

## 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 LEPR, 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 Limited	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.

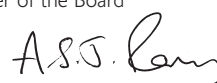
### Auditors

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



Stephen Ramsay  
Company Secretary

18 March 2002