints were made by the National Association of Licensed Opencast Operators (NALOO) and the South Wales Small Miners Association (SWSMA) to the European Commission against the Company, PowerGen plc, British Coal Corporation and HM Government. The complaint alleges violations of EU Competition law arising out of the coal purchasing arrangements entered into by the CEGB prior to 1 April 1990 and requests the Commission to find that the CEGB's practices violated EU law. NALOO and SWSMA allege that such a finding would be grounds for a claim for damages in the English courts by their respective members. Appeals against the Commission findings were brought by NALOO and SWSMA. The SWSMA appeal was initially ruled out of time, but on appeal a faction was allowed to proceed. Progress with this claim will be influenced by the outcome of the NALOO appeal. At first instance, the European Court ruled that the Commission is under an obligation to investigate the complaint by NALOO. The Company, PowerGen plc, British Coal Corporation and the Commission appealed against the ruling to the European Court of Justice which delivered a judgement on 2 October 2003 for the main part dismissing the appeal. In its judgement, the Court decided that the Commission has the power to investigate and the matter is now with the Commission for consideration. It is not practicable to estimate legal costs or possible damages at this stage. The Commission ruled on the complaint in 1998 and did not make any findings against the Company.

RWE NPower has agreed to indemnify International Power on an after-tax basis to the extent of 50% of any liability that the Company may incur whether directly or indirectly as a consequence of those proceedings.

The Directors are of the opinion, having regard to legal advice received, the Group's insurance arrangements and provisions carried in the balance sheet, that it is unlikely that the matters referred to above will, in aggregate, have a material effect on the Group's financial position, results of operations or liquidity.

b) Taxation

The Company is aware of a number of issues which are, or may be, the subject of disputes with the tax authorities in the territories where the Group has operations. The Directors are of the opinion, having regard to the professional advice received, that adequate provision has been made for the settlement of any taxation liabilities that might arise.

c) Bonds and guarantees

Various growth and expansion projects are supported by bonds, letters of credit and guarantees issued by the Company totalling £459 million.

Energy trading activities relating to merchant plant are supported by letters of credit and guarantees totalling £111 million.

d) Rugeley compensation

The amount of compensation to be received by Rugeley, in respect of the termination of the tolling agreement with TXU Europe, has been agreed with the administrators of TXU Europe. Rugeley expects to receive compensation of between £73 million and £84 million. A first dividend distribution (estimated at £50 million) is anticipated at the end of March 2005, and the remainder later in 2005 and early 2006. The majority of this settlement will be used to repay project debt at Rugeley.

31 RELATED PARTY TRANSACTIONS

Operations and maintenance contracts

In the course of normal operations, the Group has contracted on an arms-length basis to provide power station operation and maintenance services to joint ventures and associated undertakings. During the year the Group derived income of £37 million (year ended 31 December 2003: £37 million) from these arrangements. Included in creditors is £7 million (2003: nil) in relation to these contracts.

32 POST BALANCE SHEET EVENTS

In February 2005, International Power completed the acquisition of a 40% shareholding in Uch, a 586 MW gas fired plant in Pakistan. The entire output from the plant is sold to WAPDA under a long-term PPA until 2023.

