

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

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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 allotted 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 SHARES/SAVE 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.

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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).

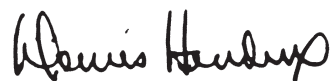
Summary of Directors' Unexercised Sharesave Options (post-demerger adjustment)

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

Beneficial interests

Director	As at 31 December 2001		As at 1 January 2001	
	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