



Hazelwood, Australia

- The Board has responsibility for defining the strategy of the business and reviewing the risk policies and profiles of the Group
- The Board has established business values and standards for the Company
- The Board has responsibility for the Group's system of internal control and for monitoring and reviewing its effectiveness
- The Board appointed an external facilitator to carry out the 2005 Board assessment
- The Company has an organisational structure with clear lines of accountability and authority across its worldwide operations

Corporate governance

We are committed to high standards of corporate governance and in this section set out how we comply with the principles in the Combined Code, and explain our reasons for any areas of non-compliance.

The Board

In 2005 the effectiveness of the Board was underpinned by a balance between Executive and Non-Executive Directors. The Board believes that it has the skills and experience necessary to provide effective leadership and control of the Company.

Bruce Levy joined the Board on 1 June 2005 as an Executive Director with responsibility for the North American business. There were no other changes during the year. At the end of the year the Board comprised of the Chairman (Sir Neville Simms), Executive Directors (Philip Cox, Mark Williamson, Tony Concannon, Steve Riley and Bruce Levy) and four Non-Executive Directors (Tony Isaac, Jack Taylor, Adri Baan and Struan Robertson). Sir Neville Simms was considered independent on his appointment as Chairman and the four Non-Executive Directors are considered to be independent. Tony Isaac is the Senior Independent Director.

The structure of the Board is not in strict compliance with the Combined Code in that the number of Non-Executive Directors is less than the number of Executive Directors. However, the Directors consider that the Board currently works effectively to carry out its duties and that the Non-Executive Directors have a strong independent presence at Board meetings to provide an effective counter balance to the Executive Directors. The size and structure of the Board is kept under review.

	Board (seven meetings)	Audit Committee (eight meetings ¹)	Remuneration Committee (four meetings)	Appointments Committee (one meeting)
Sir Neville Simms	7	6	4	1
Philip Cox	7	n/a	n/a	n/a
Adri Baan	7	5	4	1
Tony Concannon	7	n/a	n/a	n/a
Tony Isaac	7	8	4	1
Bruce Levy ²	4	n/a	n/a	n/a
Steve Riley	7	n/a	n/a	n/a
Struan Robertson	7	7	4	1
Jack Taylor	7	8	4	1
Mark Williamson	7	n/a	n/a	n/a

1. The Audit Committee held three main meetings relating to the preliminary statement, the interim statement and audit planning. All members of the Committee attended these meetings. The remainder of the meetings related to quarterly results and US reporting issues.

2. Bruce Levy joined the Board of Directors on 1 June 2005 and attended all Board meetings held since his appointment.

The full Board met seven times during 2005. Attendance by Directors at these and the Board committee meetings held during the year are detailed in the table above.

In addition to the above meetings, a meeting of the Chairman and the Non-Executive Directors was held without the Executive Directors being present. The Non-Executive Directors also met without the Chairman being present. This meeting was chaired by Tony Isaac, the Senior Independent Director, and included a review of the Chairman's performance.

Board membership

In accordance with the Combined Code and the Company's Articles of Association, all Directors submit themselves for re-election every three years and newly appointed Directors are subject to election by shareholders at the first AGM after their appointment. In addition, the Board seeks to maintain a balance between continuity and new blood amongst the Non-Executive Directors.

In accordance with this policy, Jack Taylor is due to step down as a Non-Executive Director at the 2006 AGM. The Board is currently seeking a replacement, using an external agency to find suitable candidates. Bruce Levy, who was appointed to the Board on 1 June 2005, will submit himself for re-election at this year's AGM. In addition, Tony Isaac will submit himself for re-election for a further term of up to three years. Tony Isaac has been a Non-Executive Director of the Company for nearly six years and the Board has therefore assessed whether it is appropriate for him to be re-elected as a Director. Following a review of his performance and contribution to the Board, the commitment to the role demonstrated by him, the need for Board continuity following the retirement of Jack Taylor at this year's AGM and his role as Chairman of the Audit Committee, the Board has decided that it is appropriate for Tony Isaac to seek re-election for a further term as a Director of the Company.