Notes to the accounts continued

33 DETAILS OF PRINCIPAL SUBSIDIARY UNDERTAKINGS, ASSOCIATES AND JOINT VENTURES

Subsidiary undertakings

Name and nature of business	Country of incorporation and registration	Type of share	Group effective shareholding
Gippsland Power Pty Limited (power generation) *	Australia	Ordinary Shares	70%
Hazelwood Power Partnership (power generation) *	Australia	Partners' Capital	92%
Latrobe Power Partnership (power generation) *	Australia	Partners' Capital	70%
Perth Power Partnership (power generation) *	Australia	Partners' Capital	49%
Synergen Power Pty Limited (power generation) *	Australia	Ordinary Shares	100%
Canunda Power Pty Limited *	Australia	Ordinary Shares	100%
Valley Power Pty Limited (power generation) *	Australia	Ordinary Shares	70%
International Power (Cayman) Limited (financing company)	Cayman Islands **	Ordinary Shares	100%
Elektrárny Opatovice AS (power generation) *	Czech Republic	Ordinary Shares	99%
Deeside Power Development Company Limited (power generation)	England and Wales	Ordinary Shares	100%
First Hydro Company (power generation) *	England and Wales	Ordinary Shares	70%
First Hydro Finance plc (financing company) *	England and Wales	Ordinary Shares	70%
IPM Eagle LLP (investment holding company) *	England and Wales	Partners' Capital	70%
Normanglade 4 LLP (financing company) *	England and Wales	Partners' Capital	70%
Pelican Point Power Limited (power generation) *	England and Wales ‡	Ordinary Shares	100%
Rugeley Power Limited (power generation)	England and Wales	Ordinary Shares	100%
IPR Insurance Company Limited (insurance captive) *	Guernsey	Ordinary Shares	100%
International Power (Jersey) Limited (financing company)	Jersey **	Ordinary Shares	100%
Al Kamil Power Company SAOG (power generation) *	Oman	Ordinary Shares	65%
Turbogás – Produtora Energetica S.A *	Portugal	Ordinary Shares	75%
Tihama Power Generation Company Limited (power generation) *	Saudi Arabia	Ordinary Shares	60%
Electro Metalúrgica del Ebro SL (power generation) *	Spain	Ordinary Shares	64%
Ibérica de Enérgías SL (power generation) *	Spain	Ordinary Shares	70%
Thai National Power Company Limited (power generation) *	Thailand	Ordinary Shares	100%
ANP Bellingham Energy Company, LLC (power generation) *	US	Ordinary Shares	100%
ANP Blackstone Energy Company, LLC (power generation) *	US	Ordinary Shares	100%
ANP Funding 1 LLC (financing company) *	US	Ordinary Shares	100%
Hays Energy Limited Partnership (power generation) *	US	Partners' Capital	100%
Midlothian Energy Limited Partnership (power generation) *	US	Partners' Capital	100%
Milford Power Limited Partnership (power generation) *	US	Partners' Capital	100%

All subsidiary undertakings operate in their country of incorporation, except as indicated below. All subsidiary undertakings have 31 December year ends. The Group also has a number of overseas branch offices.

* Held by an intermediate subsidiary undertaking

** Operates in the UK

‡ Operates in Australia

Associates

Name and nature of business	Country of incorporation, registration and operation	Accounting period end	Type of share	Group effective shareholding
Derwent Cogeneration Limited (power generation) *	England and Wales	31 March	Ordinary Shares	23%
PT Paiton Energy (power generation) *	Indonesia	31 December	Ordinary Shares	31%
ISAB Energy Srl (power generation) *	Italy	31 December	Ordinary Shares	34%
Malakoff Berhad (power generation) *	Malaysia	31 August	Ordinary Shares	18%
Kot Addu Power Company Limited (power generation) *	Pakistan	30 June	Ordinary Shares	36%
Uch Power Ltd	Pakistan	31 December	Ordinary Shares	40%
The Hub Power Company Limited (power generation) *	Pakistan	30 June	Ordinary Shares	17%
Carbopego – Abastecimento de Combustiveis, SA (fuel supplies) *	Portugal	31 December	Ordinary Shares	33%
Pegop-Energia Electrica, SA (power station operations) *	Portugal	31 December	Ordinary Shares	45%
Tejo Energia – Producao e Distribuicao de Energia Electrica, SA (power generation) *	Portugal	31 December	Ordinary Shares	45%
Uni-Mar Enerji Yatirimlari AS (power generation) *	Turkey	31 December	Ordinary Shares	33%
Arabian Power Company PJSC (power generation) *	UAE	31 December	Ordinary Shares	20%
Shuweihat CMS International Power Company PJSC (power generation) *	UAE	31 December	Ordinary Shares	20%

Joint ventures

Name and nature of business	Country of incorporation, registration and operation	Accounting period end	Type of share	Group effective shareholding
South East Australia Pty Limited (gas pipeline) *	Australia	30 June	Ordinary Shares	33%
EcoElectrica LP (power generation) *	Bermuda▲	31 December	Partners' Capital	35%
Pražská Teplárenská AS (power generation) *	Czech Republic	31 December	Ordinary Shares	49%
Hartwell Energy Limited Partnership (power generation) *	US	31 December	Partners' Capital	50%
Oyster Creek Limited Partnership (power generation) *	US	31 December	Partners' Capital	50%

International Power continues to equity account for Malakoff and The Hub Power Company, despite its shareholdings being less than 20%, as it continues to exert significant influence over both assets. At both HUBCO and Malakoff, International Power continues to have significant board representation.

