Chief Executive Officer's statement

Dear Shareholder

Our objectives going into 2005 were best summarised in one word – delivery. Namely, delivery of the successful integration of the acquisitions completed in 2004 – particularly the international portfolio of assets acquired from Edison Mission Energy (EME) – delivery of an immediate and significant increase in earnings and cash flow, and delivery of selected growth opportunities that would create both immediate and long-term value for our shareholders. I believe we have made very good progress on delivering these commitments, and I would like to explain some of the main achievements and challenges, and, most importantly, how we intend to build on this platform to create more value for you – our shareholders.

Performance

The integration of EME's international portfolio, comprising nine assets with a net generating capacity of some 3,200 MW, has proceeded very well, with the performance of the portfolio exceeding our acquisition plans. The assets are now fully integrated into our regional management structure, and are managed, operated, and traded alongside our existing portfolio. This has enabled us to eliminate duplicated regional costs, such as the EME London and Melbourne regional offices, and to extract maximum synergies. We did very extensive due diligence work on all the assets and this has been invaluable in setting key objectives and priorities, and allocating resources, both financial and personnel, to areas of highest return. We have made key appointments at some of the larger assets, such as First Hydro in the UK and Paiton in Indonesia, and have rotated the plant managers of Hazelwood and Loy Yang B, our two major assets in Victoria, Australia. These moves are designed to ensure the transfer of best practices between assets and regions, and recognise that we can also benefit and learn from a fresh perspective. The acquisition of Turbogás in Portugal, a 990 MW modern, efficient gas fired plant, was also an important step for us, significantly enhancing our position in this core European market. Again, this asset has performed very well in 2005.

Clearly, these acquisitions have been an important driver of our significant growth in earnings and cash flow, but not the only one, as our base portfolio has also performed well. Overall, our Group delivered an increase in earnings per share (excluding exceptional items) of 57% (up from 8.6p in 2004 to 13.5p in 2005), and an increase in free cash flow of over 174% (from £104 million in 2004 to £285 million in 2005). In light of this strong financial performance, the Board is proposing a dividend of 4.5p per share (2004: 2.5p), an increase of 80% year on year and representing a pay-out ratio of 33%. Let me now give you a brief review of our performance in our five core regions.

In the US, we saw the first signs of the anticipated market recovery in both Texas and New England. A combination of higher gas prices, retirement of older, inefficient plant (particularly in Texas), a warmer summer and steady increases in demand contributed to higher margins for our portfolio of modern efficient gas fired plant. Operational performance was good, with plant availability averaging over 95%. There is still some way to go before we get to full market recovery, which we continue to estimate in the 2007-2009 timeframe, but 2005 was a welcome improvement. Our long-term contracted plants continued to perform well and benefited from a significant contribution from EcoEléctrica in Puerto Rico. Our focus on operational excellence and high plant availability is a constant theme. We expect a further improvement in earnings in the US as our markets recover.

Europe is now the largest regional contributor to our Group's earnings, and benefited from an improvement in the UK wholesale generation market. Power prices were higher in the UK, again principally driven by high oil and gas prices, and this has particularly benefited our Rugeley coal fired plant. First Hydro, our pumped storage hydro unit in the UK, also had a very good year, with strong demand for its very fast response peaking services. 2005 also saw the introduction of carbon dioxide (CO_2) allocations and trading in the UK and Europe – this has worked well, but we are pressing the UK government to provide more clarity on the longer term allocations, as CO_2 is a key element in the cost base for a power plant, and therefore a very important consideration when evaluating further investments. We are strong advocates of a clear UK energy policy that provides a balanced fuel mix, and a level playing field for all participants. We were also delighted to add Saltend (1,200 MW CCGT) to our UK portfolio in 2005. Saltend was acquired with a gas supply contract and is already contributing to our earnings and cash flow. Our assets in continental Europe all performed well

We have delivered on our short-term commitments in 2005: the Group is well positioned in its core markets, and has a stronger base – both financially and commercially. But this is only the start: we are a long-term business and are committed to delivering long-term value.

– with major contributions from International Power Opatovice in the Czech Republic, Turbogás and Pego in Portugal, ISAB in Italy (acquired from EME) and Uni-Mar in Turkey.

Our Middle East portfolio continues to grow and we will see this more fully reflected in the financial results in 2006 onwards, when the current construction projects transition into commercial operation. Our plants in current operation had excellent availability and good financial results. Plants under construction, namely the four cogeneration plants for Saudi Aramco and the power and desalination plant in Qatar are all making good progress, and are scheduled to come into operation on a phased basis through 2006, and early 2007. We were also delighted to recently sign an agreement to acquire an existing power and desalination plant in Bahrain. We continue to review acquisition and new-build opportunities in the Middle East, building on our reputation in the region to win high quality projects – often combining power generation with desalination of water – complete with long-term offtake contracts.

Our earnings were up in Australia year-on-year and this was due to the EME acquisition, with 2005 benefiting particularly from the contribution from Loy Yang B, in Victoria. Underlying market prices for power in our markets of Victoria and South Australia were lower in 2005 and, although we do not expect a short-term correction, we remain confident of future market recovery. A lot has been achieved in Australia during 2005, including the commissioning of our first wind farm (46 MW in South Australia), the successful sale of Valley Power, a peaking plant in Victoria that the Australian competition authorities required us to divest as part of the EME acquisition, and the formation of a retail business in partnership with EnergyAustralia, which is a major established retailer in the region. The latter move gives us an additional route to market and we are actively pursuing initiatives to grow this business.

Our Asian portfolio operates under long-term offtake contracts, and all assets performed very well in 2005. The main reason for the improved profitability in 2005 was the acquisition of Paiton, where we have a 31% interest in this major, modern 1,230 MW coal fired plant in Indonesia, followed by Uch, where we acquired a 40% stake in this efficient gas fired plant in Pakistan.

Cash flow remains a top priority, as this both fuels our dividend policy and provides liquidity for our growth programmes. Our cash flow performance is significantly up in 2005, with free cash flow (namely after all pre-exceptional costs, including interest and tax) at £285 million compared to £104 million in 2004. We remain committed to maintaining good levels of liquidity and a prudent capital structure.

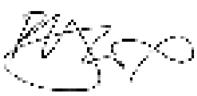
People

Over the last year I have visited every major acquired asset and indeed many of our existing portfolio, and I can confirm that we have not only very high quality assets, but also very experienced, professional, committed and enthusiastic teams in place. I would like to thank everyone for their terrific contribution.

Health, safety and the environment remain at the core of International Power – these initiatives are co-ordinated, monitored and reviewed from the corporate centre to ensure that best practices and experiences are not only shared across the Group, but are primarily implemented at asset and regional level. Every asset in our Group has a detailed programme of initiatives, including community action programmes, and you can read much more about these in our corporate social responsibility section. Health and safety, in particular, are personal responsibilities for everyone within the Group and we encourage and promote individual awareness and responsibility wherever possible.

Prospects

Overall, our Group is well positioned in its core markets, and has a stronger base – financially and commercially – from which to deliver both dividend and earnings growth. We have strong capabilities across the power generation value chain, and can deliver on both greenfield and acquisition opportunities. We have delivered on our short-term commitments in 2005, but this is only a start and we are in no way complacent – we are a long-term business and are committed to delivering long-term value.



Philip Cox
Chief Executive Officer