Board training

Arrangements are in place to ensure that newly appointed Directors receive a comprehensive briefing on the Company, and training is provided for Directors on their roles and their legal obligations to ensure that they are fully conversant with their responsibilities as Directors. In accordance with this policy, Bruce Levy received training on his role and responsibilities as a Director following his appointment to the Board. A programme of continuous training is also provided for the Directors. Periodically the Board meets at the site of one of the Group's assets and briefings are also given at Board meetings on particular parts of the business, including regional and functional reviews. During 2005 the Board visited the Group's business in North America where it met the regional management team and received a briefing about the local business operations. At other times the Board has also received a presentation on health, safety and environmental management from the head of operations, and a presentation on investor relations from the head of corporate communications. Directors are also kept informed of changes to the regulatory regime such as the revised UK Listing Rules, new institutional investor guidelines and the US Sarbanes-Oxley Act. All of the Directors have access to the advice and services of the Company Secretary and also to external independent advice should they so wish.

Insurance

The Company has in place appropriate insurance cover in respect of legal action against its Directors.

Operation of the Board

The Board has responsibility for defining strategy, ensuring the successful implementation of approved projects/proposals and for the financial policies of the Group. It also reviews the risk policies and profile of the Group. It maintains a schedule of all matters requiring specific Board approval. Throughout 2005 this included all strategy decisions and significant capital investment proposals and acquisitions. 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. At least once a year, the Chief Executive Officer (CEO) presents a corporate strategy plan to the Board for review and approval. Each investment decision is made in the context of this plan.

The Board has established business values and standards for the Company, which provide a framework for the Company to balance the interests of all its stakeholders in the conduct of its business. The business values (FIRST) are set out in the CSR section of this *Annual Report*. The Company's Code of Business Conduct has been formally adopted by the Board and is set out on the Company's website. This code includes a whistle blowing procedure.

In respect of Board performance for 2005, the Board appointed an external facilitator to carry out the assessment. The assessment was in two parts. The first took the form of a questionnaire completed by each Director relating to the role and performance of the Board, including its committees, and Board priority tasks including strategy and safety. The results of this assessment were reviewed by the whole Board. The second part of the assessment took the form of a questionnaire completed by each Director relating to the effectiveness of individual Directors. The results of this part were reviewed by the Chairman in respect of the whole Board and by each Director for his own performance. The results of the review demonstrated that the Board members were extremely satisfied with the operation of the Board. The contribution by individual Directors to Board and Committee meetings was considered to be high.

Chairman and Chief Executive Officer

There is a clear division of responsibilities at the head of the Company between the roles of the Chairman and the CEO. The Chairman is responsible for the leadership and effective operation of the Board, in terms of its agenda, decision making and the utilisation of the skills and experience of the Directors. He monitors, with the assistance of the Company Secretary, the information provided to the Board to ensure that it is sufficient, pertinent, timely and clear. The Chairman is also responsible for ensuring that there is effective engagement and communication with shareholders. The CEO is responsible for the running of the Company, and leading the executive and operational teams in implementing the strategies approved by the Board.

Philip Cox is also a Non-Executive Director of Wincanton plc. His remuneration from this role is retained by him. His remuneration for the year ended 31 March 2005 was £28,000.

Non-Executive Directors and their function

Through membership of the Board committees, the Non-Executive Directors have responsibilities for: overseeing that systems of internal control and risk management are appropriate and effective; managing the relationship with the external auditors; evaluating the performance of management in meeting targets and objectives; setting the remuneration of Executive Directors; appointing Executive Directors; and planning senior management succession.

Board committees

The Company has established the following committees: the Audit Committee; the Remuneration Committee; and the Appointments Committee. No person other than a committee member is entitled to attend the meetings of these committees, except at the invitation of the Committee. The full terms of reference for each Committee are available on the Company's website: www.ipplc.com.

Audit Committee

The Committee selects and fixes the remuneration of the external auditors and reviews the effectiveness of the external audit process. The Committee also ensures policies and procedures are in place to ensure that the external auditors remain independent. In addition to reviewing the Group's accounts, results announcements, risk management and accounting policies, the Committee monitors the effectiveness of internal control systems for the Board. The Committee monitors 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.