* Held by an intermediate subsidiary undertaking

▲ Operates in Puerto Rico

Five-year financial summary

CONSOLIDATED PROFIT AND LOSS ACCOUNTS	**Year ended 31 December 2004 £m**	Year ended 31 December 2003 £m	Year ended 31 December 2002 £m	Year ended 31 December 2001 £m	Year ended 31 December 2000 International Power Proforma £m	Nine months ended 31 December 2000 £m
Turnover: Group and share of joint ventures' and associates'	**1,267**	1,273	1,129	1,103	1,002	2,340
Less: share of joint ventures' and associates' turnover	**(499)**	(421)	(412)	(546)	(606)	(483)
Group turnover	**768**	852	717	557	396	1,857
Net operating costs – ordinary	**(658)**	(727)	(509)	(392)	(323)	(1,680)
Net operating costs – exceptional	**11**	(404)	(103)	(2)	(71)	(227)
Operating profit/(loss)	**121**	(279)	105	163	2	(50)
Share of operating profit of joint ventures and associates – ordinary	**177**	127	149	161	148	110
Share of operating profit of joint ventures and associates – exceptional	**–**	35	–	–	–	–
Income from investments – ordinary	**–**	33	31	–	–	–
Income from investments – exceptional	**–**	–	42	–	–	–
Non-operating exceptional items	**4**	27	–	32	(99)	(105)
Net interest payable and similar charges	**(123)**	(111)	(132)	(123)	(104)	(111)
Net interest payable and similar charges – exceptional	**(31)**	(16)	–	(29)	–	–
Profit/(loss) on ordinary activities before taxation	**148**	(184)	195	204	(53)	(156)
Profit on ordinary activities before taxation and exceptional items	**164**	174	256	203	117	176
Exceptional items	**(16)**	(358)	(61)	1	(170)	(332)
Taxation	**(45)**	(28)	(76)	(64)	(37)	(21)
Profit/(loss) after taxation	**103**	(212)	119	140	(90)	(177)
Minority interests	**(9)**	(7)	(6)	(2)	(6)	(4)
Profit/(loss) for the financial year	**94**	(219)	113	138	(96)	(181)
Ordinary dividends	**(37)**	–	–	–	–	–
Demerger dividend	**–**	–	–	–	(392)	(392)
Retained profit/(loss)	**57**	(219)	113	138	(488)	(573)

Basic earnings/(loss) per share:						
Excluding exceptional items	**8.3p**	9.1p	13.8p	11.0p	5.9p	12.1p
Including exceptional items	**7.2p**	(17.6)p	9.0p	11.0p	(7.7)p	(14.5)p
Diluted earnings/(loss) per share including exceptional items	**7.1p**	(17.6)p	9.0p	10.7p	(7.7)p	(14.5)p

The above five-year table sets out the consolidated numbers for International Power plc (formerly National Power PLC) except for the nine months ended 31 December 2000 which are those of National Power PLC.

The earnings/(loss) per share, in the above table, have been adjusted for the Rights Issue during the second half of 2004. See note 12.

The table below represents the historical summary of the International Power business:

INTERNATIONAL POWER Pre-exceptional items	**Year ended 31 December 2004 £m**	Year ended 31 December 2003 £m	Year ended 31 December 2002 £m	Year ended 31 December 2001 £m	Year ended 31 December 2000 Proforma £m	Nine months ended 31 December 2000 £m
Turnover: Group and share of joint ventures and associates	**1,267**	1,273	1,129	1,103	1,002	762
Less: share of joint ventures' and associates' turnover	**(499)**	(421)	(412)	(546)	(682)	(478)
Group turnover	**768**	852	717	557	320	284
Net operating costs	**(658)**	(727)	(509)	(392)	(247)	(225)
Operating profit	**110**	125	208	165	73	59
Share of operating profit of joint ventures and associates	**177**	127	149	161	148	108
Income from investments	**–**	33	31	–	–	–
Profit before interest and taxation	**287**	285	388	326	221	167

CONSOLIDATED BALANCE SHEETS

	As at 31 December 2004 £m	As at 31 December 2003 (restated) £m	As at 31 December 2002 (restated) £m	As at 31 December 2001 £m	As at 31 December 2000 £m
Fixed assets	**4,907**	2,585	2,981	3,152	3,028
Stocks	**87**	65	55	25	21
Debtors	**815**	160	134	158	132
Investments	**201**	70	43	47	–
Cash at bank and in hand	**411**	673	799	596	107
Current assets	**1,514**	968	1,031	826	260
Creditors: amounts falling due within one year	**(571)**	(846)	(1,405)	(615)	(358)
Net current assets/(liabilities)	**943**	122	(374)	211	(98)
Total assets less current liabilities	**5,850**	2,707	2,607	3,363	2,930
Creditors: amounts falling due after more than one year	**(3,384)**	(909)	(583)	(1,436)	(1,101)
Provisions for liabilities and charges	**(404)**	(238)	(255)	(230)	(243)
Net assets	**2,062**	1,560	1,769	1,697	1,586
Net debt	**2,739**	692	812	897	1,071
Gearing	**133%**	44%	46%	53%	68%
Debt capitalisation	**57%**	31%	31%	35%	40%
Capital expenditure (including acquisitions)	**1,469**	130	319	467	566

Additional information in respect of US GAAP

This information is derived from the financial statements that will be included in the Company's report on Form 20-F for the year ended 31 December 2004, which will be filed with the US Securities and Exchange Commission. In the summary US GAAP reconciliations presented below, the adjustments are presented net of any minority interest effect and do not include certain additional classification disclosures in respect of minority interest that will be included in the Form 20-F. Form 20-F should be referred to for a complete discussion of the significant differences between UK GAAP and US GAAP that affect the Group.

