

Corporate social responsibility

Our aim is to ensure that International Power is known throughout the world as a responsible, efficient and successful company. Our stakeholders – our employees, shareholders, customers, suppliers, regulators and host communities – expect nothing less of us.

Corporate social responsibility considerations are integral elements of our decisions and they contribute to our global competitiveness and reputation in all areas of our business.

Today's fast-changing world relies increasingly upon electricity. It also demands responsibility from the industry that produces it. For a global wholesale generating company like International Power, this equates to following fair and ethical principles to govern the way we manage and conduct our business. It means working more smartly – by ensuring our key competencies, technical expertise and best practices are properly implemented over a widely dispersed and diverse range of assets to produce power, water and process heat more safely and cleanly.

At stake is our reputation, which is hard to earn and easy to lose. Our aim is to ensure that International Power continues to be known throughout the world as a responsible, efficient and successful company. Our stakeholders – our employees, shareholders, customers, suppliers, regulators and host communities – expect nothing less of us.

This strong commitment to corporate social responsibility (CSR) flows from the top. The Board is briefed regularly on our CSR performance and executive management is committed to delivering high standards of implementation. Consequently environmental and social considerations form part of our strategic decision-making process. This occurs at many levels, from environmental considerations incorporated into evaluations of asset acquisitions, expansions and developments, through to ensuring compliance with licensing and regulatory requirements as a minimum.

Establishing a sound reputation requires commitment at all levels of the Company. We work hard to build long-term sustainable partnerships in the communities in which we operate – particularly for our assets in developing countries. Our strategy is to provide local employment, support the local economy and act as a responsible neighbour and employer whilst contributing to the improvement of local health and education services.

CSR also covers the way we regard, develop and reward our employees. Details of this are contained in the Employees section on pages 60 and 61 of this report.

As with any large industrial process, the environmental impact arising from electricity generation is now subject to international – as well as national, regional and local – scrutiny and regulation. Our continuing obligation is to manage our growing portfolio of assets so as to reduce the environmental impact of our activities. As an example, our partnership with EnergyAustralia, is committed to purchasing 2.1% of its energy from green sources in 2006, an increase of 0.3% from 2005.

Our ability to deliver better performance is demonstrated by our track record in competitive energy markets which is based on our knowledge and experience in the power industry. By disseminating technical expertise widely throughout the Company, we strive to raise overall performance. This has commercial as well as environmental benefits. Effective management systems increase transparency and accountability. By publishing key performance data, we demonstrate publicly how we are putting our principles into practice.

In those instances where we share ownership of an asset, we encourage our partners to adopt our CSR standards and principles, typically through influence at business level board meetings. To date we have had good success with our partners.

In 2005 International Power was ranked 48 in the top 100 companies in the Business in the Community (BiTC) corporate responsibility and environment index which gave substantive peer group recognition of our commitment to continuously improving our CSR performance. This good BiTC ranking in 2005 followed our involvement in the FTSE4GOOD index in which we were included in 2004. The FTSE4GOOD index covers environment sustainability, stakeholder relationships and upholding and supporting universal human rights. We continue to be included within the FTSE4GOOD index, which identifies companies that meet globally-recognised corporate responsibility standards.

International Power's principal day-to-day focus is on achieving its financial objectives. That is the key measure of our success as measured by the financial community and is used internally in determining incentive compensation and for other purposes. Our financial success is critically important because it enables us to fulfil our responsibilities to all of our stakeholders, being: good return for shareholders; better pay and conditions for employees; recognition of successful delivery of products and services to customers; fulfilment of our obligations to our suppliers; and an ability to contribute positively to the needs of the communities in which we operate.

Policy

We believe integral to both achieving our financial objectives and to fulfilling our obligations to all of our stakeholders is careful adherence by all of our personnel to our core business values – FIRST.

Financial discipline

Our aim of long-term financial success depends upon financial discipline. While as a growth company we are entrepreneurial in our approach to investments, we are aware of our duty to protect shareholders' money.