During 2005 the Audit Committee was comprised of all the independent Non-Executive Directors of the Company and the Chairman. At the end of 2005 the Chairman, Sir Neville Simms, resigned from his membership of the Audit Committee. The Audit Committee Chairman is Tony Isaac, who is a Fellow of the Chartered Institute of Management Accountants and, before becoming Chief Executive of The BOC Group plc, was its Group Finance Director. The Company Secretary acts as secretary to the Committee.

Time was set aside for the Committee to meet each of the external auditors and the head of internal audit without executive management present. In addition to the members of the Committee, regular attendees at the Audit Committee meetings included representatives of the external auditors, the CEO, the Chief Financial Officer (CFO), other Executive Directors, the head of financial reporting and the head of internal audit.

Remuneration Committee

The Remuneration Committee is responsible for monitoring the performance of the Executive Directors of the Company against targets, and making recommendations to the Board on remuneration.

The Committee comprises all of the independent Non-Executive Directors of the Company and the Chairman. The Chairman of the Committee is Adri Baan. The Company Secretary acts as secretary to the Committee and the head of human resources at International Power acts as adviser to the Committee. Towers Perrin acts as external adviser to the Committee.

Appointments Committee

The Appointments Committee is responsible for matters of management succession and the identification and appointment of Directors. The Committee comprises of the Chairman and all of the independent Non-Executive Directors of the Company. The Chairman of the Committee is Sir Neville Simms. The head of human resources acts as secretary to the Committee.

Relations with shareholders

The Board is accountable to shareholders for the performance and activities of the Group. International Power ensures that its 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 and on the Company's website. In line with best practice, the Company aims to ensure that the notice of 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 industry analysts and institutional investors to discuss matters of strategy and financial performance. Contact is made principally by the CEO and the CFO. On issues of major importance the Chairman communicates with major shareholders. The Senior Independent Non-Executive Director (Tony Isaac) is also available as an alternative point of contact if shareholders have concerns over the Chairman's performance or where contact with the Chairman or other communication channels would be inappropriate. At each Board meeting an update is given on movements in major shareholdings and on contact programmes between the Executive Directors and institutional shareholders. Reports issued by financial analysts on the Company are circulated to Board members. These summaries and reports enable the Directors to gain an understanding of the views and opinions of those with an interest in the Company. All results presentations and stock exchange announcements are available to shareholders on the Company's website www.ipplc.com.

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

An explanation of the respective responsibilities of the Directors and external auditors in connection with the financial statements is set out on pages 77 and 78. The Directors confirm on page 76 their view that the Group is a going concern.

The Audit Committee has a process in place to approve all non-audit services provided by the external auditor to ensure that the objectivity and independence of the external auditor is not compromised. In line with the requirements of the Sarbanes-Oxley Act, our procedures specify the services from which the external auditor is excluded and the approval process for all other services.



Malakoff, Malaysia

Audit Committee – terms of reference

- Relationship with external auditors – includes fixing the level of remuneration, the scope and adequacy of their audit, their performance and independence
- Financial reporting – reviews all financial reports including consideration of the Group's accounting policies, major judgemental areas and the effectiveness of internal control
- Internal audit – reviews the scope (including the annual plan) of the internal audit function and satisfies itself of its adequacy, particularly in terms of resource
- Risk management review – reviews reports prepared by the Risk Committee to ensure all relevant risks are addressed in the external and internal audit process
- Compliance – ensures there are proper procedures in place to review legislation and regulatory compliance activities



Synergen, Australia

Remuneration Committee – terms of reference

- Ensures that the remuneration package of Executive Directors is maintained on a sensible, comparative and defensible basis and enables the Company to compete effectively for good calibre executives
- Reviews the remuneration levels and other conditions of service of senior executives immediately below Board level

Appointments Committee – terms of reference

- Board structure and appointments – reviews the Board structure, size and composition and makes recommendations to the Board with regard to any changes that are deemed desirable
- Succession – responsible for putting in place plans for succession in relation to key posts immediately below Board level

Internal control

The Board has responsibility for the Group's system of internal control and for monitoring and reviewing its effectiveness.

Systems are in place to meet the requirements of the Combined Code and Turnbull Guidance and procedures and systems are being implemented to ensure compliance with the requirements of the Sarbanes-Oxley Act.

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 organisation 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 CEO and is managed within the strategic guidelines and delegated authorities adopted by the Board. An executive management team, chaired by the CEO and comprising the Executive Directors, regional directors and functional heads, meets regularly to discuss issues facing the Group.

