International Power

INTERNATIONAL POWER
annual report 2001

Highlights

– PBIT up 48% to £326 million

– Earnings per share up 75% to 12.8p

– Operating cash flow of £333 million

– 1,950 MW new capacity in the US

– Improved wholesale electricity pricing in Australia

– Rebalanced European portfolio with UFG sale and Rugeley acquisition

2001 Financial highlights

	Year ended 31 December 2001	2000 (Proforma)
	£m	£m
Turnover	1,103	1,002
Earnings before interest, tax, amortisation and depreciation (EBITDA)**	420	274
Profit before interest and tax (PBIT)**	326	221
Earnings per share – basic	12.8p	7.3p
Operating cash flow	333	11*
Capital expenditure	406	576*

	As at 31 December 2001 £m	As at 31 December 2000 £m
Net assets	1,852	1,735
Net debt	897	1,071
Gearing	48%	62%
Debt capitalisation	33%	38%

* Cash flow comparative figures are given for the nine-month period ended 31 December 2000

** Calculated pre-exceptional items

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Chairman's statement

I am pleased to report that we had a year of significant earnings growth in 2001, with profit before interest and tax (excluding exceptional items) of £326 million, an increase of 48% over last year, and turnover of £1,103 million, an increase of 10%. Importantly, the increase in turnover and profits was accompanied by a useful step up in operating cash flow from £11 million to £333 million.

Despite these excellent financial results, our share price has suffered in 2001, falling 19% over the year. This drop in share price, I believe, is primarily attributable to the current negative perception of our industry sector by institutional investors following a number of damaging external events. These include the Californian energy crisis in January 2001 and the unexpected energy glut in the same state last summer. It was also worsened by the collapse of Enron and the resulting severe credit pressure on a number of our US competitors.

As a Board, we have reviewed our business strategy in the light of these events. We concluded that the problems impacting our US competitors can be traced more to ways in which they are dissimilar to us than to features that we share with them. As such, we believe that our business model remains appropriate and that our implementation has also been sound. However, you can be assured that we will be quick to react to external events that impact on your Company and we will take any steps necessary to enhance shareholder value.

In accordance with the policy set out in last year's accounts, we are not paying a dividend this year. This policy will be reviewed each year by your Board.

We have changed the format of our accounts slightly this year, principally the regional analysis of turnover, PBIT and net operating assets, together with the narrative for our operating and financial review. We think this will help give you a better understanding of our business. We have also included a glossary (on the inside back cover) which I hope you find helpful. In particular, I draw your attention to our environment, health and safety review – this is an aspect of our business which is of paramount importance and which we are committed to continually improve.

The results for 2001 are a credit to the management team and all employees of the Company and I would like to thank all the people who work for our Company for their commitment throughout the year. At the same time, it is important that we continue to build on that commitment for the benefit of all our stakeholders – the communities in which we operate, our customers, our business partners, our employees and most importantly, our shareholders.

Sir Neville Simms, Chairman
18 March 2002

Sir Neville Simms
Chairman

Chief Executive Officer's statement

Dear fellow shareholder

At demerger we promised to manage our assets for value and grow our business. Now, at the end of our first full year as an independent company, I think it is right that we should review our progress against these commitments.

- We promised to maximise the value of our portfolio by optimising the operation of our power plants. Last year, Hazelwood (Australia) generated record amounts of electricity and our Deeside plant (UK) achieved a record high level of reliability. These are just some examples of strong performance throughout our operational fleet of power plants during 2001. As an asset-based merchant generator, well-run, reliable plant performance is one of the principal keys to our success.
- We have built an energy marketing and trading business around our power plants in our core markets in Australia, the US and the UK. This enables us to understand these markets better in order to help enhance returns from our assets. Where possible, we invest in assets with a power off-take agreement and we forward contract a significant proportion of our output to improve visibility of earnings and to balance our merchant market exposures – examples of this include Rugeley (UK), Hazelwood (Australia) and EOP (Czech Republic).
- We have created a more balanced fuel mix in both the UK and Australia with the acquisition of Rugeley (coal-fired) and completion of Pelican Point (CCGT) respectively.
- We restructured the financing of our existing assets to create value – we have separately refinanced our US portfolio, Hazelwood, Rugeley and our Thai assets. This all helps improve our cash flow and increase our returns on these assets.
- We sold assets on occasion to maximise value – in July 2001 we sold our stake in Unión Fenósa Generacion (UFG) in Spain for £372 million. This sale has rebalanced our European asset base and strengthened our balance sheet without diluting our earnings.
- We have expanded our business in the UK and Australia and have started to create a substantial business in the Middle East. All these growth initiatives give the economic returns we demand, are in suitable markets and have the degree of control necessary for us to maximise our performance.
- Outside our core markets, we have actively managed our portfolio asset base to maximise value. We have made good progress in settling the disputes in Pakistan so that we now expect a healthy return from these assets. We have sold assets in China and are close to completing the sale of our Kazakhstan shareholding.
- We have created and preserved financial flexibility by increasing earnings while maintaining a strong balance sheet with a debt capitalisation of only 33%. This is in sharp contrast to many of our competitors who are much more highly geared. Several of them have announced plans to sell assets in order to improve their liquidity, and this may create growth opportunities for us.
- With our comparative advantage of financial flexibility, we will seek to grow the Company with earnings enhancing acquisitions. We will also continue our international greenfield development programme in markets that will yield good returns for our investments.

These strong results would not have been possible were it not for the dedication of our employees in North America, Europe, Middle East, Asia and Australia. It was their decisiveness in making decisions and subsequent energetic execution which delivered these terrific results.

I want to reassure you that as we pursue our business strategy, we will stay disciplined in our approach and focused on economic performance. We will treat shareholder funds as a precious commodity to be put to work carefully.

Peter Giller, Chief Executive Officer
18 March 2002

Peter Giller
Chief Executive Officer

OPERATING AND FINANCIAL REVIEW

Overview of business

International Power delivered strong financial performance during 2001. Profit before interest and tax (PBIT), excluding exceptional items, was up 48% to £326 million from £221 million in 2000. Earnings per share (basic) were up 75% to 12.8p from 7.3p in 2000. Operating cash flow increased to £333 million compared to £11 million for the prior nine-month period.

Key performance drivers underlying these strong results in 2001 include the addition of new operating capacity in the US at our new plants in Massachusetts and Texas and the operation of those units during the summer peak demand period. Also, the excellent operating performance of our power plants in all regions resulted in profit improvements in each of our key markets.

Results – excluding exceptional items (continuing business only)

	Year ended		Nine months ended		
	31 December 2001	**31 December 2000 (proforma)**	31 December 2000	31 December 1999 (proforma)	Year ended 31 March 2000
	£m	**£m**	£m	£m	£m
Turnover – gross	**1,103**	**1,002**	762	705	1,021
Profit before interest and tax	**326**	**221**	167	137	191
Interest	**(123)**	**(104)**	(81)	(73)	(96)
Tax	**(58)**	**(29)**	(21)	(50)	(58)
Minority interests	**(2)**	**(6)**	(4)	1	(1)
	143	**82**	61	15	36
Earnings per share	**12.8p**	**7.3p**	5.5p	1.2p	3.0p

The proforma results for the year to 31 December 2000 are unaudited and have been derived by aggregating the results for the nine months ended 31 December 2000 and the management accounts for the three months to 31 March 2000, and making proforma adjustments to interest and tax to reflect the post-demerger capital structure.

The proforma results for the nine months ended 31 December 1999 are unaudited.

Rugeley, UK

Midlothian I, Texas, US

Operating and financial review and prospects
continued

This report reviews our results of operations on a regional basis to provide an understanding of the key factors impacting our historical trading performance. The results for each period, both 2001 and 2000, are compared primarily with the results for the corresponding comparative period. Our results are prepared in accordance with UK Generally Accepted Accounting Principles (GAAP). As announced at the time of presenting our Q3 results, we redefined our business segments with effect from 31 December 2001 to better represent how we manage the business. For clarity, our results are presented in this new format.

Results – excluding exceptional items (continuing business only)

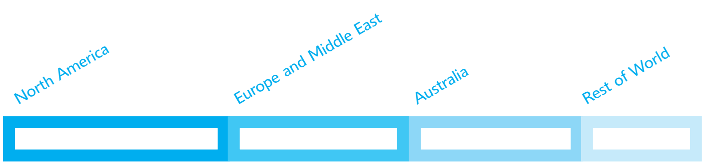
	Year ended 31 December 2001 £m	Year ended 31 December 2000 (proforma) £m	Nine months ended 31 December 2000 £m	Nine months ended 31 December 1999 (proforma) £m	Year ended 31 March 2000 £m
Turnover					
North America	**237**	**150**	115	50	85
Europe and Middle East	**521**	**534**	405	336	541
Australia	**194**	**133**	106	107	134
Rest of World	**151**	**185**	136	212	261
Gross turnover	**1,103**	**1,002**	762	705	1,021
Less: turnover of joint ventures	**(139)**	**(110)**	(96)	(53)	(78)
Less: turnover of associates	**(407)**	**(496)**	(382)	(396)	(586)
Net turnover	**557**	**396**	284	256	357
PBIT					
North America	**93**	**43**	34	23	32
Europe and Middle East	**141**	**128**	88	75	115
Australia	**72**	**53**	46	48	55
Rest of World	**48**	**40**	33	19	26
Segmental operating profit	**354**	**264**	201	165	228
Corporate costs	**(28)**	**(43)**	(34)	(28)	(37)
Operating profit (excluding exceptional items)	**326**	**221**	167	137	191
Exceptional items	**30**	**(170)**	(99)	(228)	(299)
Profit before interest and tax	**356**	**51**	68	(91)	(108)

Asset portfolio

The table below sets out details in relation to our operating power plants and plants under construction as at 18 March 2002.

Plant	Type	Gross capacity MW power	Gross capacity MW heat	Net capacity[2] MW power	Net capacity[2] MW heat
Operating					
North America					
Hartwell, Georgia, US	OCGT	310		155	
Oyster Creek, Texas, US	Cogen/CCGT	425	60	210	30
Milford, Massachusetts, US	CCGT	160		160	
Midlothian I & II, Texas, US	CCGT	1,650		1,650	
Blackstone, Massachusetts, US	CCGT	570		570	
Hays (unit I), Texas, US	CCGT	275		275	
Europe and Middle East					
EOP, Czech Republic [1]	Steam	540	2,000	535	1,920
Deeside, UK	CCGT	500		500	
Rugeley, UK	Steam	1,000		1,000	
Elcogas, Spain	IGCC	335		15	
Pego, Portugal	Steam	600		270	
Marmara, Turkey	CCGT	480		160	
Australia					
Hazelwood, Victoria, Australia	Steam	1,600		1,470	
Synergen, South Australia, Australia	Various	360		360	
Pelican Point, South Australia, Australia	CCGT	485		485	
Rest of World					
HUBCO, Pakistan	Steam	1,290		330	
KAPCO, Pakistan	CCGT	1,600		575	
Malakoff, Malaysia [1]	Various	1,495		290	
Shijiazhuang Yong Tai, PRC	Cogen	15	90	10	65
Yihua, PRC	Cogen	40	75	10	10
Pluak Daeng, Thailand	Cogen	110	20	110	20
TOTAL operating		**13,840**	**2,245**	**9,140**	**2,045**
Under construction					
North America					
Hays, Texas (units II, III, IV), US	CCGT	825		825	
Bellingham, Massachusetts, US	CCGT	570		570	
Europe and Middle East					
Shuweihat S1, UAE	CCGT	1,500		300	
Al Kamil, Oman	CCGT	280		280	
Rest of World					
Malakoff Lumut, Malaysia	CCGT	210		40	
TOTAL under construction		**3,385**		**2,015**	

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



Operating 9,140 MW

based upon net MW

Under construction 2,015 MW

Comparison year to 31 December 2001 with year to 31 December 2000

NORTH AMERICA

North America consists of plants in Georgia, Massachusetts and Texas, which had a maximum net generating capacity of 3,019 MW in 2001. We will complete our current construction programme in Massachusetts and Texas in 2002, bringing our total net installed capacity in North America to 4,400 MW. In addition, we have projects under development in New York totalling 1,650 MW. We also conduct energy trading activities that are principally focused on selling the physical output of our plants. However, we also perform limited proprietary trading that is subject to clear risk limits.

Gross turnover in North America increased by 58% from £150 million in 2000 to £237 million in 2001. Our share of turnover from joint ventures during the year ended 31 December 2001 was £77 million (32% of the region's total gross turnover), an increase of 3% as compared to the year ended 31 December 2000. 2001 was an important transition year for our North American business as we brought into operation a significant amount of new capacity in Massachusetts and Texas. The increase in gross turnover principally reflects this increase in generating capacity – maximum capacity of 3,019 MW in 2001 compares with 1,074 MW in 2000. Our North American proprietary trading business contributed £4 million to PBIT during the year ended 31 December 2001.

For the 2001 period, we entered into forward sales and purchase contracts to shield us from adverse price fluctuations. Consequently, our plants in Massachusetts (NEPOOL) and Texas (ERCOT) achieved spreads (the difference between the selling price of power plus ancillary services and the cost of fuel) considerably higher than the spot market. For the component of our output that is not forward contracted, we remain exposed to fluctuations in market prices.

To the extent that our output is not forward contracted, we remain exposed to fluctuations in market price. However, we are able to utilise the peak load flexibility of our new plants to take advantage of favourable price opportunities as they arise. We also use our trading and marketing expertise to maximise the revenue from ancillary services available in the markets where we operate.

During the 12-month period ended 31 December 2001, we recorded other operating income of £80 million relating to the late commissioning and performance recovery of our new power plants (£28 million in 2000). This compensation for loss of income is receivable from Alstom, who is both the manufacturer of the gas turbines and the principal contractor for the construction of our new North American plants. The commercial and technical arrangements that support Alstom's completion of our North American plants, and the performance recovery programme for the GT 24B gas turbines, both continue to meet expectations. Alstom has demonstrated technical progress and continued to meet its commercial responsibilities.

Operating profit increased by 116% from £43 million to £93 million. The increase in operating profit primarily reflects the increased turnover of our North American operations, together with the impact of compensation for the late commissioning and performance recovery of our new plants.

We will complete our current construction programme in Massachusetts and Texas in 2002, bringing our total net installed capacity in North America to 4,400 MW. In addition, we have projects under development in New York totalling 1,650 MW. Operating costs consist of both fixed operating costs, such as depreciation, payroll and property taxes, and variable operating costs, such as fuel costs. Our fixed cost base increased in line with the completion of the construction programme and variable costs tracked our profile of physical output. Where appropriate, we seek to minimise the impact of fluctuations in fuel supply cost by locking in our fuel supply at the same time that we sell our ouput.

International Power buys plant from TXU for £200 million

Bloomberg London newsroom

International Power acquired 1,000 MW coal-fired Rugeley power station in the UK.

Samporn Aungpudza
Mechanical technician
Thailand

EUROPE AND MIDDLE EAST

Europe and Middle East consists of two plants in the UK together with our plants in the Czech Republic, Portugal and Turkey. In addition, we have a plant under construction in Oman and projects under development in Italy and Abu Dhabi. In July 2001, we completed two significant transactions that rebalanced our European portfolio, increased the installed capacity under our direct control and reduced our minority position in legacy assets. Specifically, we sold back our 25% equity ownership in UFG (Spain) to Unión Electrica Fenósa and acquired the 1,000 MW coal-fired Rugeley plant in the UK. Our total installed capacity in this region at 31 December 2001 was 2,477 MW, as compared to 2,810 MW at 31 December 2000, and the capacity that we now control and operate in Europe and Middle East increased from 1,497 MW to 2,464 MW. When the plants in Oman and Abu Dhabi are completed in 2002 and 2004 respectively, our net installed capacity will be 3,057 MW.

Gross turnover in Europe and Middle East decreased by 2% from £534 million in the year ended 31 December 2000 to £521 million in the year ended 31 December 2001. The decrease principally relates to the sale of our interest in UFG, partially offset by the acquisition of Rugeley. Turnover from joint ventures and associates in the region during 2001 was £351 million (67% of the region's gross turnover), a decrease of 6% as compared to 2000, again reflecting the sale of UFG.

Operating profit, excluding exceptional items, increased by 10% from £128 million in the year ended 31 December 2000 to £141 million for the year ended 31 December 2001. The increase in operating profit reflects our share of the profitability of UFG prior to its sale in July 2001 and the contribution from Rugeley since its acquisition, also in July 2001.

In Europe and Middle East, all of our output in 2001 was subject to either long-term power purchase agreements, tolling agreements or shorter term forward sales contracts. In the UK, we have a tolling agreement for Rugeley until the end of 2005, but our forward sales contract for Deeside (500 MW) terminates in March 2002. We are looking to forward sell output from Deeside, where appropriate, but lower UK wholesale prices mean that this plant will be more exposed to fluctuations in market prices. In the Middle East, our Al Kamil plant (285 MW) under construction in Oman and our Shuweihat S1 power and desalination plant (1,500 MW gross; 300 MW net; 100 million imperial gallons per day) under construction in Abu Dhabi are both subject to long-term power purchase and off-take agreements.

Our Italian greenfield development programme continues to move forward in partnership with Ansaldo Energia. Three of the projects – Alessandria (1,600 MW), Montecchio Maggiore (800 MW) and Offlaga (1,600 MW) – are now under formal review by the Ministry of Industry. Within the next few months, we expect to submit applications for an additional three projects. Recently, we increased our ownership stake in eight of the nine projects to 75.5% (our equity stake in Offlaga remains 49%), while Ansaldo continues to hold the other 24.5% position in the eight projects.