EFFECT ON PROFIT/(LOSS) AFTER TAX (NET INCOME) OF SIGNIFICANT DIFFERENCES BETWEEN UK AND US GAAP

Note		Year ended 31 December 2004 £m	Year ended 31 December 2003 (restated) £m
	Net income		
	Profit/(loss) attributable to ordinary shareholders under UK GAAP	**94**	(219)
	Adjustments:		
b)	Impairment of plant:		
	Impairment of US plant	**–**	404
	Reinstatement of HUBCO impairment	**–**	(35)
	Release on partial disposal of HUBCO	**7**	–
	Impact on depreciation charge	**(26)**	(7)
c)	Purchase accounting and goodwill:		
	Impairment of goodwill	**–**	(28)
	Fair value and purchase accounting	**3**	3
	Deemed acquisition of KAPCO	**–**	15
d)	Development expenditure	**2**	1
e)	Onerous property lease provision	**1**	2
f)	Liquidated damages and associated costs	**3**	(19)
g)	Insurance recovery	**6**	–
h)	Derivatives and hedging activities	**(27)**	2
i)	Deferred finance costs	**(5)**	12
j)	Disposal of investments	**3**	1
k)	Restructuring costs	**–**	(3)
m)	Income taxes	**(9)**	1
n)	Stock compensation schemes	**(8)**	(2)
	Tax effect of US GAAP adjustments	**17**	(113)
	Net income under US GAAP	**61**	15
	Effect of restatement:		
	Net loss under US GAAP, as previously reported		(17)
	Deemed acquisition of KAPCO (see note c)		15
	Net loss under US GAAP, before restatement		(2)
	Effect of the restatement of derivatives and deferred tax		17
	Net income under US GAAP, as restated		15
	Earnings/(loss) per ordinary share:		
	Earnings/(loss) per share under US GAAP		
	Basic:		
	Before the effect of the restatement of derivatives and deferred tax		(0.2)p
	Effect of restatement to net income		1.4p
	Total	**4.7p**	1.2p
	Diluted:		
	Before the effect of the restatement of derivatives and deferred tax		(0.2)p
	Effect of restatement to net income		1.4p
	Total	**4.6p**	1.2p

The earnings/(loss) per share has been adjusted for the Rights Issue in the second half of 2004.

EFFECT ON SHAREHOLDERS' FUNDS – EQUITY OF SIGNIFICANT DIFFERENCES BETWEEN UK AND US GAAP

Note		As at 31 December 2004 £m	As at 31 December 2003 restated £m
	Shareholders' funds – equity		
	Total shareholders' funds – equity under UK GAAP	**1,825**	1,521
	Adjustments:		
a)	Pensions	**10**	10
b)	Impairment of plant	**499**	547
c)	Purchase accounting and goodwill	**157**	(24)
d)	Development expenditure	**(13)**	(15)
e)	Onerous property lease provision	**–**	(1)
f)	Liquidated damages and associated costs	**(131)**	(144)
g)	Insurance recovery	**6**	–
h)	Derivatives and hedging activities	**(48)**	(1)
i)	Deferred finance costs	**6**	12
l)	Dividends paid and proposed	**37**	–
m)	Income taxes	**(235)**	(48)
n)	Stock compensation schemes	**–**	(3)
	Cumulative tax effect of US GAAP adjustments	**(59)**	(87)
	Total shareholders' funds – equity under US GAAP	**2,054**	1,767

Effect of restatement:

Total shareholders' funds – equity under US GAAP, as previously reported	1,780
Deemed acquisition of KAPCO (see note c)	(4)
Total shareholders' funds – equity under US GAAP, before restatement	1,776
Effect of the restatement of derivatives and deferred tax	(9)
Total shareholders' funds – equity under US GAAP, as restated	1,767