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. All acquisition and investment decisions are subject to disciplined investment appraisal processes. Risk management procedures are in place for the Company's operations, including its energy marketing and trading activities, which are overseen by the Global Commodities Risk Committee, which comprises executive and senior management, and is chaired by the global risk manager. The Group treasury function operates under defined policies and the oversight of the Treasury Committee, chaired by the CFO.

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 for the following four years. Group management reviews the plans with each operational team. The individual plans are based on key economic and financial assumptions and incorporate an assessment of the risk 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 income statement and cash flow. Detailed reports are presented to the Board on a regular basis.

Performance review: Each business unit is subject to performance reviews with Group management regularly during the year. Actual results and forecasts for the year are compared to budget. Key operational and financial results 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, including a review by an Investment Committee chaired by the CEO and comprising the Executive Directors and senior managers. Major projects are subject to Board review and approval.

Corporate reporting: The Company has a Disclosure Committee which is chaired by the Company Secretary and is comprised of members from the internal audit, corporate communications, human resources, operations and engineering, company secretariat and financial reporting departments. It reviews the *Annual Report*, the *Summary Annual Report* and 20F, and also monitors compliance with disclosures required under UK and US reporting regulations.

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 is chaired by the CFO, and has responsibility, on behalf of the Board, 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 the business' 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 reports to the Board and the Audit Committee.

Our risk identification processes enable us to identify risks which can be partly or entirely mitigated through use of insurance, or which we can self-insure. We negotiate best available premium rates with insurance providers on the basis of our extensive risk management procedures. Risks to which we pay particular attention include business interruption, Directors' and officers' liability and property damage.

Energy marketing and trading

The objective of the Group's energy marketing and trading operations is to maximise the return from the purchase of fuel and the sale of the associated output.

For each of the businesses that operate in merchant 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. The committees are made up of the trading manager, global and local risk managers, Directors and senior managers.

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

Energy market risk on our asset and proprietary portfolios is measured using various techniques including Value-at-Risk (VaR). VaR is used where appropriate and 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. Scenario analyses are used to estimate the economic impact of sudden market movements on the value of our portfolios. This supplements the other techniques and methodologies 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 which is based on the Company's objectives and risk profile and is agreed with the Audit Committee. Findings are reported to operational and executive management, with periodic reporting to the Audit Committee.

Business unit managers provide annual self-certification statements of compliance with procedures. 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. Internal audit reviews the statements and reports any significant issues to the Audit Committee.

Compliance with the Combined Code

There were three areas where the Board was not fully compliant with the requirements of the revised Combined Code throughout 2005. After 1 June 2005, following the appointment of Bruce Levy as an Executive Director, there was a majority of Executive Directors over the Non-Executive Directors. The Board has reviewed the structure of the Board and has concluded there is no need at this time to appoint another Non-Executive Director, other than as a replacement for Jack Taylor.

Throughout 2005, the Chairman of the Board, Sir Neville Simms, was a member of both the Audit and Remuneration committees. The Code requires that the Chairman of the Company should not be a member of either of the Audit Committee or the Remuneration Committee. At the end of 2005 Sir Neville Simms' involvement in both the Audit and Remuneration committees was reviewed by the Board. Following the review, and taking into account the views of institutional investors, Sir Neville Simms agreed to resign from the Audit Committee, but retains his membership of the Remuneration Committee. The Chairman of the Remuneration Committee, Adri Baan, is an independent Non-Executive Director and there are three other independent Non-Executive Directors as members of the Committee. Therefore Sir Neville Simms was not in a position to exert any control over the affairs of the Remuneration Committee.

The Senior Independent Director does not have a contact programme to communicate with institutional investors, primarily to avoid potential confusion over channels of communication. During 2005 no institutional shareholder has requested such communication.

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

US corporate governance compliance

The Company has securities registered in the US and, as a result, it is required to comply with those provisions of the Sarbanes-Oxley Act 2002 (the Act) as it applies to foreign private issuers. The Board continues to monitor the new rules arising from the Act and arrangements are also being developed to ensure that the Company will be able to report on its systems of internal controls over financial reporting as required as at 31 December 2006.