AUSTRALIA

Australia consists of one plant in Victoria (Hazelwood), one plant in South Austrialia (Pelican Point) and the Synergen peaking units, also located in South Australia. We also conduct energy trading activities and, in line with our business in North America, these are principally focused on selling the physical output of our plants. However, we also perform limited proprietary trading, which again is subject to clear risk limits.

Turnover in Australia increased by 46% from £133 million to £194 million. We do not have any joint ventures and associates in Australia. This increase principally reflects improved electricity prices in Victoria – since Q3 2000 both spot and forward prices in Victoria improved significantly, allowing the forward contracting of power at improved margins. The average price secured in Australia in 2001 was approximately A$40 per MWh, as compared to A$35 per MWh in 2000. In addition, turnover increased as a result of our Pelican Point plant in South Australia commencing combined cycle commercial operation in March 2001. Our megawatts in operation in Australia increased from 1,828 MW at the end 2000 to 2,315 MW at 31 December 2001, an increase of 27%.

Operating profit increased by 36% from £53 million to £72 million. Margins in Victoria benefited from the combined effects of improved wholesale electricity prices and our ownership of Hazelwood's fuel supply, an open pit lignite mine located adjacent to the plant. Pelican Point was successfully commissioned on time and also contributed to this improvement in operating profit.

Development of the 680 km SEA Gas pipeline project, in which we have a 50% interest, continues to move forward. We have obtained the pipeline licence in South Australia and Indigenous Land Use Agreement in Victoria. The total project is estimated to cost £90 million, and will provide us with a reliable fuel supply, incremental revenue and significant cost savings.

REST OF WORLD

The Rest of World consists principally of plants in Pakistan, Malaysia and Thailand, representing a total net capacity of 1,340 MW. In addition, the capacity of our existing plant in Malaysia is being increased by 50% (a net MW increase of 125 MW).

Gross turnover from assets located outside our three core regions decreased by 18% from £185 million to £151 million. Our share of turnover from associates in this category during the year ended 31 December 2001 was £118 million, a decrease of 26% as compared to the year ended 31 December 2000. The decrease in gross turnover from generation principally reflects the sale of the majority of the Chinese operations, as well as the effect of changing the accounting treatment for our investments in Karaganda (Kazakhstan) and Kot Addu (Pakistan) from the equity method of accounting to trade investments as at 1 April 2000.

Following the resolution of the long running tariff dispute with WAPDA, in November 2001 we received from the Hub Power Company in Pakistan (HUBCO, of which we own 26%) a £5 million interim dividend payment relating to their year ended 30 June 2001. This interim dividend was the first to be paid to HUBCO shareholders in over three and a half years. In January 2002 we received £7 million relating to the final dividend for 2001, and in February 2002, HUBCO declared an interim dividend for their financial year ended 30 June 2002 – our share is approximately £12 million and receipt of this is anticipated in Q2 2002.

We have long-term power purchase agreements for each of our plants in this region and therefore financial performance will not be subject to fluctuations in energy prices. In common with most power purchase agreements, availability is the key factor in determining profitability and all our plants continue to maintain excellent standards.

Operating profit, excluding exceptional items, increased by 20% from £40 million to £48 million. This increase in operating profit reflects a full year contribution from our Thailand plant that was commissioned in 2000 and from our interest in HUBCO, now that WAPDA are paying their receivables in line with the previously disclosed settlement agreement.

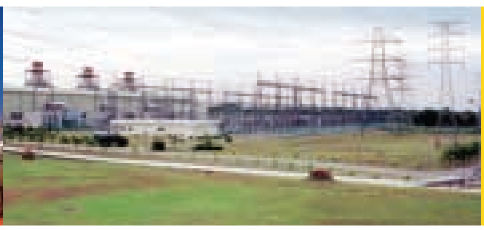
With respect to our other asset in Pakistan, the Kot Addu Power Company (KAPCO; of which we own 36%), the principal terms for implementing the settlement agreement have been agreed and a formal signing is expected soon. This should enable the subsequent declaration and payment of dividends.

Comparison nine months to 31 December 2000 with nine months to 31 December 1999

NORTH AMERICA

Gross turnover in North America increased 130% from £50 million to £115 million. Our share of turnover of joint ventures during the nine-month period ended 31 December 2000 was £63 million (55% of gross turnover), an increase of 34% as compared to the same period in 1999. The increase in gross turnover principally reflects the commencement of commercial operations of one new Midlothian plant in Texas.

Operating profit, excluding exceptional items, increased by 48% from £23 million to £34 million, reflecting increased turnover; operating profit also includes £28 million of payments in respect of compensation for lost output due to the late commissioning of power plants. Operating costs consist of fixed operating costs, such as depreciation and payroll, and variable operating costs, such as fuel supply. Depreciation increased during the period as a result of new construction. During 1999, we disposed of our equity investments in the Mecklenburg and Hopewell facilities. These disposals resulted in a total gain of £9 million, which was recorded as operating income, which offset operating costs for the period.



Kot Addu, Pakistan

Malakoff, Malaysia

EUROPE AND MIDDLE EAST

Gross turnover in Europe and Middle East increased by 21% from £336 million to £405 million. The increase in gross turnover relates principally to the acquisition of a 25% interest in UFG on 30 June 1999 and the commencement of operations at the Marmara facility in Turkey in June 1999.

Operating profit, excluding exceptional items, increased 17% from £75 million to £88 million. The increase in operating profit reflects a full nine-month contribution from UFG and Marmara and also improved performance at our Deeside facility in the UK, which benefited from the off-take and fuel supply contract negotiated prior to demerger.

AUSTRALIA

Gross turnover in Australia remained relatively stable, decreasing from £107 million to £106 million. Operating profit, excluding exceptional items, decreased 4% from £48 million to £46 million. The results for 2000 reflect a first-time contribution from our Synergen plant, which we acquired in May 2000. This increase in contribution was offset by a small decline in contribution from Hazelwood due to slightly increased outage costs in 2000.

REST OF WORLD

Gross turnover in Rest of World decreased 36% from £212 million to £136 million. Our share of turnover from joint ventures and associates during the nine months to 31 December 2000 was £111 million, a decrease of 26% as compared to the nine months to 31 December 1999. The decrease in gross turnover from generation principally reflects the effect of the change of accounting treatment with respect to our investments in Karaganda (Kazakhstan) and Kot Addu (Pakistan) from the equity method of accounting to trade investments as at 1 April 2000.

Operating profit, excluding exceptional items, increased 74% from £19 million to £33 million. The increase in segmental operating profit reflects the increased contribution from our Thailand plant and our interest in HUBCO.

Corporate

Following the consolidation of our corporate office in London and the increased management focus on cost control, corporate costs decreased by £15 million from £43 million for the year ended 31 December 2000 to £28 million for the year ended 31 December 2001, a reduction of 35%. Corporate costs include not only corporate functions but also business support costs for our operations worldwide.

EXCEPTIONAL ITEMS

The Group accounts for the year ended 31 December 2001 include five exceptional items – an £8 million credit arising from the release of an onerous property lease provision; a £10 million charge in respect of a guarantee given for Elcogas (Spain); a £2 million release of the provision for the exit costs from China; and a £30 million gain on the sale of our 25% stake in UFG. The first two items (net charge of £2 million) are reported as operating exceptionals, and the latter two (net credit of £32 million) are reported as non-operating exceptionals. The Group accounts also include an exceptional interest charge of £29 million in 2001 (relating to the refinancing at Hazelwood, Australia), which is described in more detail in net interest on page 14.

In the nine months ended 31 December 2000, three exceptional charges were recorded – £49 million relating to costs arising out of the demerger of Innogy, £25 million of reorganisation costs relating to the restructuring following demerger and a provision of £25 million to cover exit costs from the Chinese market.

In the year ended 31 March 2000, a number of the overseas assets were impaired by an aggregate of £246 million as a result of the commercial circumstances in their respective markets. The impairment principally arose in Pakistan and Australia. Additionally, the Group recorded initial provisions of £4 million, £14 million and £35 million in relation to reorganisation costs, demerger costs and gas swaps and hedges, respectively.

انٹرنیشنل پاور نے تعلیم کے میدان میں قابل تعریف خدمات انجام دی ہیں

Mashriq

International Power has made commendable contributions in the field of education (Allah Bux Rind, Hub District Education Officer, Pakistan).

Michelle Le
Financial accountant
Australia

NET INTEREST

Net interest payable for the year to 31 December 2001 was £123 million, before exceptional items. Corporate and subsidiary operations accounted for interest payable of £76 million, comprising primarily of gross interest of £123 million on bonds, bank loans and overdrafts, offset by £24 million interest receivable and by capitalised interest of £23 million. Joint ventures and associates had a net interest payable of £47 million. Consolidated interest cover was 2.7 times (2.4 times excluding interest capitalised). All banking and credit rating covenants were comfortably met with significant margins.

Included in exceptional items for the year ended 31 December 2001 is an interest charge of £29 million. This represents the cost of cancelling the existing interest rate swaps and capitalised arrangement fees following the successful refinancing of the non-recourse debt facility for the Hazelwood power plant in Victoria, Australia. This refinancing reduces our interest cost, extends the average maturity of the debt and allows the release of cash to the parent company.

Amounts reported for Group interest in the period to 30 September 2000 allocated net interest payable between Innogy and International Power on the basis that the debt assumed by each party at demerger was attributed to that party over all periods presented, or since the debt arose. Consequently, net interest charges for that period do not necessarily reflect our capital structure as it would have been had we operated as an independent entity during the period.

TAXATION

The tax charge for the year was £58 million compared with £21 million for the nine months ended 31 December 2000. The tax charge represents an effective tax rate of 28%, compared to 24% in the prior period.

The Group has continued to benefit from the utilisation of tax losses and the availability of certain overseas tax concessions. These concessions are expected to expire in the medium-term.

The allocation of the tax liabilities of National Power in the period to 30 September 2000 between the ongoing operations and those subsequently demerged was calculated as if Innogy operated on a stand-alone basis, with the balance of tax charges allocated to International Power. Consequently, tax charges do not necessarily reflect the business or results of operations of International Power as they would have been had we operated as an independent entity during the period.

PROSPECTS AND OUTLOOK

In the near-term, we continue to face weak prices in selected wholesale markets, principally Texas and the UK. The price environment continues to be driven by concerns on the economy, cyclical supply/demand imbalances and by recent mild weather patterns, rather than by the fundamental economics of owning and operating modern efficient power generation. These prevailing market conditions should improve as a result of the enhanced prospect for economic recovery and the substantial contraction in project development and new construction activity.

Steps taken in the past year have resulted in a usefully strengthened balance sheet relative to our peer group, a significant increase in our cash flow and ready liquidity to take advantage of the many opportunities currently available in the marketplace. In this environment, International Power has good prospects for continued growth and the creation of additional value for shareholders.

CHANGE IN SEGMENT REPORTING

As announced within our Q3 2001 results, we redefined our business segments with effect from 31 December 2001 to reflect:

- our strategic focus on three principal markets: North America, Europe and Middle East, and Australia;
- a more coherent geographic grouping of our power portfolio;
- the fact that each of our proposed segments tend to share common characteristics, including their political risk profile, currency risk profiles and competitive environment. The table below sets out a side-by-side comparison of our previous and new business segments:

Previous business segments	New business segments
North America	North America
Central and Northern Europe	Europe and Middle East
Western Mediterranean	Europe and Middle East
Eastern Mediterranean	
Turkey	Europe and Middle East
Middle East	Europe and Middle East
Pakistan	Rest of World
Asia	Rest of World
Australia	Australia

KEY ACCOUNTING POLICIES

The key accounting policies are summarised below. There are no entities that have not been properly included in the consolidated accounts, and no sale and leaseback (or similar) transactions that could have the effect of transferring debt off the balance sheet.

Income recognition

Turnover, from plants subject to power purchase agreements (PPAs), is recognised in accordance with the contract terms.

Turnover from merchant plants is recognised as output delivered, after taking account of related hedging contracts.

Liquidated damages (LDs), principally in respect of late commissioning, are currently included in other operating income. These LDs are, in substance, intended to replace the income that would otherwise have been earned.

Proprietary trading income is recognised on the basis of completed contracts and the mark-to-market values of outstanding contracts at the period end.

Tangible fixed assets

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

- 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.
- Project development costs (including appropriate direct internal costs) are capitalised from the point that the Board confirms that it is reasonably certain that the project will proceed to completion.

Depreciation of plant is charged so as to write down the assets to their residual value over their estimated useful lives:

- Following a recent review of secondary market values, gas turbines and related equipment are depreciated over 30 years to a 10% residual value, unless the specific circumstances of the project indicate a shorter period.
- Coal plant is considered on an individual basis.

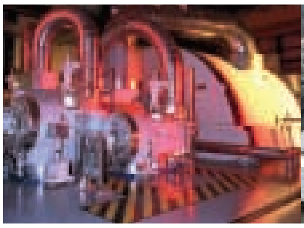
Management regularly considers whether there are any indications of impairments of the carrying values of fixed assets (e.g. the impact of current adverse market conditions). Impairment reviews are based on discounted future cash flows that inevitably require estimates of discounts and future market prices.

Joint ventures and associates

Under normal accounting practice, joint ventures and associates are required to be 'equity accounted'. This involves including only the Group's share of operating profit, interest and taxation in the profit and loss account and net assets in the balance sheet, as single line items. Due to the significance of associates, there is additional disclosure in the notes to the accounts.

Other

All entities in which the Company has an interest are appropriately treated in the financial statements. There are no material leasing arrangements which have the effect of removing assets and related debt from the balance sheet.



Deeside, UK

Elektrárny Opatovice, Czech Republic

FINANCIAL POSITION AND RESOURCES

CASH FLOW

A summary of the Group cash flow is set out below. The figures included for the nine months ended 31 December 2000 represent the cash flows of the continuing business only.

	Year ended 31 December 2001 £m	Nine months ended 31 December 2000 £m
Operating profit	163	59
Depreciation and amortisation	95	40
Dividends from joint ventures and associates	59	21
Working capital and provisions	16	(109)
Operating cash flow	333	11
Capital expenditure – maintenance	(48)	(36)
Tax and interest paid	(106)	(54)
Free cash flow	179	(79)
Capital expenditure – growth	(358)	(540)
Acquisitions and disposals	318	(42)
National Power dividend	–	(116)
Foreign exchange hedging and other	35	(33)
Movement in net debt	174	(810)
Opening net debt	(1,071)	(261)
Closing net debt	(897)	(1,071)

Operating cash flow for the year ended 31 December 2001 increased to £333 million as compared to £11 million for the nine months ended 31 December 2000. The principal drivers include strong operating profit performance, an increase in dividend receipts from joint ventures and associates (up from £21 million to £59 million) and a reduction in working capital and provisions. Capital expenditure on projects designed to maintain the operating capacity of our power stations was stable at £48 million on an annualised basis. Capital expenditure to increase our operating capacity amounted to £358 million as compared to £540 million for the nine months ended 31 December 2000. This programmed reduction in our capital expenditure reflects the progressive completion of our new build capacity in Massachusetts and Texas.

Net interest of £105 million was paid in the year reflecting higher levels of average debt in 2001, partially offset by lower average rates of interest. Net tax payments in the year were £1 million. Acquisitions and disposals include the net proceeds of £372 million on the sale of our 25% interest in UFG and an initial payment of £67 million to TXU in respect of the acquisition of our 1,000 MW Rugeley power station in the UK. The balance of the total consideration of £200 million was paid to TXU in January 2002.

BALANCE SHEET

A summarised, re-classified presentation of the Group balance sheet is set out below:

	31 December 2001 £m	31 December 2000 £m
Fixed assets		
Intangibles and tangibles	2,622	2,188
Investments	515	824
Total fixed assets	3,137	3,012
Net current liabilities	(320)	(117)
Provisions and creditors over one year	(68)	(89)
Net debt	(897)	(1,071)
Net assets	1,852	1,735
Gearing	48%	62%
Debt capitalisation	33%	38%

Net assets at 31 December 2001 amounted to £1,852 million, as compared to £1,735 million at 31 December 2000, reflecting the underlying profitability of the Group for the year.

Net debt at 31 December 2001 of £897 million is net of facility fees of £29 million, which have been capitalised and offset against the debt in accordance with accounting standard FRS 4. The facility fees were incurred in successfully securing new debt facilities across the Group, particularly in the US and Thailand.

Net debt at 31 December 2001 of £897 million is down from £1,071 million at 31 December 2000, reflecting our improved operating cash flow, a reduction in our committed capital expenditure as our US construction programme moves toward completion, and the sale of our interest in UFG for £372 million in July 2001. Gearing at 31 December 2001 was 48% (31 December 2000: 62%) and debt capitalisation was 33% (31 December 2000: 38%).

Award: maiores EXAME & melhores

Exame

Award: Biggest Exame 500 and best Exame publication awarded this certificate to International Power's Tejo Energia power station in Portugal for the year's best performance in the water, electricity and gas sector.

Jacob Van Akin
Plant administrator
US

NET DEBT AND CAPITAL STRUCTURE

Group net debt at 31 December comprised:

	2001 £m	2000 £m
Cash and liquid investments	643	107
Loans – recourse	(41)	(399)
Loans – non-recourse	(1,251)	(544)
Convertible bond	(248)	(235)
Net debt	(897)	(1,071)

The above net debt of £897 million, excludes the Group's share of joint ventures and associates debt of £487 million. In view of the significance of this amount, it has been disclosed separately.