Financial discipline means:

- making realistic risk assessments to value potential investments;
- not overpaying for assets we acquire or develop;
- ensuring that risk can be managed and properly priced;
- cutting out extravagance and waste in business-related expenditures, including administrative and overhead costs.



One of the International Power support vehicles at North Haven Club, Australia

Saving lives in Australia

In 2000 International Power Australia, through Pelican Point power station, funded the purchase of two vehicles for local surf life-saving clubs.

The North Haven and Semaphore Clubs say that the vehicles are the best support they could have received as they are used regularly to patrol local beaches and move life-saving equipment to and from the beach. On average these clubs save four lives each year – 20 since 2000.

Although keeping the beaches safe is their prime concern, the clubs also play an educational role in the community. North Haven primary school has a 'Dolphin Safe' programme where students assist with cleaning rocks in local waterways, making the area safer for the local dolphin population.

Our association with these clubs is ongoing, and further assistance will be considered in the future as part of the Australian business community relations programme.



Hub's mobile medical team at work, Pakistan

Community health project in Pakistan

During June 2005, the mobile medical team run by Hub power station, and staffed by a number of nurses and doctors, treated 31,899 people from 25 villages. In addition to this, 768 patients were treated in Hub's three community centres by lady health visitors.

The community centres have also hosted family planning clinics, mother and child vaccinations, well baby clinics, routine vaccinations, health education sessions and general medical clinics.

Integrity of communication

The Company is run on the basis of honesty, integrity, openness and fairness in business dealings, both internally and externally.

Good business decisions are based on full and good quality information presented clearly and concisely, in time, and with neither a positive nor negative bias. This applies equally to information flowing to and from management.

We seek to build sustainable business relationships based on honest communication. In dealing with our customers, suppliers, partners, investors, other external parties interested in our business (for example, the press or analysts) and our competitors, we operate on the "We say what we mean and we mean what we say" principle.

We will ensure that any corporate reports and any other external communications are complete, understandable and truthful and reflect the proper operations of the Company. At the same time, we will respect our confidentiality obligations.

Respect for the individual

International Power is a capital-intensive company staffed at all levels by highly skilled professionals with a range of expertise. Mutual respect is a key priority, demonstrated by:

- respecting the opinions of colleagues;
- zero tolerance for physical or verbal abuse;
- hiring new professionals with not only the right competencies, but also the proper attitude and work ethic to integrate within International Power;
- applying equal opportunities to all, regardless of their nationality, gender, ethnicity or religion;
- operating our business to the highest professional standards with zero tolerance for any person who compromises these standards.

While we do not guarantee lifetime employment, we do believe every International Power professional should have ample opportunity to use their existing skills and develop new ones to the full. If circumstances change, the Company and the individual will work together to find a fair and amicable separation arrangement.

Safe behaviour

It is relatively easy to introduce corporate policies and procedures which demand compliance, but in essence all unsafe acts or omissions can be avoided if the right attitude and a safe behaviour is automatically applied to everything we do.

This safe behaviour will deliver our Company goal of zero accidents and zero incidents whilst at work and would equally apply when not at work.

We therefore need to understand the right things to do and make sure that they are done properly, with no short cuts or excuses – in short, to behave safely all day, every day.

Team first culture

Our Company's business has evolved from a technology-driven industry into one in which technical skill, project development expertise, construction and procurement know-how, trading capability, financial, IT, legal, human resources, communications, accounting and tax acumen all play a substantial part. Such a complex business depends upon teamwork, with each employee bringing his or her individual skills and expertise to the fore.

Teamwork requires complete sharing of necessary information, inclusion rather than exclusion and a 'lend-a-hand' philosophy at all levels of the organisation.

Meeting our customers' needs calls for us to be customer-focused and responsive. We want our customers to know our team and respect its capabilities.

Keeping people informed

Effective dialogue with different groups of stakeholders is fundamental to successful CSR management. As well as the *Annual Report* to shareholders, we encourage communication through our on-line information service and welcome stakeholder monitoring and comment on our performance.