Restatement

The net income restatement of £17 million relates to certain derivatives where the hedge effectiveness documentation prepared at inception is no longer considered to support hedge accounting (increase in net income £26 million), net of the elimination of a deferred tax asset in respect of derivative instruments (decrease in net income £9 million). This has an impact of reducing shareholders' funds – equity by £9 million at 31 December 2003.

a) Pension costs

There are differences in the methods of valuation required under UK and US GAAP for valuing assets and liabilities of defined benefit pension plans. US GAAP is generally more prescriptive in respect of actuarial assumptions and the allocation of costs to accounting periods.

b) Impairment of plant

Under UK GAAP, an impairment provision is recognised when the discounted future cash flows are less than the carrying amounts of the related assets. Under US GAAP, an impairment provision for assets is made when the undiscounted expected future cash flows fail to recover the carrying amounts of the related assets. Accordingly, a US GAAP difference arises when the carrying amount of the assets is greater than the discounted future cash flows but less than the undiscounted future cash flows. This difference in the carrying value results in different levels of depreciation under UK and US GAAP.

Under UK GAAP, an impairment may be reversed when the recoverable amount exceeds the carrying amount. Under US GAAP, recognition of subsequent recoveries in fair value is prohibited. Accordingly, the HUBCO impairment reversed in 2003 under UK GAAP is reinstated for US GAAP. A portion of the impairment has been adjusted through the profit and loss account in 2004, following the disposal of a partial holding in HUBCO.

c) Purchase accounting and goodwill

Under UK GAAP, goodwill arising on acquisitions after 1 April 1998, accounted for under the purchase method, is capitalised in the balance sheet and amortised over a period not exceeding 20 years. Prior to that date such goodwill arising on acquisitions was and remains eliminated against reserves. Under US GAAP, goodwill arising on purchase business combinations is capitalised in the balance sheet. With effect from 1 January 2002 goodwill is not subject to amortisation but is evaluated for impairment in accordance with applicable accounting literature. Goodwill impairments were recorded in 2003 under US GAAP.

Under UK GAAP, when there is a change in the level of influence over the financial and operating policy decisions of an undertaking such that a trade investment becomes an associate (and thus the equity method of accounting is adopted), a deemed acquisition arises where it is necessary to apply the rules on piecemeal acquisitions. Under UK GAAP the effects of the change are recorded prospectively from the date of deemed acquisition and the deemed consideration equates to the carrying value of the trade investment at that date. Under US GAAP the results of operations (current and prior periods presented) and retained earnings are adjusted retrospectively in a manner consistent with the accounting for a step-by-step acquisition.

Additional information in respect of US GAAP continued

d) Development expenditure
Under UK GAAP, the Group capitalises certain development expenditure as described in more detail in accounting policy note viii to the consolidated financial statements. US GAAP requires such costs to be expensed as incurred.

e) Onerous property lease provision
Under UK GAAP, a provision in respect of an onerous property lease is stated on a discounted basis. Under US GAAP, this provision is measured on an undiscounted basis. Accordingly, the impact of the discounting is reversed under US GAAP.

f) Liquidated damages and associated costs
Under UK GAAP, liquidated damages relating to amounts receivable from contractors in respect of the late commissioning of new power plants are recorded as income when they represent compensation for lost earnings. This is offset by certain costs, including interest and costs associated with the rectification of the plant, which are expensed in the period in which liquidated damages are recorded as revenue. Under US GAAP, this net amount is recorded as a reduction in the cost of the asset, regardless of the nature of the compensation. These differences in the asset cost result in different levels of depreciation under UK and US GAAP.

Those receipts that relate to compensation for plants not achieving long-term contractual performance levels are recorded as a reduction in the cost of the assets under both UK and US GAAP.

g) Insurance recovery
Under UK GAAP, an insurance recovery has been recorded as a reduction in the capitalised cost of the relevant replacement assets. Under US GAAP, even though the insurance proceeds have been used to finance replacement parts the cost base in the balance sheet is not adjusted and the difference between the insurance receipt and the carrying value of replaced assets is recognised in the profit and loss account. This difference in the asset cost results in different levels of depreciation under UK and US GAAP.

h) Derivatives and hedging activities
Under UK GAAP, the Group recognises only derivatives of a speculative nature at fair value on the balance sheet with related gains and losses charged or credited to the profit and loss account. Gains or losses on other derivative instruments are deferred until the hedged transactions actually occur.