In June 2001, we completed the US$1.375 billion (£945 million) ANP credit facility to finance our 4,000 MW merchant power fleet in the US, comprising a portfolio of five generating stations located in Massachusetts and Texas. This funding structure has been assigned investment grade credit ratings by Standard & Poor's (BBB-) and Moody's (Baa3). The construction programme benefits from economies of scale arising through the use of common turbine technology and a single Engineering Procurement and Construction (EPC) contractor for all plants. This financing was a major step to enhance the capital structure of International Power.

In July 2001, we completed a US$45 million (£31 million) project finance facility to re-finance our wholly owned subsidiary, Thai National Power, for the construction of our 110 MW gas-fired cogeneration plant.

In October 2001, we finalised a £371 million corporate revolving credit facility with a three-year maturity. The facility increases our financial flexibility to pursue business development and acquisition opportunities.

In December 2001, our joint venture with CMS Energy (of the US) and the Abu Dhabi Water and Electricity Authority (ADWEA) established a US$1.6 billion (£1.1 billion) facility to finance construction of the Shuweihat S1 power and water desalination project in Abu Dhabi. The financing structure comprises a US$1.285 billion 20-year term loan and a US$351 million equity bridge facility. The term loan includes a US$250 million Islamic tranche arranged by Abu Dhabi Islamic Bank. The arrangement of this combined conventional and Islamic financing is a major achievement for the Shuweihat sponsors, particularly given the difficult market circumstances.

Pension case resolution In April 2001, the House of Lords ruled in our favour in respect of the pensions case relating to the use of the pension surplus by National Power in 1992 and 1995, for which we had contingent funding of £235 million. This contingent funding is no longer required and has been cancelled.

Rating agencies In June 2001, resolution of the pension case was among the factors cited by Moody's Investors Service when the rating agency changed its outlook for our long-term debt from stable to positive. Moody's improved outlook was also supported by: our successful commissioning of plants in the US, Australia and Thailand; the Rugeley acquisition; the settlement agreements in Pakistan; improvements in the Australian power market; and the completion of the funding for our US build programme. In August 2001, Standard & Poor's reaffirmed its BB rating of our long-term corporate credit and senior unsecured debt ratings.

TREASURY 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 below.

CURRENCY TRANSLATION EXPOSURE

In common with other international companies, the results of the Group's foreign operations are translated into sterling at the average rates for the periods concerned. The balance sheets of foreign operations are translated into sterling at closing exchange rates. This translation has no impact on the cash flow of the Group. 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.

For major currencies, it is our policy not to hedge currency translation through foreign exchange contracts or currency swaps.

Average and year end sterling exchange rates for major currencies which are significant to the Group were:

	Average	At 31 December 2001
US dollar	1.44	1.46
Australian dollar	2.79	2.84
Euro	1.61	1.63

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 (73% as at 31 December 2001). Where project finance is utilised, our policy is to align the maturity of the debt with the contractual terms of the customer off-take agreement. Where appropriate, the Group will fix interest rates using forward rate or interest rate swap agreements. Significant interest rate management programmes and instruments require specific approval of the Board.

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. In addition, Group treasury manages the Group-wide counterparty credit exposure on a consolidated basis. Financial counterparty credit exposure is limited to relationship banks and commercial paper with strong investment grade credit ratings – credit exposure is regularly monitored by Group treasury.

Pluak Daeng, Thailand

Pego, Portugal

เปิดโรงงานไฟฟ้า ไทย เนชั่นแนล พาวเวอร์

Mission Thailand Weekly

Opening power plant... Thai National Power
Coverage of the official opening of the Pluak Daeng
110 MW CCGT power station in Thailand.

Jenny Davies
Technical apprentice
UK

PRINCIPLES OF GOOD GOVERNANCE

International Power is committed to high standards of corporate governance. In line with the Rules of the UK Listing Authority, the following report explains how the Group has applied the 'Principles of Good Governance' and Code of Best Practice contained in the Combined Code and reports the Group's compliance with the provisions contained in the Code.

The Board

The Board met on seven occasions during the year. A balance between Executive and Non-Executive Directors underpinned the effectiveness of the Company's Board. In addition to the Non-Executive Chairman, the Board consists of three Executive Directors and three Non-Executive Directors.

All of the Non-Executive Directors are considered to be independent.

In accordance with the Combined Code and the Company's Articles of Association, all Directors submit themselves for re-election at least every three years and newly appointed Directors are subject to election by shareholders at the first opportunity after their appointment. Newly appointed Directors receive comprehensive briefing, and training where appropriate, on the Company and their roles, to ensure that they are fully conversant with their responsibilities.

The Board has responsibility for defining strategy, ensuring the successful implementation of approved plans and for the financial policies of the Group for which it maintains a schedule of all matters requiring specific Board approval. Throughout 2001 this included all strategy decisions and significant capital investment proposals.

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.

All of the Directors have access to the advice and services of the Company Secretary and have access to independent advice should they so wish.

The Company has established the following committees: the Audit Committee, the Remuneration and Appointments Committee and the Risk Committee.

The Audit Committee (comprising the Chairman and all Non-Executive Directors) is responsible for monitoring 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. In addition to reviewing the Group's accounts, results announcements and accounting policies, the Committee monitors the effectiveness of internal control systems for the Board. The Chairman of the Audit Committee is Tony Isaac.

The Remuneration and Appointments Committee (comprising the Chairman and all Non-Executive Directors) is responsible, on behalf of the Board, for monitoring the performance of the Executive Directors of the Company and making recommendations to the Board on remuneration, appointments and matters of management succession. The Chairman of the Remuneration and Appointments Committee is Dennis Hendrix.

The Risk Committee (comprising the Chief Executive Officer, the Chief Financial Officer, the Chief Operating Officer and senior managers) has responsibility, on behalf of the Board, for monitoring the effectiveness of the Group's risk management arrangements. The Committee is also responsible for monitoring health, safety and environmental performance in the Group. The Chairman of the Risk Committee is Philip Cox.

Relations with shareholders

The Board is accountable to shareholders for the performance and activities of the Group.

International Power ensures that its Annual General Meeting (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 the 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 institutional investors, to discuss matters of strategy and financial performance. All results presentations and all Stock Exchange announcements are available to shareholders on the Company's website, www.ipplc.com, in the investor relations section.

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, in all reports, both to investors and regulatory authorities. The *Annual Report*, interim and quarterly results are the principal means of achieving this objective.

An explanation of the respective responsibilities of the Directors and auditors in connection with the financial statements is set out on page 41. The Directors set out on page 40 the basis for their view that the Group is a going concern.

Internal control

Systems are in place to meet the requirements of the Combined Code and the Turnbull Guidance for the review of internal controls, including financial, operational and compliance controls and risk management.

The Board has responsibility for the Group's system of internal control and for monitoring its effectiveness. 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 organisational 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 Chief Executive through the Chief Operating Officer and is managed within the strategic guidelines and delegated authorities adopted by the Board.

Pelican Point, South Australia

Bellingham, Massachusetts, US

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. Risk management procedures are in place for the Company's operations, including its energy marketing and trading activities, which are overseen by the Global Risk Manager. The Group treasury function operates under defined policies and the Treasury Committee, chaired by the Chief Financial Officer, monitors its activities. All acquisition and development decisions are subject to disciplined investment appraisal processes.

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 of the following four years. Group Management review the plans with each operational team. The individual plans are based on key economic and financial assumptions and incorporate an assessment of the risks 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 a performance review with Group Management regularly during the year. Actual results are compared to budget and to financial forecasts. Key operational and financial metrics 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. 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 has responsibility 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 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 regular reports to the Board.

For each of the businesses that operate in traded 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. These committees are chaired by the Global Risk Manager and comprise Executive Directors and senior managers.

ENERGY MARKETING AND TRADING

The principal objective of the Group's energy marketing and trading operations is to maximise the return from selling the physical output of its plants.

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

Energy market risk on our asset and proprietary portfolios is measured using value at risk and other methodologies. Value at risk 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. It is routinely checked for accuracy against actual movements in the portfolio value.

In addition to using value at risk measures, we perform scenario analyses to estimate the economic impact of sudden market movements on the value of our portfolios. This supplements the value at risk methodology 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 based on the Company's objectives and risk profile. Findings are reported to operational and executive management, with periodic reporting to the Audit Committee.

Annual self-certification statements of compliance with procedures are provided by business unit managers. 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. The internal audit function reviews the statements and reports any significant issues to the Audit Committee.

Compliance with the Combined Code

At this stage of the Company's development, the Board believes that the Chief Executive Officer's fixed three-year service contract is appropriate, given his experience and knowledge of the market in which the Group operates. His remuneration is paid entirely in shares as described in the Remuneration report. The service contracts for the other Executive Directors reverted to a 12-month notice on 2 October 2001.

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

We have considered the ABI guidelines on corporate social responsibility, which were issued in October 2001. It is our intention to seek to comply with them in our 2002 *Annual Report*.

Pelican Point power surge – new turbine to lift generating capacity

Adelaide Advertiser

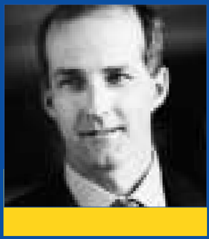
David Barlow
Business development manager
UAE

Board of Directors

SIR NEVILLE SIMMS (57)
NON-EXECUTIVE CHAIRMAN
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 Non-Executive Chairman of Carillion Plc. In addition he is a Non-Executive Director of the Bank of England and a member of the Business Advisory Panel-Trade Partners UK and the President's Committee of the CBI.

PETER GILLER (60)
CHIEF EXECUTIVE OFFICER
Peter joined the Company on 1 April 2000 from ABB Energy Ventures and became an Executive Director in October 2000. He has overall responsibility for the business and its strategy. He is Non-Executive Chairman of A&A EIC Electricity Investment Company, Zurich.

DAVID CRANE (43)
CHIEF OPERATING OFFICER
David joined the Company on 11 March 2000 from Lehman Brothers and became an Executive Director in October 2000. He is responsible for the day-to-day management and operations of the business.



PHILIP COX (50)
CHIEF FINANCIAL OFFICER
Philip joined the Company on 1 May 2000 from Invensys plc and became an Executive Director in October 2000. His responsibilities include finance, tax and treasury. He is a Non-Executive Director of Wincanton plc.

ANTHONY (TONY) ISAAC (60)
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 Exel Group plc.

DENNIS HENDRIX (62)
NON-EXECUTIVE DIRECTOR

Dennis became a Non-Executive Director of National Power in September 1997. He is a Non-Executive Director of Allied Waste Industries, Duke Energy Corporation and Newfield Exploration Company. Dennis is retiring as a Director of the Company at the AGM on 23 May 2002.

JOHN (JACK) D TAYLOR (63)
NON-EXECUTIVE DIRECTOR

Jack became a Non-Executive Director of the Company in October 2000. Serving today as a Managing Director of Caisse De Depot Et Placement Du Quebec, Jack has 36 years experience in private equity, project finance and international banking with The Chase and most recently with the Asian Development Bank as Director – Infrastructure, Energy and Financial Sectors Department West and Private Sector Group.

All Non-Executive Directors are members of the Audit Committee and the Remuneration and Appointments Committee. The Chairmen of these committees are Tony Isaac and Dennis Hendrix respectively.

All Executive Directors are members of the Risk Committee, which is chaired by Philip Cox.

James Moore was appointed an Executive Director of the Company in October 2000 and resigned on 31 January 2001.

SUSTAINING PERFORMANCE – ENVIRONMENT, HEALTH AND SAFETY REVIEW

International Power takes its responsibility to the environment seriously. Our corporate policy (right) demonstrates this commitment.

In our business of electricity generation, the main potential environmental issues are emissions to air, water and land. We aim to limit these emissions within strictly defined levels, always ensuring compliance with government regulations in the countries in which we operate. Environment, health and safety (EH&S) management is wholly-integrated within International Power's business management processes. EH&S performance is reviewed alongside financial and engineering performance. EH&S audits are carried out as part of the combined compliance audit process together with financial, technical and other operational reviews.

Risks and management systems

Assessing and minimising environmental risks take place early in our business planning cycle – either during the project development stage or when we review potential additions to our portfolio of operational plant. When building or upgrading plant, we use modern, low emission equipment. We operate plants using environmental management systems such as ISO 14001, the international standard for such systems, to ensure good environmental controls and performance. This is done alongside continual improvements in plant efficiency, thereby reducing emissions for each unit of electricity generated.

All existing ISO 14001 certificates were retained during the review period. In Australia, ISO 14001 certification was gained in 2001 by Pelican Point and Synergen.

Health and safety is a paramount management priority, although the forms of management systems and controls vary around the world. Several of our plants have been awarded Royal Society for the Prevention of Accidents (RoSPA) Gold Awards – for example Deeside and Rugeley in the UK and HUBCO in Pakistan.

ENVIRONMENT – CORPORATE POLICY

Protection of our world environment is the responsibility of everyone. International Power recognises its responsibilities and has an important role to play both in protecting our environment today and in moving towards a sustainable future.

To support these aims, International Power will:

- minimise environmental impact by balancing the environmental, social and economic factors of sustainable development
- implement and maintain effective environmental management systems
- seek to constantly improve our environmental performance and set appropriate objectives and targets
- ensure all staff are fully aware, properly trained and motivated to conduct their activities in an environmentally responsible manner
- work with our customers, partners and suppliers to make the best use of natural resources
- work constructively with our neighbours and local communities where we operate
- ensure compliance with all relevant environmental regulations
- regularly review and report on our environmental performance.

EH&S

During 2001 we reviewed our corporate management of health and safety. The reporting of EH&S issues is part of the Company's regular performance reporting and review process. Where we have shared or joint ownership of a plant, we seek to ensure good EH&S performance through board membership of the asset-owning company. We always aim to develop good relationships with our neighbours and strive to play a constructive role in the local communities where we operate around the world. In the following regional summaries, we illustrate some of the EH&S and other community highlights for 2001.

NORTH AMERICA

Throughout North America we have developed and implemented an environmental management system (EMS). This EMS, designed around the ISO 14001 methodology of continuous improvement, establishes a framework for managing environmental affairs throughout the business cycle including development (greenfield and potential acquisition), construction, commissioning and operations.

Throughout the course of our construction programme, we have maintained an excellent safety record at our Bellingham, Blackstone, Hays and Midlothian sites. Careful health and safety management has resulted in very low lost-time accidents records at all these project facilities. In fact, the Occupational Safety and Health Administration (OSHA) reportable and lost-time incident rates for each of these facilities are well below the US national average of 8.8 and 3.3, respectively. Several of our facilities reported zero lost-time accidents while working well over 1 million man-hours during 2001.

Blackstone and Bellingham received environmental recognition from the US Environmental Protection Agency for their use of Best Available Control Technology (BACT). Blackstone and Bellingham's low emission rates may enable regulators to lower the BACT oxides of nitrogen (NO_X) emission rate standard in the US.

Hays and Midlothian energy facilities have been very pro-active in the state of Texas in lowering air emissions. Hays and Midlothian provided a source for the Texas regulator (the Texas Natural Resource Conservation Commission) to promote lowering the BACT standard for NO_X emissions from power generation projects in the state of Texas. During the air permitting phase, Hays and Midlothian voluntarily lowered their respective NO_X emissions limits to almost half the level prevailing at the time.

AUSTRALIA

At Hazelwood the upgrade programme for the precipitator, which removes dust from the flue gas emissions, is now half completed, and continues on schedule.

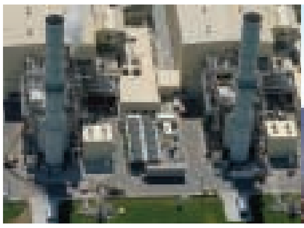
An innovative and best practice greenhouse gas reduction programme was produced by the federal government's Australian Greenhouse Office (AGO) with assistance from the generation efficiency standards (GES), which Hazelwood has adopted. While the GES programme is voluntary, a legally binding five-year deed of agreement was also signed.

The mine at Hazelwood has continued its pioneering work in the use of rare and endangered Australian native grasses in the rehabilitation of the former overburden dump, thus increasing the local extent and biodiversity of native grasses. The total number of 'viro cells' planted by hand to date is just over one million. A total of four hectares of land was rehabilitated during 2001. There were a total of 23,585 indigenous trees planted in 2001, including 2,135 in the former overburden dump, 20,250 in the new wetlands and 1,200 as screening for mine expansion.

Construction work was completed on three wetland sites designed to replace those affected by expansion of the mine. In addition to the tree planting scheme, mud, tree root balls and woody debris, including biota, were transferred from the existing wetlands to the new sites to preserve biodiversity. This is believed to be the first time such a project has been undertaken. The wetlands were naturally filled to design level by heavy rainfall in April.

As part of the mine expansion, extensive field works have been conducted in association with interested groups and the local Koorie community to search for, identify and analyse indigenous sites. Some 1,623 artefacts have been found within the area of the first phase mine development. Protocols are in place in the event of further discoveries. Extensive field works have also been undertaken, regarding the history of settlers from Europe in association with interested groups and local residents, to obtain and satisfy the consents for the mine expansion project.

The Hazelwood safety management system (SMS) was certified in July 2001 to the recent Australian standard AS 4801.



Blackstone Massachusetts, US

Marmara, Turkey

Environmental, health and safety review continued

Pelican Point power station and Synergen were audited in 2001 to ensure compliance with the Electricity Association of Australia's (ESAA) Code of Environmental Practice and concluded that environmental management, resource management, sustainable development and social responsibility direction are in line with the policies and principles of the ESAA's Code. Pelican Point and Synergen have voluntarily signed a Greenhouse Challenge Co-operative Agreement with the Australian federal government in developing greenhouse gas minimisation programmes.

