

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:

- The Operating and financial review (pages 8 to 32)
- Corporate governance (pages 38 to 45)
- Employees (pages 52 and 53)
- Directors' remuneration (pages 54 to 66)
- Current Directors' biographical details and Directors who served through the year (pages 34 and 35)
- Directors who served during the year (page 39)
- Audited financial statements (pages 70 to 102).

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