Under US GAAP, the Group recognises all qualifying derivatives (including certain derivatives embedded in other instruments) at fair value on the balance sheet. Gains and losses arising on derivatives that do not meet the US GAAP hedge accounting criteria, along with the accretion of the discounted value of debt where bifurcation is required, are recognised in the profit and loss account. Gains and losses on the Group's derivatives that qualify for cash flow hedge accounting are initially recognised in reserves (to the extent that the hedge is effective) and subsequently reclassified to the profit and loss account as the hedged item impacts earnings. Any ineffective element of these hedges is immediately recognised in earnings.

i) Deferred finance costs
For UK GAAP purposes an exceptional interest charge of £12 million has been recorded in 2003 in relation to the write off of deferred finance costs in respect of the ANP bank facility. In 2004, costs incurred specifically to finalise the restructured debt were capitalised and are being amortised over the revised term of the debt.

Under US GAAP, the restructured debt was deemed an extension of the existing facility. Accordingly, the unamortised deferred financing costs of the original facility remain capitalised and are being amortised over the revised term of the debt. Additionally, in 2004 only costs paid directly to the lender have been capitalised. These differences give rise to different amortisation charges.

j) Disposal of investments
Applying the accounting differences between UK and US GAAP can result in differences in the carrying values of net assets under UK and US GAAP. As a consequence of this, different gains and losses may result on the subsequent disposal of the asset.

k) Restructuring costs
Under UK GAAP, when a decision has been taken to restructure the business and a constructive obligation has been created to meet the qualifying expenditure, the necessary provision is made. Under US GAAP, for exit or disposal activities initiated before 31 December 2002, the requirements for charging restructuring costs to income were more prescriptive and included the need for all significant actions arising from the restructuring plan to be determined and the completion dates to be identified by the balance sheet date. Accordingly, the charge for restructuring costs made under UK GAAP in 2002 was reversed and charged to the profit and loss account in 2003 under US GAAP.

l) Dividends paid and proposed
Under UK GAAP, final ordinary dividends are recognised in the financial year in respect of which they are proposed by the Board of Directors. Under US GAAP, such dividends are not recognised until they are formally approved at the following Annual General Meeting.

m) Income taxes
Under UK GAAP a deferred tax asset or liability is not recognised on the difference between the tax and book values of an asset or liability that existed at the date of a business combination. Under US GAAP, deferred tax is recognised on this difference. US GAAP is generally more prescriptive in its requirements for provisioning for potential tax exposures. This can lead to differences in provision levels under UK and US GAAP.

n) Stock compensation schemes
Under UK GAAP, no cost is recorded for the Sharesave Scheme. For other stock compensation schemes, the intrinsic value, being the difference between the market value of the shares at the grant date and the option price, is charged over the period of performance to which the award relates (the vesting period). Under US GAAP, the compensation expense for both schemes is measured as the difference between the market value of the shares at the date of grant and the option price and is spread over the same vesting period. Share options which are exercisable if certain performance criteria are achieved are accounted for as variable awards and compensation expense is calculated at the end of each year by reference to the market price of the shares that are considered likely to vest and recognised over the vesting period.

Shareholder profile
Additional information in respect of US GAAP continued
AS AT 31 DECEMBER 2004

CATEGORY OF HOLDINGS	Number of shareholders	Percentage of total shareholders	Ordinary Shares	Percentage of issued share capital
Private individuals	533,085	99.30	216,336,115	14.69
Nominee companies	3,394	0.63	1,228,467,739	83.38
Limited and public limited companies	262	0.05	10,586,295	0.72
Other corporate bodies	113	0.02	6,653,329	0.45
Pension funds, insurance companies and banks	14	0.00	11,225,588	0.76
Total	**536,868**	**100.00**	**1,473,269,066**	**100.00**

RANGE OF HOLDINGS	Number of shareholders	Percentage of total shareholders	Ordinary Shares	Percentage of issued share capital
1 – 199	141,354	26.33	21,604,727	1.47
200 – 499	295,115	54.97	84,295,466	5.72
500 – 999	70,916	13.21	47,820,630	3.25
1,000 – 4,999	26,221	4.88	45,831,329	3.11
5,000 – 9,999	1,987	0.37	13,147,574	0.89
10,000 – 49,999	679	0.13	12,941,713	0.88
50,000 – 99,999	126	0.02	8,752,156	0.59
100,000 – 499,999	224	0.04	52,467,239	3.56
500,000 – 999,999	83	0.02	57,858,522	3.93
1,000,000 – highest	163	0.03	1,128,549,710	76.60
Total	**536,868**	**100.00**	**1,473,269,066**	**100.00**

Shareholder services and information

Annual General Meeting (AGM)
The 2005 Annual General Meeting (AGM) will be held on Tuesday 17 May 2005. Further details will be set out in the Notice of the AGM to be sent out in April 2005.