An active ecological restoration programme, including revegetation of land owned by Pelican Point, has been implemented. To date, approximately 70,000 native seedlings endemic to the local and regional area have been planted.

A dedicated education centre for the local and regional community was officially opened in November 2001. It is designed to increase awareness and knowledge of the station through active and practical programmes.

Synergen has successfully implemented the requirements of its environmental licence and 'environmental compliance agreement' with the EPA. The carefully planned maintenance programme at Synergen ensured that 2001 resulted in no state or federal EPA infringement notices or fines, and no environmental incidents.

EUROPE AND MIDDLE EAST

Czech Republic

EOP has won two prestigious awards highlighting its commitment to high standards of EH&S management. In 2001, EOP was voted the most admired company in the Czech energy sector for the year 2000, according to a poll organised by the Czech Top 100 Association. The assessment was made by top managers from leading Czech companies, on the basis of selected key criteria, including environmental approach and local community programmes.

In April 2001, EOP was awarded the Health, Safety and Environment Award 2000, organized by Business Leaders Forum, the partner of The Prince of Wales International Business Leaders Forum.

UK

Deeside continues to perform very well in all aspects of EH&S. To help improve their already excellent record, Deeside staff have been studying the performance of other world class organisations such as Du Pont. This work has led to new initiatives which are detailed on Deeside's own website at www.deesidepower.com.

The 1,000 MW coal-fired plant at Rugeley was acquired in July 2001. To improve the environmental performance we have commenced planning work to install flue gas desulphurisation (FGD) equipment. FGD reduces the amount of sulphur dioxide (SO_2) released to the atmosphere by over 90%. Rugeley has an environment centre with classroom, nature trails and other resources used by local schools. Rugeley has an excellent track record extending back over 30 years.

Portugal

Pego continues to perform well in EH&S and retained both ISO 14001 certification and Eco-management and Audit Scheme (EMAS) registration in 2001 (in 2000 it was the first plant in Portugal to achieve this).

To improve the environmental performance and in preparation for the new Large Combustion Plant Directive, we have started planning work to install SO_2 and NO_x emissions reduction equipment.

We continue to further develop and implement our health and safety management system to the requirements of OHSAS 18001. We have been awarded the RoSPA Gold Award for the fifth consecutive year.

Turkey

At Marmara power station, work has continued to reduce the impact the station has on the local community – for example, a noise barrier has been built to reduce the impact the main cooling water screening plant has on local housing.

The station arranges regular educational visits from local technical schools and provides information packages and escorted tours of the station and is currently taking six school children from local technical schools for work experience in various departments within the station.

REST OF WORLD

Pakistan

HUBCO continues to comply with World Bank environmental guidelines. As part of compliance assurance, oxides of sulphur (SO_X) and NO_X levels are checked by air quality monitoring devices at twelve different sites, located up to 15 km from the station.

Kot Addu continues to meet the Pakistani National Environmental Quality Standards in respect of all its emissions. Plans to improve the management of liquid waste from the station are being progressed with a view to meeting future, more stringent emission standards.

Thailand

We successfully concluded the first full year of operation in Thailand. This was achieved with zero lost-time accidents and no environmental incidents. The focus in 2002 is to achieve ISO 14001.

Thai National Power (TNP) has established a community support programme which targets, local health issues, local education and local community projects.

Our active health and safety policy covers all our operations in Thailand. We have also supported a drugs prevention programme in the local factories.

Further information is available at our website – www.ipplc.com.

Hays, (unit II)
Texas, US

Hazelwood, Victoria, Australia

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 or associates. In particular, 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 staff to participate actively in their personal development and in relevant professional organisations.
- Leadership: we expect our staff 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 appropriate to the correct projection of our corporate image.

Clear communication links with all staff are critical to enhance business and commercial awareness throughout our business, and this was a key element of the integration process following our July 2001 acquisition of Rugeley power station and its 130 staff. Corporate publications, the International Power website and intranet, 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 holding bi-annual 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 own career development. This approach extends itself to the fair treatment of people with disabilities in relation to their recruitment, training and development.

Elektrárny Opatovice hlásì rekord

Mlád fronta Dnes

Elektrárny Opatovice announces record profit
(Czech Republic)

Don Bouchard
O&M maintenance technician
US

Employees
continued

Employee share schemes

International Power has a suite of share-based plans under which employees may acquire Ordinary Shares in the Company. These plans form an integral part of International Power's strategy to: provide appropriate reward and retention strategies for employees; align employee and shareholder interests through incentive targets based on clear operational and financial metrics; ensure our ability to recruit, motivate and retain staff. We seek to enable all our employees to participate in these programmes, where appropriate.

This suite of share-based plans includes a savings-related share option scheme open to staff in the UK. Over 85% of eligible staff currently participate in the scheme, saving between £10 and £250 per month, with the option to purchase shares at a discount at the end of a chosen three or five-year savings period. The Company also operates, for UK staff, the International Power Approved and Unapproved Executive Share Option Schemes (ESOS). The Company is developing a UK Inland Revenue Approved Share Incentive Plan (SIP), a Global Employee Share Ownership Plan, and a Longer-Term Incentive Plan for Executive Directors and a small number of senior managers.

Effective from demerger, a one-off Demerger Plan was established to award, in trust, International Power Ordinary Shares to UK staff. A Restricted Share Plan was also established to enable International Power's Chief Executive Officer to be remunerated in International Power Ordinary Shares. The Chief Executive Officer does not receive an annual salary or annual bonus. A one-off Long-Term Incentive Plan is in place for Executive Directors and a small number of senior managers.

Synergen, South Australia

HUBCO, Pakistan

The setting of remuneration policy and determining the compensation of Executive Directors are undertaken by the Remuneration and Appointments Committee on behalf of the Board. The Committee is chaired by Dennis Hendrix and comprises all Non-Executive Directors – Tony Isaac, Jack Taylor and José Maria Amusátegui (resigned 25 July 2001) – and the Chairman of the Company, Sir Neville Simms. The Committee's terms of reference are summarised on page 21. It has access to independent advice in relation to remuneration and appointments. The members of the Committee receive the fees described on page 36, and no other benefits.

This report to shareholders by the Committee, on behalf of the Board, covers, in turn, remuneration policy, Directors' pension benefits and their aggregate remuneration and interests in the Company's shares.

Remuneration policy

International Power's remuneration policy 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 established remuneration levels which will retain and motivate top quality executives, who are significantly incentivised to provide shareholder value by having their remuneration linked to financial performance and share price growth. To this end, a framework of individual and corporate performance targets is established by the Board at the start of each year, against which performance is then measured.

Consideration is also given to remuneration levels in comparator companies in both the UK and overseas. 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.

ELEMENTS OF REMUNERATION

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

The International Power annual performance bonus is a non-pensionable cash payment for achieving targets set by the Board. The maximum annual bonus opportunity for Executive Directors was set at 50% of base salary for the performance year 1 January to 31 December 2001. For this period, the Committee awarded Executive Directors 46.8% of their earned salary, recognising both the significant corporate and personal achievements during the period 1 January to 31 December 2001.

Directors' service contracts

The Chairman of International Power plc, Sir Neville Simms has a letter of appointment with a 12-month notice period. Peter Giller has a service contract for a fixed-term of three years from 2 October 2000. David Crane and Philip Cox each have service contracts subject to 12 months notice by the Company. Non-Executive Directors are appointed on a three-year fixed-term, fixed-fee basis.

Directors' pension benefits

With regard to the current Executive Directors of International Power plc, there are no pension scheme arrangements in which they participate. The Executive Directors receive the following cash benefit in lieu of any pension arrangements.

	Percentage of base salary paid in lieu of pension arrangements	Cash allowance received for the year to 31 December 2001 (£000)	Cash allowance received for the period October 2000 to 31 December 2000 (£000)
P Giller	n/a	n/a	n/a
D W Crane	25	65	14
P G Cox	25	65	14

Remuneration report
continued

James Moore (resigned 31 January 2001) participated in the American National Power, Inc. Retirement Plan for the period of his employment and this provides for an annual contribution of 10% of total compensation in the relevant calendar year, subject to US Internal Revenue Code limits. He also participated in the American National Power, Inc. Savings Plan under which employees are allowed to defer up to 12% of base salary for the relevant calendar year, subject to US Internal Revenue Code limits. Mr Moore also participated in a Supplemental Retirement Plan under which ANP credits to his account amounts equal to (a) the difference between 10% of his total compensation in the relevant calendar year and the amount actually paid to the American National Power, Inc. Retirement Plan on his behalf, and (b) the difference between 6% of his base pay in the relevant calendar year and the amount actually paid by ANP to the American National Power, Inc. Savings Plan on his behalf.

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 2001 and compares it with the figures for the nine months ended 31 December 2000. For the purpose of clarity, this table includes 2000 and 2001 information for the members of the Board of the continuing business (International Power plc) and 2000 information for the Directors of National Power PLC.

	Salary	Fees	Performance related bonus	Other benefits	Aggregate remuneration year to 31 December 2001	Aggregate remuneration nine months to 31 December 2000
	£	£	£	£	£	£
Sir Neville Simms*	175,000	–	–	–	175,000	56,250
J M Amusátegui* (1) *(resigned 25.7.2001)*	–	14,583	–	–	14,583	16,250
P G Cox (2)(6)	260,000	–	121,680	78,975	460,655	104,173
D W Crane (2)(6)	260,000	–	121,680	85,349	467,029	104,880
P Giller (3)(6)	473,798	–	–	57,200	530,998	155,224
D R Hendrix* (1)	–	25,000	–	–	25,000	16,250
A R Isaac* (1)	–	30,000	–	–	30,000	7,500
J J Moore (4) *(resigned 31.1.2001)*	18,433	–	–	–	18,433	1,073,798
J D Taylor* (1)	–	25,000	–	–	25,000	6,250
Sir John Collins** (5)	–	–	–	–	–	112,500
G A Brown** (5)	–	–	–	–	–	1,368,521
A Carnworth*	–	–	–	–	–	10,000
B M Count***	–	–	–	–	–	145,704
C B Gough* (***)	–	–	–	–	–	16,250
R M Witcomb** (5)	–	–	–	–	–	652,390
Total	**1,187,231**	**94,583**	**243,360**	**221,524**	**1,746,698**	**3,845,940**

* Non-Executive.

** Directors of National Power PLC who terminated their appointments on demerger.

*** Directors of National Power PLC who transferred to Innogy Holdings PLC.

Notes

(1) The International Power plc Non-Executive Directors fees are split between an annual fee of £15,000 for Board membership, a fee for attendance at Board meetings and for general duties as Directors. They each receive a further £10,000 per annum for their membership of Board Committees. In addition, Tony Isaac receives an additional fee of £5,000 per annum for his role as Senior Independent Director.

(2) David Crane and Philip Cox both received a cash supplement of 25% of base salary in lieu of pension scheme arrangements, a company car allowance and private medical insurance, all of which are included in other benefits.

(3) On 2 October 2000, Peter Giller was alloted a one-off conditional award of 677,564 Ordinary Shares in the Company in respect of his three-year term of employment (subject to the rules of the Restricted Share Plan). One third of the Ordinary Shares conditionally awarded to him (being 225,854) were allotted to him on 2 October 2001. A further one third will be allotted on the anniversaries of his appointment to the Board in 2002 and 2003. If he leaves the Company during this period, he will receive a time apportioned number of Ordinary Shares. The salary stated in the table opposite reflects the time apportioned value of his 2001 allotment, based on the share price at 2 October 2001 of 213p per share at the time of the allotment and of 201p per share at 31 December 2001. In addition, he is provided with a weekly cash supplement of £1,100 in respect of housing costs incurred.

(4) Agreement was reached with James Moore as to the terms of his resignation on 4 December 2000. He resigned on 31 January 2001 when he received a contractual payment of US$750,000 and he received a final contractual payment of US$750,000 on 31 July 2001. These payments are included in his aggregate 2000 remuneration of £1,073,798. He also received a cash payment of US$216,698, being the sum due from his Supplemental Retirement Plan.

(5) The aggregate remuneration for the nine months to 31 December 2000 includes their termination payments.

(6) The aggregate remuneration for the nine months to 31 December 2000 for Peter Giller, Philip Cox and David Crane includes their remuneration for the period October to December 2000 only.

EXECUTIVE AND SHARESAVE OPTIONS

	No. of shares under option as at 1 January 2001	Granted during the year	Exercise price per share (pence)	Exercise period from	Exercise period to	No. of shares under option as at 31 December 2001
P Giller	6,750	–	250		1 May 2001(Lapsed)	–
		8,976	188	24 May 2006	24 Nov 2006	8,976
Total Options						8,976
D W Crane	6,750	–	250		1 May 2001(Lapsed)	–
		8,976	188	24 May 2006	24 Nov 2006	8,976
Total Options						8,976
P G Cox	6,750	–	250		1 May 2001(Lapsed)	–
		8,976	188	24 May 2006	24 Nov 2006	8,976
Total Options						8,976

None of the current serving Executive or Non-Executive Directors of the Company have been granted any Executive Share Options.

The middle market quotation for an Ordinary Share of the Company on 31 December 2001 was 202.5p and the daily quotations during the period ranged from 189.5p to 327.25p.

SHARE PLANS FOR EXECUTIVE DIRECTORS

In connection with the International Power Restricted Share Plan referred to in the Remuneration report above, shares in the Company have been purchased and placed in a trust fund which, at cost, net of administration expenses of the trust, totalled £1.7 million at 31 December 2001. In line with recommended practice, the fund balance is being written down to £nil over the period of service to which it relates. The book value of the fund at 31 December 2001 is £1.0 million (31 December 2000: £1.6 million). The Remuneration Committee vested one third of the shares to Peter Giller on 2 October 2001 and will normally vest one third of these shares on the second anniversary of the conditional award date, and the remaining third on the third anniversary of the conditional award date.

With regard to the International Power Long-Term Incentive Plan referred to in the Remuneration report above, as at 31 December 2001, there has been no requirement to purchase shares for placement in a trust fund. In line with recommended practice, when the Company is required to purchase shares for the trust fund, the fund balance will be written down to £nil over the period of service to which it relates.

Summary of emoluments and benefits

	2001 £000	2000 £000
Aggregate emoluments (see pages 36 and 37)	1,747	2,041
Termination payments	–	1,805
Performance Share Plan	–	–
Long-Term Incentive Plan	–	–

Highest paid Director The aggregate emoluments of the highest paid Director, P Giller, were £530,998 (nine months to 31 December 2000: G A Brown £1,368,521).

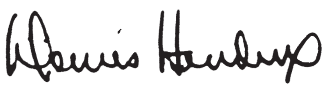
Summary of Directors' Unexercised Sharesave Options (post-demerger adjustment)

Grant date	No. of Options	Exercisable price (pence)	Date Exercisable
18 April 2001	26,928	188	2006
Total	**26,928**		

Beneficial interests

	As at 31 December 2001		As at 1 January 2001	
Director	Ordinary Shares	Sharesave Options	Ordinary Shares	Sharesave Options
P G Cox	10,000	8,976	–	6,750
D W Crane	14,000	8,976	4,000	6,750
P Giller	107,756	8,976	40,000	6,750
D R Hendrix	30,000	–	30,000	–
A E Isaac	5,000	–	–	–
Sir Neville Simms	30,000	–	20,000	–
J D Taylor	5,000	–	–	–

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



Dennis Hendrix
Chairman of the Remuneration and Appointments Committee
On behalf of the Board of Directors of International Power plc
18 March 2002

American National Power set to fuel economic growth across the region

Waxahachie Daily Light

Dave Quinn
Plant manager
International headquarters

Directors' report

The Directors submit their report and audited financial statements of the Company, International Power plc, and the Group, which includes its subsidiary undertakings, for the year ended 31 December 2001.

INTRODUCTION

The operating and financial review and prospects on pages 5 to 19, the discussion on corporate governance on pages 21 to 24, the environment, health and safety review on pages 28 to 31, the discussion in respect of employees on pages 32 to 34 and the remuneration report on pages 35 to 38 form part of this report. The audited financial statements are presented on pages 42 to 69.

Directors

The names and biographical details of the Directors of the Company are given on pages 26 and 27.

Principal activity

The Group's principal activity is the generation of electricity.

Dividend

The Directors do not propose the payment of a dividend for the year ended 31 December 2001.

Charitable and political donations

During the financial period, International Power and its majority-owned subsidiaries donated £602,900 to charitable causes. Companies in which International Power has a minority shareholding donated a further £194,476. Projects supported include the building of a school in Pakistan for 240 children. The first phase of this school, including five classrooms, will be ready in August 2002, with completion due in February 2003.

The Company also supported LEPRA, the Salvation Army and SCOPE. The Company match-funded staff collections for Children in Need.

The Company has a charitable donations policy that is implemented by a charities committee. The Company does not make political donations.

Research and development

For the period 1 January 2001 to 31 December 2001 expenditure on the research and development programme was zero. We will look to take advantage of technical advances as they arise but, currently, pure research is not a core element of the business of International Power. We continue to seek to develop power stations in the regions in which we operate.

Share capital

A resolution will be proposed at the 2002 Annual General Meeting (AGM) to renew the authority to purchase a proportion of the Company's shares.

An explanation of this and other resolutions being proposed at the 2002 AGM will be given with the Notice of AGM, which will be sent to shareholders during April 2002.

Substantial shareholdings

As at the date of this report, the Company is aware of the following interests in 3% or more of the issued share capital of the Company.

