# Chairman's statement

## We have delivered strong growth in both earnings per share and dividend whilst continuing our commitment to pursue growth opportunities that will create additional shareholder value in the future.

In my last statement to you I set out the Company's objectives for 2005 – these were to focus on the integration and consolidation of our 2004 acquisitions, namely the Edison Mission Energy international asset portfolio and the Turbogás plant in Portugal, whilst ensuring that we delivered on our commitments to shareholders on earnings and dividends.

These objectives were set against the background of our original earnings per share guidance of 11.0p – 12.5p for 2005. In the event I am pleased to report that at the end of the year the Group reported an EPS (excluding exceptional items) of 13.5p. This is a 57% increase on the 2004 result and reflects improvements in the US and UK merchant markets as well as the successful integration of the assets we acquired. The growth in free cash flow from £104 million in 2004 to £285 million in 2005, a 174% increase, demonstrates that these earnings are backed by strong cash flow. The share price has consequently recovered well throughout the year.

In 2005 we made our first dividend payment and indicated that for the payment in 2006 we expected to maintain a dividend pay-out ratio at the 30% level. However, recognising the progress we made last year, both in terms of earnings and free cash flow, the Board has decided to recommend a final dividend of 4.5p per share in respect of the year ended 31 December 2005. This is an 80% increase on the payment in respect of 2004 and represents a pay-out ratio of 33%. It remains the Board's intention to move progressively towards a pay-out ratio of 40%. Payment of this dividend is due to be made towards the end of June following the 2006 Annual General Meeting (AGM), which will be held on 17 May 2006.

The growth in earnings and dividends is a testament to the quality of the contribution made by the Group's employees during the year – from the careful selection of acquisition opportunities and thorough due diligence programmes to the tightly run operating regimes that exist at all of our power plants. I would like to thank both the staff who were part of the Company before the recent important strategic moves as well as those who have now joined the Company and integrated well into the team.

During 2005 we continued to grow the business. Transactions included the acquisition of the 1,200 MW Saltend CCGT in the UK in partnership with Mitsui, the forming of a retail business in partnership with EnergyAustralia in Victoria and South Australia and, at the beginning of this year, we were part of a consortium which has agreed to acquire the Hidd CCGT/desalination plant in Bahrain. All of these acquisitions meet our strategic and financial criteria and will create additional shareholder value in the years ahead.

There have been changes to the Board of Directors. Jack Taylor will be retiring as a Non-Executive Director of the Company at the 2006 AGM and I would like to thank Jack for the six years of excellent service he has given to the Board and the Company.

On 1 June 2005, Bruce Levy joined the Board as an Executive Director with responsibility for the North America region. Bruce joined the Group in December 2004 having worked previously at the US power company, GPU. The Board is pleased with the progress being made in the North American business and held a Board meeting at ANP's headquarters in Boston in November 2005.

2005 is the first year we have produced our accounts in accordance with the newly adopted International Financial Reporting Standards (IFRS). The move from UK GAAP to IFRS has created an extra level of complexity in our reporting but, excluding the impact of IAS 39, has not made a material difference to the Group's reported performance when compared to the way it would have been presented under UK GAAP.

In relation to corporate governance issues, we continue the work to ensure the group is able to comply with s404 Sarbanes Oxley Act for 2006. We reviewed our US listing during 2005 and decided to maintain it although we will keep it under scrutiny to respond to market developments. With regard to the Combined Code we have taken steps to be more compliant, and have used an external facilitator for the first time to carry out our annual Board performance evaluation.

There is currently a significant amount of attention paid by boards, employees and shareholders to the state of UK corporate pension funds. Fortunately, this is not a major issue for International Power due to the relatively small pension deficit.

We expect 2006 to be a year of further growth. This is driven principally by continued recovery in two of our key merchant markets, namely the UK and the US, and our new-build programme in the Middle East progressively reaching commercial operation. We will continue with our disciplined approach to pursuing value enhancing growth opportunities in our core regions, alongside our commitment to increase our dividend pay-out over the medium-term.

Sir Neville Simms
Chairman

- Earnings per share (excluding exceptional items) up 57% to 13.5p
- Dividend payment of 4.5p per share, an 80% increase on 2004
- Strong performance from acquisitions
- 2006 expected to be a year of further growth