Electronic proxy voting
For the AGM you may, if you wish, register the appointment of a proxy electronically by logging on to the following website: **www.sharevote.co.uk**. You will need your voting reference numbers (the three 8-digit numbers shown on your Proxy Form). Alternatively, if you have already registered for a shareview portfolio with Lloyds TSB Registrars, then log on to your portfolio at **www.shareview.co.uk** and click on company meetings.

Shareview
www.shareview.co.uk is a service offered by Lloyds TSB Registrars that enables you to check your holdings in many UK companies and helps you to organise your investments electronically. If you have access to the internet you can register for this portfolio service which is easy to use, secure and free by logging on to www.shareview.co.uk. Once you have registered for a portfolio, you can also use this service to change your address details on line.

Individual Savings Accounts (ISAs)
Information on the International Power corporate ISA, which offers a tax-efficient way of holding shares, can be obtained from the ISA manager, The Share Centre on 01296 414144 or from International Power's website.

Shareholder enquiries
If you have any queries on the following:

- transfer of shares;
- change of name or address;
- lost share certificates;
- lost or out-of-date dividend cheques and payment of dividends directly into a bank or building society account;
- death of the registered holder of shares;
- receiving duplicate copies of this Report;
- receiving the annual report in addition to the summary annual report.

Please contact Lloyds TSB Registrars on **0870 6003978** or write to them at The Causeway, Worthing, West Sussex BN99 6DA.

Additional information can be found on the Lloyds TSB website at www.lloydstsb-registrars.co.uk.

Share dealing services
Lloyds TSB Registrars have in place a low-cost share dealing service for both the purchase and sale of shares. Commission on both sales and purchases is 0.75% per transaction, subject to a minimum dealing charge of £7.50. This is a postal service only. For information on the low-cost dealing service, or to obtain a dealing form, please contact Lloyds TSB Registrars on **0870 600 3978.**

General enquiries
Please contact:
Stephen Ramsay
Company Secretary
International Power plc
Senator House
85 Queen Victoria Street
London EC4V 4DP.
Tel: 020 7320 8706

Corporate investor & media enquiries
Please contact:
Aarti Singhal
Head of Communications
International Power plc
Senator House
85 Queen Victoria Street
London EC4V 4DP.
Tel: 020 7320 8681

Website
The 2004 annual report and summary annual report are available at www.ipplc.com, which also carries a wide range of other information on the Group.

Corporate social responsibility
Our annual corporate social responsibility report is available on our website.

SEC reporting
The 20-F will be available on our website prior to 30 April 2005.

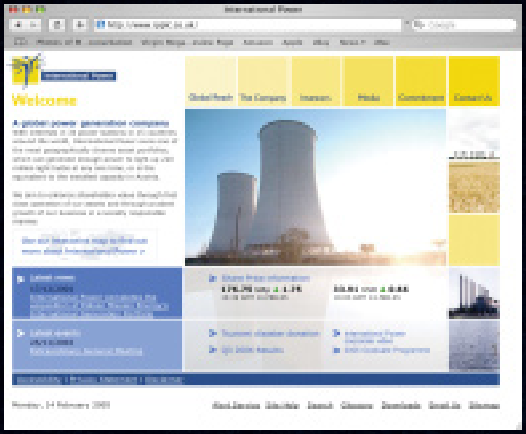
Financial calendar

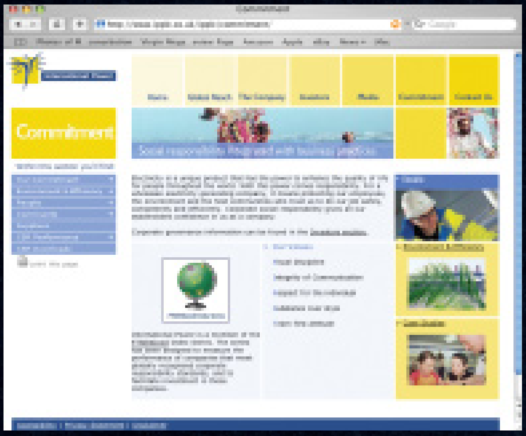
Announcement of Q1 results	12 May 2005
Annual General Meeting	17 May 2005
Announcement of interim results for the period ended 30 June 2005	4 August 2005
Announcement of Q3 results	3 November 2005