	No.	%
Merrill Lynch Investment Managers	111,928,823	10.01
Morley Fund Management Limited	45,782,440	4.10
AXA S.A.	40,552,015	3.63
Franklin Resources Inc.	34,243,433	3.06
Legal and General Investment Management Limted	34,230,622	3.06

Employee shares held in trust

At 31 December 2001, 1,709,084 International Power Ordinary Shares were held in trust for the benefit of current and former employees of the Company. The shares had a nominal value of £854,542 and a market value of £3,460,895. The currently operational employee share plans for which these shares may be utilised are the Profit Sharing Share Scheme, the Restricted Share Plan and the Demerger Share Plan.

Going concern

The Directors are satisfied that the Company and the Group have adequate resources to continue to operate for the foreseeable future. For this reason, they continue to adopt the 'going concern' basis for preparing the accounts.

Auditors

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

Prompt payment policy

International Power aims to observe the highest standards of business practice as both a buyer and a seller of products and services. International Power's average number of days outstanding in respect of trade creditors at 31 December 2001 was 34 days.

By order of the Board

A.S.J. Ramsay

Stephen Ramsay
Company Secretary

18 March 2002

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 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 42 to 69 which have been prepared under the historical cost convention and the accounting policies set out on pages 46 to 47.

Respective responsibilities of Directors and auditors

The Directors are responsible for preparing the *Annual Report*. As described above this includes the 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 are 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 or the Listing Rules regarding Directors' remuneration and transactions with the Group is not disclosed.

We review whether the statement on page 24 reflects the Company's compliance with the seven provisions of the Combined 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 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. 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 are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2001 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc
Chartered accountants
Registered auditor
18 March 2002

KPMG Audit Plc

8 Salisbury Square
London
EC4Y 8BB

Consolidated profit and loss account

For the year ended 31 December 2001

Note		Year ended 31 December 2001 £m	Continuing: Nine months ended 31 December 2000 £m	Discontinued: Nine months ended 31 December 2000 £m	Group: Nine months ended 31 December 2000 £m
1	Turnover: Group and share of joint ventures and associates	**1,103**	762	1,578	2,340
	Less: share of joint ventures' turnover	**(139)**	(96)	(5)	(101)
	Less: share of associates' turnover	**(407)**	(382)	–	(382)
1	**Group turnover**	**557**	284	1,573	1,857
2	Net operating costs – ordinary	**(392)**	(225)	(1,455)	(1,680)
8	Net operating costs – exceptional	**(2)**	–	(227)	(227)
	Operating profit/(loss)	**163**	59	(109)	(50)
	Share of operating profit of:				
	Joint ventures	**27**	14	2	16
	Associates	**134**	94	–	94
	Total operating profit/(loss): Group and share of joint ventures and associates	**324**	167	(107)	60
1	Excluding exceptional items	**326**	167	120	287
8	Exceptional items	**(2)**	–	(227)	(227)
8	Non operating exceptional items:				
	Profit/(loss) on sale of operations	**32**	(25)	–	(25)
	Demerger and reorganisation costs	**–**	(74)	(6)	(80)
		32	(99)	(6)	(105)
	Profit/(loss) on ordinary activities before interest	**356**	68	(113)	(45)
4	Interest receivable and similar income	**24**	61	22	83
5	Interest payable and similar charges – ordinary	**(100)**	(98)	(51)	(149)
5/8	Interest payable and similar charges – exceptional	**(29)**	–	–	–
4/5	Share of net interest of joint ventures and associates	**(47)**	(44)	(1)	(45)
	Net interest	**(152)**	(81)	(30)	(111)
3	**Profit/(loss) on ordinary activities before taxation**	**204**	(13)	(143)	(156)
9	Tax on profit/(loss) on ordinary activities	**(58)**	(21)	–	(21)
	Profit/(loss) on ordinary activities after taxation	**146**	(34)	(143)	(177)
	Minority interests – equity	**(2)**	(4)	–	(4)
	Profit/(loss) for the financial year	**144**	(38)	(143)	(181)
11	Demerger dividend	**–**	(392)		(392)
	Retained profit/(loss) for the financial year	**144**	(430)		(573)
12	**Earnings/(loss) per share:**				
	Basic excluding exceptional items	**12.8p**	5.5p		13.5p
	Attributable to exceptional items	**0.1p**	(8.9)p		(29.7)p
	Basic including exceptional items	**12.9p**	(3.4)p		(16.2)p
	Diluted excluding exceptional items	**12.5p**	5.5p		13.5p
	Diluted including exceptional items	**12.6p**	(3.4)p		(16.2)p

The results for the year ended 31 December 2001 derive from continuing operations. There were no material changes in the activities of the entities consolidated in these financial statements and no material acquisitions or disposals.

Balance sheet
At 31 December 2001

Note		Group 31 December 2001 £m	Group 31 December 2000 £m	Company 31 December 2001 £m	Company 31 December 2000 £m
	Fixed assets				
	Intangible assets:				
13	*Goodwill*	**7**	7		
13	*Negative goodwill*	**(33)**	(33)		
	Net goodwill	**(26)**	(26)		
14	Tangible assets	**2,648**	2,214	**4**	7
15	Investments:				
	Joint ventures:				
	Share of gross assets	**287**	251		
	Share of gross liabilities	**(186)**	(159)		
	Net investment	**101**	92	**5**	5
	Associates	**317**	638	**92**	454
	Other investments	**97**	94	**2,036**	1,994
	Total fixed asset investments	**515**	824	**2,133**	2,453
	Total fixed assets	**3,137**	3,012	**2,137**	2,460
	Current assets				
	Stocks	**25**	21	**–**	–
16	Debtors: recoverable within one year	**148**	117	**167**	163
16	Debtors: recoverable after more than one year	**10**	15	**–**	–
17	Investments	**47**	–	**–**	–
	Cash at bank and in hand	**596**	107	**98**	25
	Total current assets	**826**	260	**265**	188
18	Creditors: amounts falling due within one year	**(615)**	(358)	**(594)**	(602)
	Net current assets/(liabilities)	**211**	(98)	**(329)**	(414)
	Total assets less current liabilities	**3,348**	2,914	**1,808**	2,046
19	Creditors: amounts falling due after more than one year	**(1,436)**	(1,101)	**(41)**	(349)
20	Provisions for liabilities and charges	**(60)**	(78)	**(38)**	(54)
	Net assets employed	**1,852**	1,735	**1,729**	1,643
	Capital and reserves				
22/23	Called up share capital	**559**	559	**559**	559
23	Share premium account	**289**	289	**289**	289
23	Capital redemption reserve	**140**	140	**140**	140
23	Capital reserve	**422**	422	**415**	415
23	Profit and loss account	**415**	273	**326**	240
23	**Shareholders' funds** – equity	**1,825**	1,683	**1,729**	1,643
	Minority interests – equity	**27**	52	**–**	–
	Total equity	**1,852**	1,735	**1,729**	1,643

The accounts were approved by the Board of Directors on 18 March 2002 and signed on its behalf by

Peter Giller
Chief Executive Officer

Philip Cox
Chief Financial Officer

Consolidated cash flow statement

For the year ended 31 December 2001

Note		Year ended 31 December 2001 £m	Continuing Nine months ended 31 December 2000 £m	Discontinued Nine months ended 31 December 2000 £m	Group Nine months ended 31 December 2000 £m
24	Net cash inflow/(outflow) from operating activities	**274**	(10)	(289)	(299)
24	Dividends received from joint ventures and associates	**59**	21	–	21
		333	11	(289)	(278)
24	Returns on investments and servicing of finance	**(105)**	(44)	(35)	(79)
	Tax	**(1)**	(10)	–	(10)
24	Capital expenditure and financial investment	**(406)**	(576)	(114)	(690)
24	Acquisitions and disposals	**318**	(42)	(12)	(54)
	Equity dividends paid	**–**	(116)	–	(116)
	Net cash inflow/(outflow) before management of liquid resources and financing activities	**139**	(777)	(450)	(1,227)
27	Management of liquid resources	**(48)**	1,178	(23)	1,155
24	Financing activities	**406**	90	(140)	(50)
	Increase/(decrease) in cash in the period	**497**	491	(613)	(122)

Consolidated reconciliation of net cash flow to movement in net debt

For the year ended 31 December 2001

Note		Year ended 31 December 2001 £m	Continuing Nine months ended 31 December 2000 £m	Discontinued Nine months ended 31 December 2000 £m	Group Nine months ended 31 December 2000 £m
	Increase/(decrease) in cash in the period	**497**	491	(613)	(122)
	Cash (inflow)/outflow from (increase)/decrease in debt and lease financing	**(406)**	(86)	140	54
27	Cash outflow/(inflow) from increase/(decrease) in liquid resources	**48**	(1,178)	23	(1,155)
	Change in net debt resulting from cash flows	**139**	(773)	(450)	(1,223)
	Translation differences	**17**	(32)	–	(32)
	Net debt transferred to Innogy	**–**	–	679	679
	Other non-cash movements	**18**	(5)	–	(5)
	Movement in net debt in the period	**174**	(810)	229	(581)
	Net debt at the start of the period	**(1,071)**	(261)	(229)	(490)
27	**Net debt at the end of the period**	**(897)**	(1,071)	–	(1,071)

Consolidated statement of total recognised gains and losses

For the year ended 31 December 2001

	Year ended 31 December 2001 £m	Nine months ended 31 December 2000 £m
Profit/(loss) for the financial period	**144**	(181)
Exchange differences on the retranslation of net investments and related borrowings	**(4)**	(31)
Share of recognised gain of associated undertaking	**2**	–
Total recognised gains and losses relating to the financial period	**142**	(212)

Reconciliation of movements in shareholders' funds – equity

For the year ended 31 December 2001

	Year ended 31 December 2001 £m	Nine months ended 31 December 2000 £m
Profit/(loss) for the financial period	**144**	(181)
Demerger dividend	**–**	(392)
	144	(573)
Other recognised gains and losses relating to the period	**(2)**	(31)
Issue of shares	**–**	4
Net addition/(reduction) in shareholders' funds	**142**	(600)
Opening shareholders' funds	**1,683**	2,283
Closing shareholders' funds	**1,825**	1,683

Notes to the accounts

For the year ended 31 December 2001

The following accounting policies have been applied consistently, except as noted below, in dealing with items which are considered material in relation to the Group's financial statements.

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. Minor adjustments have been made to comparative figures to make them consistent with the current year.

ii Basis of consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiary undertakings up to 31 December 2001. 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 to 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 plants subject to power purchase agreements (PPAs), is recognised in accordance with the contract terms. Turnover from merchant plants is recognised as output delivered after taking account of related hedging contracts. Liquidated damages (LDs), principally in respect of late commissioning, are currently 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 Project development costs

Project development costs (including appropriate direct internal costs) are capitalised from the point that the Board confirms that it is reasonably certain that the project will proceed to completion.

vi Foreign exchange

The profits or losses of overseas subsidiary undertakings, associates and joint ventures are translated into sterling at average rates of exchange. Balance sheets of subsidiary undertakings and net investments in associates and joint ventures are translated at closing rates.

Exchange differences arising on the retranslation at closing rates of overseas subsidiary undertakings' balance sheets and net investments in associates and joint ventures, together with the adjustment to convert the balance of retained profits to closing rates, are taken directly to reserves.

Transactions denominated in foreign currencies arising in the normal course of business are translated into sterling at the exchange rate ruling on the date payment takes place unless related or matching forward foreign exchange contracts have been entered into, when the rate specified in the contract is used. Monetary assets and liabilities expressed in foreign currencies that are not covered by hedging arrangements are translated into sterling at the rates of exchange ruling at the balance sheet date and any difference arising on the retranslation of those amounts 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. Included within the interest charge in the profit and loss account is the unwinding of discounts on long-term provisions.

viii Tangible fixed assets

Tangible fixed assets are stated at original cost less accumulated depreciation. In the case of assets constructed by the Group, related works, commissioning and borrowing costs as per FRS 15 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.

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.

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

	Years
Power stations	20-40
Fixtures, fittings, tools and equipment	4-5
Computer equipment and software	3-5
Hot gas path CCGT turbine blades	2-4

Freehold land is not depreciated.

ix Other fixed asset investments
Other fixed asset investments are stated at cost less provision for any impairment.

x Current asset investments
Current asset investments are stated at the lower of cost and market value.

xi Stocks
Operating stocks of fuel and stores are valued at the lower of cost and net realisable value. These are included as current assets.

xii Deferred taxation
Deferred taxation arises in respect of items where there is a timing difference between their treatment for accounting purposes and their treatment for taxation purposes. Provision for deferred taxation, using the liability method, is made to the extent that it is probable that the liability or asset will crystallise in the foreseeable future.

To the extent that dividends remitted from overseas subsidiary undertakings, associates and joint ventures are expected to result in additional tax liabilities, appropriate amounts are provided. No taxes are provided for unremitted earnings from overseas when such amounts are considered permanently reinvested.

xiii 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, which are used for 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.

xiv 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 using an interest method.

New accounting standards
The financial statements comply, to the extent detailed below, with the following new Financial Reporting Standards issued by the UK Accounting Standards Board.

i *FRS 17 (Retirement benefits)* The Group has complied with the transitional disclosure requirements of this standard. The standard replaces the use of actuarial values for assets in a pension scheme in favour of a market-based approach. In order to cope with the volatility inherent in this measurement basis, the standard requires that the profit and loss account shows the relatively stable ongoing service cost, interest cost and expected return on assets. Fluctuations in market values are reflected in the statement of total recognised gains and losses.

ii *FRS 18 (Accounting policies)* The Group complies with this standard, which deals with the selection, application and disclosure of accounting policies in financial statements.

Compliance with the above new standards has not given rise to any restatement of figures reported for prior periods, though a restatement in respect of FRS 17 is expected when full compliance is required.

In addition, FRS 19 (Deferred tax) was issued by the UK Accounting Standards Board. The standard requires full provision of deferred tax. The Group will implement the standard in its 2002 *Annual Report*.

1 GROUP SEGMENTAL ANALYSIS

		Continuing	Discontinued	Group
a) By class of business	**Year ended 31 December 2001 £m**	Nine months ended 31 December 2000 £m	Nine months ended 31 December 2000 £m	Nine months ended 31 December 2000 £m
Group turnover				
Electricity generation	**1,103**	762	–	762
Discontinued	**–**	–	1,578	1,578
	1,103	762	1,578	2,340
Less: turnover of joint ventures	**(139)**	(96)	(5)	(101)
Less: turnover of associates	**(407)**	(382)	–	(382)
	557	284	1,573	1,857
Profit before interest and taxation (excluding all exceptional items)				
Electricity generation	**354**	201	–	201
Discontinued operations	**–**	–	166	166
Corporate costs	**(28)**	(34)	(46)	(80)
	326	167	120	287
b) By geographical area				
Group turnover				
North America	**237**	115	–	115
Europe and Middle East	**521**	405	1,578	1,983
Australia	**194**	106	–	106
Rest of World	**151**	136	–	136
	1,103	762	1,578	2,340
Less: turnover of joint ventures	**(139)**	(96)	(5)	(101)
Less: turnover of associates	**(407)**	(382)	–	(382)
	557	284	1,573	1,857
Profit before interest and taxation (excluding all exceptional items)				
North America	**93**	34	–	34
Europe and Middle East	**141**	88	166	254
Australia	**72**	46	–	46
Rest of World	**48**	33	–	33
	354	201	166	367
Corporate costs	**(28)**	(34)	(46)	(80)
	326	167	120	287

An analysis of exceptional items is given in note 8.

The profit before interest and taxation after exceptional items of Europe and Middle East, and Rest of World is £161 million and £50 million, respectively. Corporate costs are £20 million after exceptional items.

North America profit before interest and taxation includes other income in respect of the late commissioning and performance recovery of new power plants amounting to £80 million (nine months ended 31 December 2000: £28 million). These amounts have previously been disclosed in turnover and have been restated.

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

The comparative figures for turnover and operating costs have been restated to conform with the current basis of presentation. The segmental reporting has been changed in the current period to better represent the way in which the business is managed.

Acquisitions in the year ended 31 December 2001 contributed £22 million and £10 million respectively to turnover and operating profits of the continuing business.

c) Net assets employed by division

Geographical analysis by origin	Net operating assets 31 December 2001 £m	Net operating assets 31 December 2000 £m
North America	**1,287**	998
Europe and Middle East	**676**	630
Australia	**778**	851
Rest of World	**299**	331
Corporate and development	**(205)**	(59)
Net operating assets	**2,835**	2,751
Borrowings	**(1,540)**	(1,178)
Cash and short-term deposits	**643**	107
Deferred tax	**(27)**	(27)
Taxation	**(57)**	(28)
Goodwill – on acquisition of associated undertakings	**24**	136
Goodwill – on acquisition of subsidiary undertakings	**(26)**	(26)
Net assets per consolidated balance sheet	**1,852**	1,735

2 NET OPERATING COSTS BEFORE EXCEPTIONAL ITEMS

		Continuing	Discontinued	Group
	Year ended 31 December 2001 £m	Nine months ended 31 December 2000 £m	Nine months ended 31 December 2000 £m	Nine months ended 31 December 2000 £m
Cost of sales	**383**	205	956	1,161
Other operating costs	**89**	48	499	547
Other operating income	**(80)**	(28)	–	(28)
	392	225	1,455	1,680

3 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

Profit on ordinary activities before taxation is stated after charging/(crediting):				
Depreciation of tangible fixed assets	**95**	40	56	96
Amortisation of intangible fixed assets	**(1)**	–	14	14
Research and development costs	**–**	–	7	7
Development costs net of recoveries and amounts capitalised	**18**	7	–	7
Operating exceptional items (note 8)	**2**	–	227	227
Operating lease premium receivable	**–**	–	(68)	(68)
Property lease rentals payable (net of recoveries)	**3**	5	3	8
(Profit) on disposal of fixed assets (excluding exceptionals)	**(1)**	–	–	–
Foreign exchange (gains)/losses	**1**	(2)	–	(2)
Auditors' remuneration – audit (including audit of the Company of £0.3 million (31 December 2000: £0.4 million))	**0.7**	0.7	0.2	0.9
Auditors' remuneration – other fees paid to the auditors and their associates for services (including services for the Company of £0.8 million (31 December 2000: £6.6 million))	**1.0**	7.3	0.1	7.4

4 INTEREST RECEIVABLE AND SIMILAR INCOME

a) Group interest receivable and similar income

	Year ended 31 December 2001 £m	Continuing Nine months ended 31 December 2000 £m	Discontinued Nine months ended 31 December 2000 £m	Group Nine months ended 31 December 2000 £m
Interest receivable and similar income	**24**	61	22	83

b) Interest receivable of associates

Share of interest receivable of associates	**–**	3	–	3

5 INTEREST PAYABLE AND SIMILAR CHARGES

a) Group interest payable and similar charges

	Year ended 31 December 2001 £m	Continuing Nine months ended 31 December 2000 £m	Discontinued Nine months ended 31 December 2000 £m	Group Nine months ended 31 December 2000 £m
Interest on:				
Bank loans and overdrafts	**103**	79	13	92
Other borrowings	**16**	31	26	57
	119	110	39	149
Finance charges payable on finance leases	**–**	–	12	12
Finance charges on discounting of deferred consideration	**4**	–	–	–
Interest capitalised	**(23)**	(12)	–	(12)
Group interest payable and similar charges – ordinary	**100**	98	51	149
Exceptional interest (note 8)	**29**	–	–	–
Total Group interest payable and similar charges	**129**	98	51	149

b) Interest payable of joint ventures and associates

Share of interest payable of joint ventures	**14**	10	1	11
Share of interest payable of associates	**33**	37	–	37
	47	47	1	48

6 DIRECTORS' AND EMPLOYEES' REMUNERATION

a) Directors' remuneration

Details of Directors' remuneration are set out on pages 35 to 38.

b) Employees' remuneration

Salaries and other staff costs, including Directors' remuneration were as follows:

	Year ended 31 December 2001 £m	Continuing Nine months ended 31 December 2000 £m	Discontinued Nine months ended 31 December 2000 £m	Group Nine months ended 31 December 2000 £m
Wages and salaries	**62**	39	48	87
Social security costs	**3**	2	4	6
Pension costs (note 7)	**4**	2	4	6
Total employees' remuneration	**69**	43	56	99
Less: amounts capitalised as part of assets in the course of construction	**(4)**	–	–	–
Total staff costs	**65**	43	56	99

Employee numbers

Average number of employees during the financial period, analysed by activity was:

	Year ended 31 December 2001	Nine months ended 31 December 2000
North America	**200**	142
Europe and Middle East	**660**	600
Australia	**586**	583
Rest of World	**752**	1,305
Corporate and development	**134**	199
Average number of employees – continuing business	**2,332**	2,829
Average number of employees – discontinued business	**–**	2,127
Total average number of employees	**2,332**	4,956

The total average number of employees for discontinued operations for the nine months ended 31 December 2000 is a pro-rata share of the nine month average.

7 PENSION SCHEME FUNDING

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, one of which was the National Power section. On demerger the Principal Employer became Innogy plc, with International Power plc staff participating temporarily in the Innogy section of the ESPS. As a result, Innogy is now responsible for the management of the scheme and its assets.

The majority of employees taken on in the Rugeley acquisition are members of another section of the ESPS, the Eastern Electricity section.

During the year, contributions have been paid to the Innogy Group based on the actuarial valuation of that Group. The principal assumptions used for that valuation are set out below, and the contributions paid during the year amounted to £1 million.

Valuation date	31 March 1998
Principal assumptions:	
Investment return	8.5%
Salary increases	6.0%
Pension increases	4.0%

The Innogy section of the ESPS will be split in early 2002 after International Power ceases participating in that section. The split will be on a share-of-fund basis as set out in the actuary's memorandum from the Demerger Agreement. The actuarial assumptions and methods used to determine the share of the fund will be those for the formal actuarial valuation of the Innogy section of the ESPS, as at 31 March 2001, to be set by the scheme actuary and agreed between Innogy Group Trustees and Innogy plc.

During the six months since the Rugeley acquisition, contributions have been paid to the Eastern Electricity section based on the terms agreed in that acquisition. Contributions paid during the six months ended 31 December 2001 were less than £1 million.

A transfer payment will be made from the Eastern Electricity section of the ESPS after International Power ceases participating in that section. The transfer payment will be based on assumptions agreed as part of the Rugeley acquisition.

Employees at Hazelwood participate in a standard Australian superannuation fund called Equisuper. 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. At 30 June 2001, the market value of assets was 111% of accrued liabiities. The assets were £39 million (A$111 million) and liabilities were £35 million (A$99 million). The pension cost for 2001 was £1 million. The principal assumptions are set out below:

Valuation date	30 June 2001
Principal assumptions:	
Investment return	8.0%
Salary increases	6.0%
Pension increases	n/a

In other countries employees are members of local social security schemes and in some cases defined contribution plans.

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).

International Power operates defined benefit schemes in the UK and Australia. The most recent actuarial valuations have been updated by independent qualified actuaries to take account of FRS 17 reporting requirements for assessing the liabilities of the schemes at 31 December 2001. The market value of the scheme assets are at 31 December 2001.

Financial assumptions	UK %	Australia %
Discount rate	5.8	7.25
Rate of increase in salaries	4.0	4.0
Inflation rate	2.5	3.0
Increase to deferred benefits during deferment	2.6	n/a
Increases to pensions payments	2.6	n/a

The assets in the schemes and expected rates of return were:

Long-term rate of return expected at 31 December 2001	UK %	Australia %
Equities	7.4	7.5
Bonds	4.9	5.5
Other	–	5.5

Value at 31 December 2001	UK £m	Australia £m	Total £m
Equities	19	23	42
Bonds	16	12	28
Other	–	5	5
	35	40	75

The following amounts at 31 December 2001 were measured in accordance with the requirements of FRS 17:

	UK £m	Australia £m	Total £m
Total market value of assets	35	40	75
Present value of scheme liabilities	(39)	(25)	(64)
(Deficit)/surplus in the scheme	(4)	15	11
Related deferred tax liability	1	(5)	(4)
Net pension (liability)/asset	(3)	10	7

If the above amounts had been recognised in the financial statements, International Power's net assets at 31 December 2001 would be as follows:

	£m
Net assets per consolidated balance sheet	1,852
FRS 17 pension asset	7
Net assets including FRS 17 pension asset	1,859

8 EXCEPTIONAL ITEMS

		Continuing	Discontinued	Group
	Year ended 31 December 2001 £m	Nine months ended 31 December 2000 £m	Nine months ended 31 December 2000 £m	Nine months ended 31 December 2000 £m
Net operating exceptional items charged/(credited):				
Plant closure provision	**–**	–	21	21
Buy-out of PPA contract	**–**	–	206	206
Release of provision in respect of onerous property lease	**(8)**	–	–	–
Bank guarantee charge in respect of a trade investment (note 30)	**10**	–	–	–
Net operating exceptional items	**2**	–	227	227
Non operating exceptional items (credited)/charged:				
Profit on disposal of fixed asset investment (note 26)	**(30)**	–	–	–
Sale/termination of Chinese operations	**(2)**	25	–	25
Demerger costs	**–**	49	4	53
Restructuring costs	**–**	25	2	27
Non operating exceptional items	**(32)**	99	6	105
Exceptional interest charges:				
Australian refinancing charges	**29**	–	–	–
Exceptional interest payable and similar charges	**29**	–	–	–
Total exceptional items	**(1)**	99	233	332

The exceptional items had no material effect on the tax charge for either the year ended 31 December 2001 or the nine months ended 31 December 2000.

9 TAX ON PROFIT ON ORDINARY ACTIVITIES

	Year ended 31 December 2001 £m	Nine months ended 31 December 2000 £m
UK taxation		
Corporation taxation	**1**	(2)
Foreign taxation		
Overseas subsidiary taxation	**29**	9
Share of joint ventures' taxation	**2**	–
Share of associates' taxation	**26**	14
Total taxation on profit on ordinary activities	**58**	21

The tax charge has been reduced by utilisation of brought forward tax losses and the availability of certain overseas tax concessions.

10 PROFIT OF THE PARENT COMPANY

The profit of the parent company for the financial year amounted to £86 million (nine months ended 31 December 2000: loss of £116 million). By virtue of Section 230 of the Companies Act 1985, the Company is exempt from presenting a separate profit and loss account.

11 DIVIDENDS

	Year ended 31 December 2001 £m	Nine months ended 31 December 2000 £m
Demerger dividend	**–**	392

The Group demerger dividend represents the book value of the net assets of the UK energy business as at the date of demerger, which were distributed to shareholders in the form of Ordinary Shares in Innogy Holdings plc.

12 EARNINGS PER SHARE

Earnings/(loss) per share	Year ended 31 December 2001 Group pence	Nine months ended 31 December 2000 Continuing operations pence	Nine months ended 31 December 2000 Group pence
Basic			
Before exceptional items	**12.8**	5.5	13.5
Exceptional items	**0.1**	(8.9)	(29.7)
After exceptional items	**12.9**	(3.4)	(16.2)
Diluted			
Before exceptional items	**12.5**	5.5	13.5
Exceptional items	**0.1**	(8.9)	(29.7)
After exceptional items	**12.6**	(3.4)	(16.2)

Basis of calculation

Earnings	£m	£m	£m
Profit attributable to shareholders before exceptional items	**143**	61	151
Exceptional items	**1**	(99)	(332)
Profit attributable to shareholders after exceptional items	**144**	(38)	(181)
Reduction in interest charge assuming conversion of the Convertible US Dollar Bonds 2005	**7**	–	–
Earnings after exceptional items and taking into account applicable dilutive instruments	**151**	(38)	(181)

Number of ordinary shares	Million	Million	Million
Basic weighted average number of ordinary shares	**1,117.5**	1,116.9	1,116.9
Dilutive potential ordinary shares:			
Employee share schemes	**0.3**	–	–
Convertible US Dollar Bonds 2005	**83.8**	–	–
Weighted average number of ordinary shares taking account of applicable dilutive instruments	**1,201.6**	1,116.9	1,116.9

13 INTANGIBLE ASSETS

The Group	Goodwill £m	Negative goodwill £m	Total £m
Cost			
At 1 January 2001	8	(34)	(26)
Additions	–	(3)	(3)
Exchange rate differences	–	2	2
At 31 December 2001	**8**	**(35)**	**(27)**
Amortisation			
At 1 January 2001	(1)	1	–
Credited in the year	–	1	1
At 31 December 2001	**(1)**	**2**	**1**
Net book value at 31 December 2001	**7**	**(33)**	**(26)**
Net book value at 31 December 2000	7	(33)	(26)

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 2001	151	1,490	919	2,560
Additions	2	21	376	399
Subsidiary undertaking acquired	14	183	–	197
Subsidiary undertakings disposed of	(17)	(40)	–	(57)
Reclassifications and transfers	(66)	583	(524)	(7)
Disposals	(2)	(3)	–	(5)
Exchange rate differences	(2)	(46)	18	(30)
At 31 December 2001	**80**	**2,188**	**789**	**3,057**
Depreciation and diminution in value				
At 1 January 2001	16	330	–	346
Provided during the year	3	88	4	95
Subsidiary undertakings disposed of	(4)	(15)	–	(19)
Disposals	–	(2)	–	(2)
Exchange rate differences	–	(11)	–	(11)
At 31 December 2001	**15**	**390**	**4**	**409**
Net book value at 31 December 2001	**65**	**1,798**	**785**	**2,648**
Net book value at 31 December 2000	135	1,160	919	2,214

Interest capitalised in the year was £23 million. On a cumulative basis, the net book value of interest capitalised is £80 million.

The total value of land that is not depreciated included within freehold land and buildings was £29 million (31 December 2000: £14 million).

b) The Company	Freehold land and buildings £m	Plant, machinery and equipment £m	Total £m
Cost			
At 1 January 2001	1	9	10
Additions	–	3	3
Reclassifications and transfers	1	(4)	(3)
Disposals	(1)	(3)	(4)
At 31 December 2001	**1**	**5**	**6**
Depreciation and diminution in value			
At 1 January 2001	1	2	3
Provided during the year	–	2	2
Disposals	(1)	(2)	(3)
At 31 December 2001	**–**	**2**	**2**
Net book value at 31 December 2001	**1**	**3**	**4**
Net book value at 31 December 2000	–	7	7

15 FIXED ASSET INVESTMENTS

a) The Group	Joint ventures	Associated undertakings			
	Share of net assets £m	Share of net assets £m	Goodwill £m	Other investments £m	Total £m
At 1 January 2001	92	502	136	94	824
Share of post-tax profit	11	76	(4)	–	83
Share of recognised gain	–	2	–	–	2
Distribution and loan repayments	(7)	(52)	–	–	(59)
Disposals	–	(237)	(105)	–	(342)
Exchange rate differences	5	2	(3)	3	7
As at 31 December 2001	**101**	**293**	**24**	**97**	**515**

Included within the Group's share of net assets of joint ventures and associated undertakings is net debt of £487 million.

Group share of associated undertakings' net assets	31 December 2001 £m	31 December 2000 £m
Share of fixed assets	**636**	1,108
Share of current assets	**198**	267
	834	1,375
Share of liabilities due within one year	**(117)**	(302)
Share of liabilities due after more than one year	**(424)**	(571)
	(541)	(873)
Share of net assets	**293**	502

The Group investments that are listed on a recognised stock market are those in Pražská Teplárenská, the Hub Power Company Limited (HUBCO) and Malakoff Berhad. The former is a joint venture, the latter two are associated undertakings.

The Group's share in Pražská Teplárenská was valued at £34 million on the Prague stock market at 31 December 2001 compared with a book value of £65 million.

The Group's share in HUBCO was valued at £54 million on the Karachi and Luxembourg stock markets at 31 December 2001 compared with a book value of £71 million.

The Group's share in Malakoff Berhad was valued at £99 million on the Kuala Lumpur stock market at 31 December 2001 compared with a book value of £131 million.

As a result of circumstances in Kazakhstan whereby International Power plc no longer exercises significant influence over the Karaganda Power Company, and there being no foreseen circumstances in the future where this is likely to change, the investment in the joint venture was reclassified as a trade investment on 1 April 2000. International Power continues to hold 50% of the shares of Karaganda.

Kot Addu Power Company Limited (Kapco), in which International Power holds 36% of the shares, was similarly reclassified as a trade investment on 1 April 2000.

b) The Company	Subsidiary undertakings		Joint ventures	Associated undertakings		
	Investment in £m	Loans £m	Investment in £m	Investment in £m	Other investments £m	Total £m
At 1 January 2001	846	1,061	5	454	87	2,453
Additions	605	304	–	–	–	909
Distribution and loan repayments	(1)	(867)	–	–	–	(868)
Disposals	(23)	–	–	(361)	–	(384)
Amortisation	–	–	–	–	(1)	(1)
Impairments	(3)	–	–	–	–	(3)
Reclassifications and transfers	(80)	167	–	(1)	(84)	2
Exchange rate differences	(1)	26	–	–	–	25
As at 31 December 2001	**1,343**	**691**	**5**	**92**	**2**	**2,133**

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

Within other investments are International Power plc Ordinary Shares held in Employee Share Ownership Plans (ESOPs) to meet the future requirements of the Restricted Share Plan and the Demerger Share Plan (see note 22). At 31 December 2001, the ESOPs held 909,012 International Power plc Ordinary Shares. At 31 December 2001, there were potential awards in respect of 451,710 (31 December 2000: 677,564) Ordinary Shares under the Restricted Share Plan and 269,923 (31 December 2000: 288,359) under the Demerger Share Plan.

16 DEBTORS

	Group		Company	
	31 December 2001 £m	31 December 2000 £m	**31 December 2001 £m**	31 December 2000 £m
Amounts recoverable within one year:				
Trade debtors	**73**	41	**1**	3
Due from subsidiary undertakings	**–**	–	**141**	130
Other debtors	**44**	59	**22**	28
Other prepayments and accrued income	**31**	17	**3**	2
Total amounts recoverable within one year	**148**	117	**167**	163
Amounts recoverable after more than one year:				
Other debtors	**10**	15	**–**	–
Total amounts recoverable after more than one year	**10**	15	**–**	–
Total debtors	**158**	132	**167**	163

17 CURRENT ASSET INVESTMENTS

	Group		Company	
	31 December 2001 £m	31 December 2000 £m	**31 December 2001 £m**	31 December 2000 £m
Current asset investments	**47**	–	**–**	–

Current asset investments are primarily short-term money market deposits used for fund management and treasury purposes.