Glossary

ABI	Association of British Insurers, a body which, inter alia, sets standards of corporate governance on behalf of Insurance companies.
ANP	American National Power.
Availability	A measure giving the proportion of electrical energy that was available during the year, after taking account of both planned and unplanned plant outages.
Bond	Security that obligates the issuer (International Power) to make specified payments to the bondholder (financial Institutions).
Brownfield	Building a plant on a previously operational site.
CO	Carbon monoxide.
CO_2	Carbon dioxide.
CSR	Corporate social responsibility.
CCGT	Combined cycle gas turbine – turbines, that are typically fuelled by natural gas, are used to drive generators and use exhaust gases to produce steam that in turn drives an additional turbine coupled to a generator.
Cogeneration	The simultaneous generation of heat and electricity, typically where the need for both arises for industrial or commercial purposes.
Corridor approach	Under this approach to pension plans, actuarial gains and losses are not recognised immediately. Only when the cumulative gains or losses fall outside the corridor is a specified portion recognised in the income statement from the following year onwards. The corridor is 10% of the present value of the pension rights accrued or of the fund assets at market value, if greater.
Debt capitalisation	Net debt divided by the sum of the net debt and total equity.
HSE	Health, safety and environment.
EPS	Earnings per share, calculated by dividing the profit after interest, tax and minority interests by the weighted average number of shares in issue.
Gearing	Net debt divided by total equity.
Generator nameplate capacity (installed)	The maximum output of a generator, under specific conditions designated by the manufacturer. Installed generator capacity is commonly expressed in megawatts (MW) and is usually indicated on a nameplate physically attached to the generator.
Greenfield	Building a plant on a new site.
Hedge contracts	A contract that gives protection against risks of future commodity price movements.
HUBCO	The Hub Power Company.
IFRS	International Financial Reporting Standards.
ISO 14001	The international standard of environment management systems.
LNG	Liquified natural gas
LTIP	Long-term incentive plan
Load factor	The proportion of electricity actually sold, compared with the maximum possible sales of electricity at maximum net capacity.
KAPCO	The Kot Addu Power Company.
Merchant market	A merchant market is a deregulated market.
Merchant plant	Our merchant plants operate in deregulated markets selling power into the traded market without long-term power purchase agreements (PPAs).
MIGD	Millions of imperial gallons per day.
MW	Megawatt: one MW equals 1,000 kilowatts.

MWth	One megawatt of thermal power.
National Allocation Plan	The Plan issued under the EU Emissions Trading Scheme that sets out how greenhouse gas emission allowances will be allocated to affected industry sectors.
NO_x	Oxides of nitrogen.
Non-recourse debt	Debt secured on an asset.
OCGT	Open cycle gas turbine – turbines, typically fuelled by gas or diesel oil, are used to drive the generators to produce electricity.
OHSAS 18011	Occupational Health and Safety Assessment Series 18011. A management system specification, developed by British Standards Institute, for health and safety which is compatible with ISO 9001:1994 (Quality) and ISO 14001:1996 (Environmental) management.
O&M	Operations and maintenance, usually used in the context of operating and maintaining a power station.
Offtake agreement	Power purchase agreement between International Power and its customer (the offtaker) whereby the customer takes the electricity generated by a power station.
PBIT	Profit before interest and tax.
Peak load	The maximum demand during a specified high demand period. This may require use of plant (for example pumped storage) that is kept in reserve for peak periods.
Put	To sell a security back to the issuer at a pre-determined price.
RPI	Retail Price Index.
Recourse debt	Debt secured by the Company.
Reserve margin	The amount of plant reserve capacity above the system's peak electricity requirements.
Rights Issue	The offer of new shares to shareholders pro-rata to their current holding, usually at a discounted price.
SO_2	Sulphur dioxide.
Spark spread	The difference between the power price and fuel costs.
Tolling contract	A form of long-term electricity contract where the buyer of the electricity also supplies the fuel and the generator provides the energy conversion services in the form of the plant and operational services required to change the energy in the fuel into electricity.
Trade investment	A business entity over which the investor does not exercise significant influence.
UK GAAP	Generally Accepted Accounting Principles in the UK.
US Sarbanes-Oxley Act	The Sarbanes-Oxley Act of 2002 was enacted in reaction to the highly publicised bankruptcies of Enron and WorldCom and is concerned with strictly enforcing the latest "generally accepted" accounting principles (GAAP).





www.ipplc.com

Available on the website:

- investor presentations
- press releases
- share price information
- financial data and reports

Registered Office
International Power plc
Senator House
85 Queen Victoria Street
London EC4V 4DP

Registered in England and Wales
No: 2366963

This document is printed throughout using vegetable-based inks. Cover and pp1-68 on Robert Horne Revive Special Silk; pp69-112 on Revive Uncoated. Both stocks are produced at paper mills with environmental management systems that are ISO 14001 accredited.

Published by International Power plc
www.ipplc.com

Designed and produced by Natural
www.naturalassociates.com
Board photography by Orla Deevy
Printed in the UK by Royle Corporate Print