18 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Company	
	31 December 2001 £m	31 December 2000 £m	**31 December 2001 £m**	31 December 2000 £m
Trade creditors	**65**	51	**2**	8
Amounts due to subsidiary undertakings	**–**	–	**358**	418
Other creditors	**59**	57	**14**	5
Other taxation and social security	**6**	3	**1**	1
Corporation taxation	**57**	28	**21**	21
Accruals and deferred income	**316**	131	**198**	98
Bank loans (secured)	**112**	37	**–**	–
$7\frac{1}{8}$% Euro Dollar Bonds 2001	**–**	51	**–**	51
Total creditors: amounts falling due within one year	**615**	358	**594**	602

The bank loans are secured by fixed and floating charges over the assets of certain subsidiary undertakings.

19 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Group		Company	
	31 December 2001 £m	31 December 2000 £m	**31 December 2001 £m**	31 December 2000 £m
Accruals and deferred income	**5**	6	**–**	–
Other creditors	**3**	5	**–**	1
Bank loans (secured):				
between one and five years	**801**	331	**–**	308
over five years	**338**	484	**–**	–
Total bank loans	**1,139**	815	**–**	308
$6\frac{1}{4}$% Euro Dollar Bonds 2003	**41**	40	**41**	40
2% Convertible US Dollar Bonds 2005	**248**	235	**–**	–
Total bonds	**289**	275	**41**	40
Total creditors: amounts falling due after more than one year	**1,436**	1,101	**41**	349

The bank loans are secured by fixed and floating charges over the assets of certain subsidiary undertakings.

19 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR continued

Convertible bonds

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. On 12 June 2001, full pre-emption disapplication rights were passed at the 2001 Annual General Meeting. In addition, the convertible bond indenture was amended to eliminate the cash redemption feature such that each bond is now fully convertible into Ordinary Shares. Each US$1,000 principal amount of notes will entitle the holder to convert into an 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 notes may be redeemed at the holder's option at a redemption price of 107.1% of its principal amount, together with accrued and unpaid interest, on 24 November 2003.

If the conversion option is not exercised, the convertible unsecured notes will be redeemed on 24 November 2005 at a redemption price of 112.4% of its principal amount.

Provision is made for the possible premium on redemption and included within the carrying amount of the bonds. At 31 December 2001, the amount accrued was £6 million (31 December 2000: £nil). 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.

20 PROVISIONS FOR LIABILITIES AND CHARGES

a) The Group

	Deferred tax £m	Rationalisation and restructuring £m	Liability and damage claims £m	Other £m	Total £m
At 1 January 2001	27	27	4	20	78
Charged to profit and loss	–	–	–	2	2
(Credited) to profit and loss	–	(8)	–	–	(8)
Provisions utilised	–	(8)	(4)	–	(12)
At 31 December 2001	**27**	**11**	**–**	**22**	**60**

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

b) The Company

	Deferred tax £m	Rationalisation and restructuring £m	Liability and damage claims £m	Total £m
At 1 January 2001	27	23	4	54
(Credited) to profit and loss	–	(8)	–	(8)
Provisions utilised	–	(4)	(4)	(8)
At 31 December 2001	**27**	**11**	**–**	**38**

21 DEFERRED TAXATION

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

	31 December 2001 £m	31 December 2000 £m
Full potential deferred tax liabilities		
Tangible fixed assets accelerated capital allowances	**(149)**	(163)
Other timing differences	**(21)**	(26)
Dividends of overseas subsidiary undertakings	**(25)**	(23)
Total gross deferred tax liabilities	**(195)**	(212)
Less: deferred tax liabilities not provided	**168**	185
Total deferred tax liabilities provided	**(27)**	(27)
Full potential deferred tax assets		
Provisions	**8**	7
Tax losses	**19**	41
Other timing differences	**11**	41
Total gross deferred tax assets	**38**	89
Less: deferred tax assets not recognised	**(38)**	(89)
Total deferred tax asset recognised	**–**	–
Net deferred tax liability recognised	**(27)**	(27)

Deferred tax liabilities held by subsidiary undertakings at 31 December 2001 are £nil (31 December 2000: £nil).

The analysis of deferred tax assets less deferred tax liabilities not provided is as follows:

	Accelerated capital allowances £m	Provisions £m	Tax losses £m	Other timing differences £m	Total £m
As at 1 January 2001	(160)	7	41	16	(96)
Movement in respect of the year ended 31 December 2001	14	1	(22)	(27)	(34)
Total deferred tax not provided at 31 December 2001	**(146)**	**8**	**19**	**(11)**	**(130)**

Overseas subsidiary undertakings

Deferred tax in respect of unremitted earnings of overseas subsidiaries is only provided to the extent that there is an intention that profits will be remitted in the foreseeable future.

22 SHARE CAPITAL	**Authorised Ordinary Shares of 50p**	**£m**	**Issued and fully paid Ordinary Shares of 50p**	**£m**
Balance at 1 January 2001	1,700,000,000	850	1,117,461,155	559
Issue of shares under the Sharesave Scheme			87,883	–
Issue of shares under the Executive Share Option Schemes			9,425	–
Balance at 31 December 2001	**1,700,000,000**	**850**	**1,117,558,463**	**559**

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.

Employee share schemes

The Company operates a Sharesave Scheme and an Approved and an Unapproved Executive Share Option Plan. The Sharesave Scheme is savings-related and enables eligible employees to invest up to a maximum permitted level of £250 per month.

		Number of Ordinary Shares (million)		
Note		**Sharesave Schemes**	**Executive Share Option Schemes**	**Total**
a)	Outstanding at 1 January 2001	1.9	9.9	11.8
	Granted	1.5	2.2	3.7
b)	Exercised/lapsed	(1.8)	(4.5)	(6.3)
a)	**Total options outstanding at 31 December 2001**	**1.6**	**7.6**	**9.2**

			Number of Ordinary Shares (million)	
a) Options outstanding	**Option price**	**Date exercisable**	**31 December 2001**	31 December 2000
Sharesave Schemes	246.01p	2002	**0.1**	1.0
	307.51p	2001	**–**	0.1
	307.51p	2003	**–**	0.2
	282.23p	2002	**–**	0.1
	282.23p	2004	**–**	0.1
	250.00p	2003	**–**	0.2
	250.00p	2005	**–**	0.2
	188.00p	2004	**0.5**	–
	188.00p	2006	**0.3**	–
	200.00p	2004	**0.1**	–
	200.00p	2006	**0.6**	–
Executive Share Option Schemes	297.94p	1996-2003	**–**	0.2
	336.21p	1997-2004	**0.1**	0.3
	306.14p	1998-2005	**0.3**	1.0
	323.23p	1999-2006	**0.6**	1.5
	386.09p	2000-2007	**0.7**	1.7
	352.61p	2001-2008	**0.9**	2.3
	311.75p	2003-2010	**2.8**	2.9
	235.00p	2004-2011	**2.0**	–
	217.00p	2004-2011	**0.2**	–
Total options outstanding			**9.2**	11.8

b) Options exercised	Option price	Number of options	Nominal value £	Consideration £
Sharesave Schemes	246.01p	80,318	40,159	197,590
	307.51p	1,902	951	5,849
	282.23p	5,663	2,832	15,983
Executive Share Option Schemes	180.40p	9,425	4,712	17,003
Total options exercised during the year		**97,308**	**48,654**	**236,425**

c) Profit Sharing Share Scheme

In addition to the above, the Company operates an Inland Revenue Approved Profit Sharing Share Scheme. No further appropriations have been made in respect of this scheme. On 31 December 2001, a total of 800,072 shares in International Power plc were held by the Trustee on behalf of 3,201 present and former employees of the Group.

d) Restricted Share Plan

At the EGM of the Company held on 29 September 2000, shareholders approved the establishment of the Restricted Share Plan. Participants in the Plan are full-time Executive Directors who are required to devote substantially the whole of their working time to the duties of the Company and any subsidiaries of the Company (as designated by the Directors). Only Peter Giller participates in this Plan. The Company acquired 677,564 shares in International Power plc for a consideration of £1.7 million in the nine months ended 31 December 2000. On 2 October 2001, 225,854 shares were released to Peter Giller, the balance of shares remaining in trust.

e) Demerger Share Plan

At demerger, the Board of the Company established the Demerger Share Plan to provide an incentive to those employees (other than Executive Directors) who were remaining in continuous full-time employment with the Company. On 3 October 2000, the Board made conditional awards of 288,359 shares to 181 employees of the Company. No specific purchases of shares have been made in respect of this Plan to date as the Company is utilising the balance of shares unallocated from two former employee share plans that ceased operation at demerger (the total number of unallocated shares at 31 December 2001 was 269,923), to meet the vesting of conditional awards under the Demerger Share Plan. Conditional awards will normally vest to participants on the third anniversary of the demerger. During the year, a total of 9,002 shares have been released to individuals ceasing employment with the Company in accordance with their entitlement under the rules of the Demerger Share Plan.

23 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
Balance at 1 January 2001	559	289	140	422	273	1,683
Profit for the financial year	–	–	–	–	144	144
Other recognised gains and losses relating to the year (net)	–	–	–	–	(2)	(2)
Balance at 31 December 2001	**559**	**289**	**140**	**422**	**415**	**1,825**

b) The Company	£m	£m	£m	£m	£m	£m
Balance at 1 January 2001	559	289	140	415	240	1,643
Profit for the financial year	–	–	–	–	86	86
Balance at 31 December 2001	**559**	**289**	**140**	**415**	**326**	**1,729**

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

The cumulative amount of goodwill set off to reserves prior to the adoption of FRS 10, on acquisition of subsidiary undertakings, is £95 million, net of exchange differences (nine months ended 31 December 2000: £95 million).

24 NOTES TO THE CASH FLOW STATEMENT

Note	a) Reconciliation of operating profit/(loss) to net cash inflow/(outflow) from operating activities	Year ended 31 December 2001 £m	Continuing: Nine months ended 31 December 2000 £m	Discontinued: Nine months ended 31 December 2000 £m	Group: Nine months ended 31 December 2000 £m
	Operating profit/(loss)	**163**	59	(109)	(50)
14	Depreciation	**95**	40	56	96
	Other non-cash movements	**–**	–	22	22
13	Goodwill amortisation	**(1)**	–	14	14
	Profit on disposal of fixed assets	**1**	–	–	–
	Movement in working capital:				
	Decrease/(increase) in stocks	**7**	(10)	(31)	(41)
	Increase in debtors	**(21)**	(36)	(47)	(83)
	Increase/(decrease) in creditors	**48**	(15)	119	104
	Movement in provisions	**(18)**	(48)	(313)	(361)
	Net cash inflow/(outflow) from operating activities	**274**	(10)	(289)	(299)
	b) Dividends received from joint ventures and associates				
	Dividends from joint ventures	**7**	10	–	10
	Dividends from associates	**52**	11	–	11
	Total dividends received from joint ventures and associates	**59**	21	–	21
	c) Returns on investments and servicing of finance				
	Other interest and dividends received	**24**	74	1	75
	Debt and loan interest paid	**(97)**	(118)	(36)	(154)
	Debt issue costs paid	**(32)**	–	–	–
	Net cash outflow from returns on investments and servicing of finance	**(105)**	(44)	(35)	(79)
	d) Capital expenditure and financial investment				
	Purchase of tangible fixed assets	**(406)**	(579)	(114)	(693)
15	Repayment of debt by associates	**–**	3	–	3
	Net cash outflow from capital expenditure and financial investment	**(406)**	(576)	(114)	(690)
	e) Acquisition and disposals				
25	Purchase of subsidiary undertakings	**(68)**	(47)	(10)	(57)
	Cash proceeds on sale of subsidiary undertakings	**14**	5	–	5
26	Receipts from sale of investment in associate	**372**	–	–	–
	Other fixed asset investments	**–**	–	(2)	(2)
	Net cash inflow/(outflow) from acquisitions and disposals	**318**	(42)	(12)	(54)
	f) Financing activities				
	Gas swap liability and other hedging activities	**–**	(38)	(140)	(178)
27	Bank loans	**406**	(126)	–	(126)
27	Convertible bond	**–**	250	–	250
23	Share issues	**–**	4	–	4
	Net cash inflow/(outflow) from financing activities	**406**	90	(140)	(50)

Included within the net cash inflow/(outflow) is an outflow of £13 million (nine months ended 31 December 2000: £56 million) in respect of exceptional items.

25 ACQUISITIONS

On 13 July 2001, the Group acquired Rugeley Power Limited, which has been accounted for by the acquisition method of accounting. The assessment of net assets acquired and the consideration payable are given below:

	Book value £m	Fair value adjustments £m	Fair value £m
Tangible fixed assets	197	–	197
Stocks	7	–	7
Debtors	5	–	5
Creditors	(9)	–	(9)
Total net assets acquired	200	–	200
Negative goodwill			(3)
Consideration			**197**

Consideration comprises:	
Cash	68
Deferred consideration	129
Total consideration	**197**

26 DISPOSALS

On 25 July 2001, the Group sold its 25% equity stake in Unión Fenósa Generacion SA. The net assets disposed of and profit on disposal are detailed below:

	£m
Cash consideration	372
Less: investment in associated undertaking	(342)
Profit on disposal	**30**

During the year the Group disposed of the majority of its remaining investments in China for net consideration of £14 million.

27 NET DEBT

	1 January 2001 £m	Exchange differences £m	Other non-cash movements £m	Cash flow £m	31 December 2001 £m
Cash					
Cash at bank and in hand	107	(8)	–	497	**596**
Liquid resources					
Current asset investments	–	(1)	–	48	**47**
Debt financing					
Loans due within one year	(88)	–	–	(24)	**(112)**
Loans due after more than one year	(855)	33	24	(382)	**(1,180)**
Convertible bond	(235)	(7)	(6)	–	**(248)**
Total debt financing	(1,178)	26	18	(406)	**(1,540)**
	(1,071)	17	18	139	**(897)**

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 and prospects. 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 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 2001 was:

	31 December 2001			31 December 2000		
Currency	**Total £m**	**Floating rate financial liabilities £m**	**Fixed rate financial liabilities £m**	Total £m	Floating rate financial liabilities £m	Fixed rate financial liabilities £m
Sterling	**12**	**12**	**–**	47	47	–
US dollar	**1,050**	**318**	**732**	545	286	259
Australian dollar	**474**	**104**	**370**	573	144	429
Czech koruna	**65**	**12**	**53**	24	10	14
Others	**18**	**–**	**18**	–	–	–
Total	**1,619**	**446**	**1,173**	1,189	487	702

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 £370 million of floating rate Australian dollar borrowings as fixed rate, £443 million of floating rate US dollar borrowings as fixed rate and £15 million of variable rate Czech koruna borrowings as fixed rate, in the above table.

In line with policy on translation exposure hedging, the Group has entered into cross currency swaps from sterling into Czech koruna of £38 million.

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 tables below take into account interest rate and currency swaps used to manage the interest rate and currency profile of financial liabilities and financial assets.

	31 December 2001 Fixed rate financial liabilities		31 December 2000 Fixed rate financial liabilities	
Currency	**Weighted average interest rate %**	**Weighted average period for which rate is fixed Years**	Weighted average interest rate %	Weighted average period for which rate is fixed Years
Sterling	**–**	**–**	–	–
US dollar	**6.01**	**4**	4.94	4
Australian dollar	**9.86**	**5**	7.28	6
Czech koruna	**13.02**	**1**	13.02	2
Others	**7.25**	**16**	–	–
Weighted average	**7.38**	**4**	6.53	5

c) Interest rate risk of financial assets

The Group had the following financial assets as at 31 December 2001:

	31 December 2001			31 December 2000		
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	**71**	**71**	**–**	18	18	–
US dollar	**138**	**138**	**–**	15	15	–
Euro	**398**	**398**	**–**	–	–	–
Australian dollar	**71**	**71**	**–**	47	47	–
Czech koruna	**7**	**7**	**–**	27	26	1
Others	**6**	**6**	**–**	–	–	–
Total	**691**	**691**	**–**	107	106	1

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 £250 million are supported on a cash collateral basis at 31 December 2001.

d) Currency exposures

As explained on pages 18 and 19 of the Operating and financial review and prospects, the Group's objectives 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 2001 and 31 December 2000, 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 2001 £m	31 December 2000 £m
In one year or less, or on demand	**127**	88
In more than one year but not more than two years	**390**	319
In more than two years but not more than five years	**749**	298
In more than five years	**353**	484
Total	**1,619**	1,189

f) Borrowing facilities

The Group has substantial borrowing facilities available to it. The committed facilities available at 31 December 2001 in respect of which all conditions precedent have been met at that date amount to £1,502 million. The undrawn element of these were as follows:

	31 December 2001			31 December 2000	
	Facility £m	Undrawn £m	Available £m	Undrawn £m	Available £m
US$540 million Corporate revolving credit facility (October 2004)	**371**	**321**	**321**	–	–
US$1,650 million and £235 million working capital facility (October 2001)	**–**	**–**	**–**	1,032	1,032
US$1,215 million ANP Funding 1 construction and term loan (June 2006)	**835**	**161**	**161**	–	–
US$120 million ANP Funding 1 revolving credit facility (June 2006)	**82**	**82**	**82**	–	–
US$40 million ANP Funding 1 letter of credit facility (June 2006)	**28**	**15**	**15**	–	–
Czk 2,000 million EOP term facility (February 2004)*	**38**	**13**	**–**	12	–
Czk 1,000 million EOP revolving credit facility (February 2004)	**19**	**19**	**19**	17	17
US$99 million Al Kamil term facility (April 2017)	**68**	**3**	**3**	–	–
£43 million Corporate letter of credit facility	**43**	**13**	**13**	–	–
£18 million Subsidiary facilities in various currencies	**18**	**11**	**6**	1	1
Total	**1,502**	**638**	**620**	1,062	1,050

* This can only be drawn once.

28 FINANCIAL INSTRUMENTS continued

Uncommitted facilities available at 31 December 2001 were:

Facility	31 December 2001 Total £m	31 December 2001 Drawn £m	31 December 2001 Undrawn £m	31 December 2000 Total £m	31 December 2000 Drawn £m	31 December 2000 Undrawn £m
Bank borrowing and overdraft facilities	**44**	**–**	**44**	56	–	56
Pelican Point working capital facility	**3**	**–**	**3**	4	–	4
	47	**–**	**47**	60	–	60

Bank borrowing facilities are normally reaffirmed by the banks annually although they can theoretically be withdrawn at any time. These facilities include a £43 million letter of credit facility which becomes committed for any letters of credit that have been drawn. At 31 December 2001, £30 million of letters of credit had been drawn from this facility.

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 2001.

Primary financial instruments held or issued to finance the Group's operations	31 December 2001 Book value £m	31 December 2001 Fair value £m	31 December 2000 Book value £m	31 December 2000 Fair value £m
Short-term borrowings and current portion of long-term borrowings	**(127)**	**(127)**	(88)	(88)
Long-term borrowings	**(1,492)**	**(1,497)**	(1,101)	(1,103)
Cash deposits and current asset investments	**691**	**691**	107	107

Derivative financial instruments held to manage the interest rate, currency profile and exposure to energy prices	Notional book value £m	Carrying value £m	Fair Value £m	Gain/ (loss) £m	Year ended 31 December 2001 Gross gain £m	Year ended 31 December 2001 Gross (loss) £m	Nine months ended 31 December 2000 Gross gain £m	Nine months ended 31 December 2000 Gross (loss) £m
Interest rate swaps and similar instruments	**829**	**–**	**(17)**	**(17)**	**–**	**(17)**	–	(31)
Currency swaps	**(38)**	**–**	**(2)**	**(2)**	**–**	**(2)**	3	(1)
Forward foreign currency contracts	**(74)**	**–**	**(2)**	**(2)**	**1**	**(3)**	1	(3)
Energy derivatives	**–**	**–**	**6**	**6**	**17**	**(11)**	–	(2)

In addition to the above, debtors include £1 million (31 December 2000: £nil) in respect of the fair value of energy derivatives arising from proprietary trading.

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 pages 18 and 19 of the Operating and financial review and prospects, 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. 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 2001	**(31)**	**–**	**(2)**	**(33)**
Gains and (losses) arising in previous periods that were recognised in the year ended 31 December 2001	**(22)**	**2**	**–**	**(20)**
Gains and (losses) arising in the year ended 31 December 2001 that were not recognised in the year	**(8)**	**(2)**	**8**	**(2)**
Unrecognised gains and (losses) on hedges at 31 December 2001	**(17)**	**(4)**	**6**	**(15)**
Of which:				
Gains and (losses) expected to be recognised in the year ended 31 December 2002	**–**	**(3)**	**9**	**6**
Gains and (losses) expected to be recognised in the year ended 31 December 2003 or later	**(17)**	**(1)**	**(3)**	**(21)**

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

29 COMMITMENTS

a) Lease and capital commitments

		Group		Company	
		31 December 2001 £m	31 December 2000 £m	**31 December 2001 £m**	31 December 2000 £m
Capital commitments: contracted but not provided		**166**	314	**–**	–
Property leases (annual commitment):	expiring within one year	**1**	1	**–**	–
	expiring between one and five years	**1**	1	**–**	–
	expiring after five years	**5**	5	**5**	5

b) Fuel purchase and transportation commitments

The Group has contracts with fuel suppliers for the supply and transportation of fuel to its power stations. The expiry of these contracts ranges from 2002 to 2021.

30 CONTINGENT LIABILITIES

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.

   Innogy has agreed to indemnify the Company on an after-tax basis to the extent of 50% of any liability that we 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 June 1994 a complaint was made by the National Association of Licensed Opencast Operators (NALOO) 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 alleges that such a finding would be grounds for a claim for damages in the English courts by members of NALOO. The European Court has ruled that the Commission is under an obligation to investigate the complaint by NALOO. The Company, PowerGen plc, British Coal Corporation and the Commission are appealing against the ruling. It is not practicable to estimate legal costs or possible damages, at this stage.

   Innogy has agreed to indemnify the Company 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, and liquidity.

b) Bonds and guarantees

Various growth and expansion projects are supported by bonds and letters of credit issued by the Company totalling £384 million.

The Company has issued guarantees totalling £74 million. £10 million of this is in respect of the loan facilities of its Elcogas investment. This facility is repayable by Elcogas in 2003. The guarantee relating to Elcogas was provided for in the year ended 31 December 2001.

31 RELATED PARTY TRANSACTIONS

Operations and maintenance contracts

In the course of normal operations, International Power Global Developments Limited, a wholly-owned subsidiary undertaking, 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 £16 million (nine month period ended 31 December 2000: £12 million) from these arrangements. Included in creditors is £3 million in relation to these contracts.

32 POST BALANCE SHEET EVENTS

There were no material post balance sheets events to the date of this report.

33 DETAILS OF PRINCIPAL SUBSIDIARY UNDERTAKINGS, ASSOCIATES AND JOINT VENTURES

Subsidiary undertakings

Name and nature of business	Country of incorporation and registration		Percentage shareholding
Hazelwood Finance Limited Partnership (financing company) *	Australia	Partners' Capital	75%
Hazelwood Power Partnership (power generation) *	Australia	Partners' Capital	92%
Elektrárny Opatovice AS (power generation) *	Czech Republic	Ordinary Shares	99%
International Power Global Developments Limited (project development – overseas)	England and Wales	Ordinary Shares	100%
Pelican Point Power Limited (power generation)	England and Wales ‡	Ordinary Shares	100%
Rugeley Power Limited (power generation)	England and Wales	Ordinary Shares	100%
Deeside Power Development Company Limited (power generation)	England and Wales	Ordinary Shares	100%
National Power International Holdings BV (investment holding company) *	The Netherlands **	Ordinary Shares	100%
Synergen Power Pty Limited (power generation) *	Australia	Ordinary Shares	100%
Thai National Power Company Limited (power generation) †*	Thailand	Ordinary Shares	100%
Midlothian Energy Limited Partnership (power generation) *	US	Partners' Capital	100%
Milford Power Limited Partnership (power generation) *	US	Partners' Capital	100%
ANP Funding I LLC (financing company) *	US	Ordinary Shares	100%
International Power (Cayman) Limited (financing company)	Cayman Islands **	Ordinary Shares	100%
International Power (Europe) Limited (financing company)	England and Wales	Ordinary Shares	100%
ANP Blackstone Energy Company, LLC (power generation) *	US	Ordinary Shares	100%
ANP Bellingham Energy Company, LLC (power generation) *	US	Ordinary Shares	100%
Hays Energy Limited Partnership (power generation) *	US	Partners' Capital	100%
Al Kamil Power Company SAOC (power generation) *	Oman	Ordinary Shares	100%

All subsidiary undertakings operate in their country of incorporation, except as indicated below.
All subsidiary undertakings have December year ends except as indicated below.

* Held by an intermediate subsidiary undertaking.
† Subsidiary undertakings with March year ends.
‡ Operates in Australia.
** Operates in the UK.

Associates

Name and nature of business	Country of incorporation, registration and operation	Accounting period end		Percentage shareholding
Malakoff Berhad (power generation)	Malaysia	31 August	Ordinary Shares	19%
The Hub Power Company Limited (power generation) *	Pakistan	30 June	Ordinary Shares	26%
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%
Shuweihat CMS International Power Company (power generation) *	UAE	31 December	Ordinary Shares	20%
Uni-Mar Enerji Yatirimlari AS (power generation)	Turkey	31 December	Ordinary Shares	33%

* Held by an intermediate subsidiary undertaking.

Joint ventures

Name and nature of business	Country of incorporation, registration and operation	Accounting period end		Percentage shareholding
Pražská Teplárenská AS (power generation) *	Czech Republic	31 December	Ordinary Shares	47%
Hartwell Energy Limited Partnership (power generation) *	US	31 December	Partners' Capital	50%
Oyster Creek Limited Partnership (power generation) *	US	31 December	Partners' Capital	50%

* Held by an intermediate subsidiary undertaking.

CONSOLIDATED PROFIT AND LOSS ACCOUNTS

	Year ended 31 December 2001 £m	Year ended 31 December 2000 Proforma International Power £m	Nine months ended 31 December 2000 £m	Year ended 31 March 2000 £m	Year ended 31 March 1999 £m	Year ended 31 March 1998 £m
Turnover: Group and share of joint ventures and associates	**1,103**	1,002	2,340	4,421	3,672	3,841
Less: share of joint ventures and associates turnover	**(546)**	(606)	(483)	(670)	(663)	(487)
Group turnover	**557**	396	1,857	3,751	3,009	3,354
Net operating costs – ordinary	**(392)**	(323)	(1,680)	(3,185)	(2,348)	(2,582)
Net operating costs – exceptional	**(2)**	(71)	(227)	(1,358)	–	11
Operating profit/(loss)	**163**	2	(50)	(792)	661	783
Share of operating profit of joint ventures and associates	**161**	148	110	140	81	129
Non-operating exceptional items	**32**	(99)	(105)	1,296	–	–
Net interest payable and similar charges	**(152)**	(104)	(111)	(192)	(171)	(173)
Profit/(loss) on ordinary activities before taxation	**204**	(53)	(156)	452	571	739
Profit on ordinary activities before taxation and exceptional items	**203**	117	176	514	571	728
Exceptional items	**1**	(170)	(332)	(62)	–	11
Taxation	**(58)**	(29)	(21)	(17)	(99)	(404)
Profit/(loss) after taxation	**146**	(82)	(177)	435	472	335
Minority interests	**(2)**	(6)	(4)	(1)	1	–
Profit/(loss) for the financial year	**144**	(88)	(181)	434	473	335
Ordinary dividends	**–**	–	–	(175)	(354)	(329)
Demerger dividend	**–**	(392)	(392)	–	–	–
Retained profit/(loss)	**144**	(480)	(573)	259	119	6

Basic earnings per share:						
Excluding exceptional items	**12.8p**	7.3p	13.5p	38.0p	38.3p	48.5p
Attributable to exceptional items	**0.1p**	(15.2)p	(29.7)p	(2.3)p	–	(21.0)p
Including exceptional items	**12.9p**	(7.9)p	(16.2)p	35.7p	38.3p	27.5p
Diluted earnings per share including exceptional items	**12.6p**	(7.9)p	(16.2)p	35.6p	38.2p	27.4p
Dividends per share	**–**	–	–	15.0p	28.6p	27.0p

The above five-year table sets out the consolidated numbers for the National Power PLC group (now International Power plc) except for the proforma year to 31 December 2000 (which is for the continuing operations of International Power). The proforma results include all exceptional items charged in the nine months to 31 December 2000 and one quarter of the exceptional items charged in the year ended 31 March 2000.

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

INTERNATIONAL POWER
Pre exceptional items

	Year ended 31 December 2001 £m	Year ended 31 December 2000 Proforma £m	Nine months ended 31 December 2000 £m	Year ended 31 March 2000 £m	Year ended 31 March 1999 £m
Turnover: Group and share of joint ventures and associates	**1,103**	1,002	762	1,021	1,034
Less: share of joint ventures and associates turnover	**(546)**	(682)	(478)	(664)	(657)
Group turnover	**557**	320	284	357	377
Net operating costs	**(392)**	(247)	(225)	(303)	(356)
Operating profit	**165**	73	59	54	21
Share of operating profit of joint ventures and associates	**161**	148	108	137	76
Profit before interest and taxation	**326**	221	167	191	97

Five-year financial summary continued

CONSOLIDATED BALANCE SHEETS	**As at 31 December 2001 £m**	As at 31 December 2000 £m	As at 31 March 2000 £m	As at 31 March 1999 £m	As at 31 March 1998 £m
Fixed assets	**3,137**	3,012	4,320	5,027	4,850
Stocks	**25**	21	57	147	167
Debtors	**158**	132	647	637	665
Investments	**47**	–	1,269	824	788
Cash at bank and in hand	**596**	107	855	341	281
Current assets	**826**	260	2,828	1,949	1,901
Creditors: amounts falling due within one year	**(615)**	(358)	(1,185)	(1,324)	(1,335)
Net current assets/(liabilities)	**211**	(98)	1,643	625	566
Total assets less current liabilities	**3,348**	2,914	5,963	5,652	5,416
Creditors: amounts falling due after more than one year	**(1,436)**	(1,101)	(2,504)	(2,849)	(2,824)
Provisions for liabilities and charges	**(60)**	(78)	(1,032)	(174)	(173)
Net assets employed	**1,852**	1,735	2,427	2,629	2,419
Net debt	**897**	1,071	490	1,858	1,721
Debt/equity ratio	**48%**	62%	20%	71%	71%
Debt capitalisation	**33%**	38%	17%	41%	42%
Capital expenditure (including acquisitions)	**467**	566	1,296	605	499

Shareholder profile

As at 31 December 2001

CATEGORY OF HOLDINGS	Number of shareholders	Percentage of total shareholders	Ordinary Shares (million)	Percentage of issued share capital
Private individuals	583,252	98.80	198.9	17.80
Nominee companies	6,461	1.10	889.2	79.56
Limited and public limited companies	396	0.07	13.4	1.20
Other corporate bodies	199	0.03	9.8	0.88
Pension funds, insurance companies and banks	27	0.00	6.3	0.56
Total	**590,335**	**100.00**	**1,117.6**	**100.00**

RANGE OF HOLDINGS	Number of shareholders	Percentage of total shareholders	Ordinary Shares (million)	Percentage of issued share capital
1 – 199	196,162	33.23	29.8	2.67
200 – 499	305,592	51.76	81.5	7.29
500 – 999	62,196	10.54	39.9	3.57
1,000 – 4,999	23,283	3.94	40.0	3.58
5,000 – 9,999	1,694	0.29	10.6	0.95
10,000 – 49,999	680	0.12	13.6	1.22
50,000 – 99,999	145	0.02	10.4	0.93
100,000 – 499,999	349	0.06	83.3	7.45
500,000 – 999,999	86	0.01	59.4	5.32
1,000,000 – highest	148	0.03	749.1	67.02
Total	**590,335**	**100.00**	**1,117.6**	**100.00**

Shareholder services and information

Annual General Meeting (AGM)

The 2002 Annual General Meeting (AGM) will be held on Thursday 23 May 2002. Further details will be set out in the Notice of the AGM to be sent out in April 2002.

The Company does not expect to pay any dividends on Ordinary Shares in the forseeable future but intends to retain earnings to fund the development and growth of the business. There is, in any event, a current prohibition on the payment of dividends by the Company by the terms of a Credit Facility, dated 15 October 2001.

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 the *Annual Report*;
- receiving further copies of the *Annual Report* or the *US Accounting Supplement to the Annual Report;*

please contact Lloyds TSB Registrars on 0870 600 3978 or write to them at The Causeway, Worthing, West Sussex BN99 6DA.

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

Share Dealing Services

On behalf of International Power plc 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 2424244.

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Website

The 2001 *Annual Report* and *Summary Annual Report* are available at www.internationalpowerplc.com, which also carries a wide range of other information on the Group.

Financial calendar

Announcement of Q1 results	21 May 2002
Annual General Meeting	23 May 2002
Announcement of interim results for the period ended 30 June 2002	4 September 2002
Announcement of Q3 results	19 November 2002

CCGT	Combined cycle gas turbine - turbines, that are typically fuelled by natural gas, are used to drive generators to produce electricity. The exhaust gases are then passed through a boiler to produce steam that in turn drives an additional turbine coupled to a generator.
CHP	Combined heat and power project.
Cogeneration	The simultaneous generation of heat and electricity, typically where the need for both arises for industrial or commercial purposes.
Demerger Agreement	The demerger agreement dated 21 August 2000 between National Power, Innogy Holdings and Innogy.
ERCOT	The Electricity Reliability Council of Texas
ESPS	Electricity Supply Pension Scheme.
GW	Gigawatt; one gigawatt equals 1,000,000 kW.
GWh	Gigawatt-hour; one GWh represents one hour of electricity consumption at a constant rate of 1 GW.
Heat rate	A measure of the thermal efficiency achieved by a power station.
IPP	Independent power producer.
ISO 14001	The international standard for environmental management systems
kW	Kilowatt; a kilowatt is a unit of power, representing the rate at which energy is used or produced (ie, the product of voltage and current).
kWh	Kilowatt-hour; one kWh represents one hour of electricity consumption at a constant rate of 1 kW.
MW	Megawatt; one MW equals 1,000 kilowatts.
MWh	Megawatt-hour; one MWh represents one hour of electricity consumption at a constant rate of 1 MW.
NEPOOL	New England Power Pool.
NETA	New Electricity Trading Arrangements in England and Wales.
NO_x	Oxides of nitrogen.
OCGT	Open cycle gas turbine. Turbines, typically fuelled by gas-oil, are used to drive the generators to produce electricity.
OFGEM	The Office of Gas and Electricity Markets.
Peak load	The maximum demand during a specified period. This may require use of plant (for example, pumped storage) that is generally idle.
SO_2	Sulphur dioxide.
TW	Terawatt; one TW equals 1,000,000 MW.
TWh	Terawatt-hour; one TWh represents one hour of electricity consumption at a constant rate of 1 TW
WAPDA	The Water and Power Development Authority of Pakistan

Many thanks to the International Power staff from throughout the regions who appear in photographs in this *Annual Report*. Photography by Orla Deevy.

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