One initiative, designed to ensure effective communication with our employees, is the biennial International Power Global Forum. This incorporates employees from all areas and levels within the organisation and allows them to take part in discussions on Company-related issues. The Global Forum is a key mechanism to promote dialogue throughout our expanding organisation, ensuring discussion points are incorporated into our business in a meaningful way. The next Global Forum will take place in September 2007.

More informal communication with our employees on International Power's community-related activities is achieved via our internal extranet (ImPact) and *ipworld* (the global magazine). These provide a wealth of information including our performance, policies, latest news, awards, community projects and CSR case studies. Many of our regional businesses and individual power stations also provide information to employees and the local community on items of local interest.

Each asset at local level conducts direct contact with regulators. We continue to monitor and represent the Company's interests on current and future regional, national and international committees.

Any organisation or individual may visit our corporate website – www.ipplc.com – for up-to-date information about the Company and its activities. This information is supplemented by more detailed asset specific information on individual websites.

Health, safety and environment

During 2005, our Health, Safety and Environment Committee was active through inter-regional working groups to harmonise Group-wide policies and met formally four times to manage and communicate health, safety and environmental (HSE) issues. The formal Committee supports the more regular local HSE committee meetings. Continuous communication with individual assets is carried out on an 'as required' basis. HSE issues were reported, through the CEO, at main Board meetings throughout the year.

As well as monitoring performance, the Health, Safety and Environment Committee identifies and pools best practice,

and encourages employees to learn from the experience of their colleagues around the world.

A continuing target for 2006, carried over from 2005, is to review the CSR credentials of our key EPC suppliers. At the same time we work with suppliers to ensure that they understand and can respond to our own CSR policies.

We recognise that regulatory requirements and local cultures differ widely but we are also keen to ensure that all employees are aware of the most appropriate health and safety principles in order to ensure their individual safe behaviour. In 2005 we achieved our target of progressively implementing behavioural safety training systems at a number of our locations. We are now confident that we will be able to build on this achievement and have set a 2006 target to implement behavioural safety initiatives across all of our assets, globally.

By evaluating initiatives and incidents from inside and outside the Company, we are able to refine our health and safety systems. Information is distributed Company-wide as Health and Safety Information Memoranda. Lessons learned are used to promote awareness and encourage best practice.

A key driver of Company policy in the last two years has been to establish a cohesive and consistent approach to HSE management. During 2005, the majority of our assets improved their environmental management systems by moving towards full ISO14001 certification, a programme that will continue to be promoted and encouraged in 2006. A new target for 2006 is to ensure that all International Power assets are certified or are at least working towards certification with the International Health and Safety standard OHSAS 18001 or directly equivalent country standard e.g. AS/NZS 4801 by the end of the year. Progress reports against both these targets will be monitored at the Company's quarterly HSE meetings.

Recognition and benchmarking

Power production is a complex process and our assets operate in competitive markets. Although our power stations throughout the world may use different fuels and different technologies to generate electricity, heat or steam, the way we record and report our CSR performance must be undertaken in a consistent and transparent way. By working to the Global Reporting Initiative and the Association of British Insurers' reporting guidelines we, and our stakeholders, can check and compare our performance with that of other power companies. International Power's annual web-based CSR report is now produced in line with these accepted guidelines.

Positive improvement

In terms of absolute figures our lost-time accidents (LTA) increased in 2005. However, relative to the growth of the Company's portfolio, 2005 proved to be another successful year in terms of LTA performance, improving on the figures for 2004. Examples of outstanding performance include our Milford plant in North America which has reached 3,336 days without an LTA, whilst Midlothian and Pego have all achieved over 1,500 days and Saltend has achieved 1,400 days without an LTA.

During 2005 we achieved improvements in our environmental performance by utilising the latest technology and optimising the way we operate our assets. As an energy company we provide

Tejo Energia, the owning company of the Pego project, has been awarded the Municipal Medal for Social and Economic Merit, recognising Pego's environmental achievements, safety practices and relations with the community.

electricity, heat, steam and water to our customers. Within our 2005 key performance indicators we have considered all of these process outputs in order to provide a more accurate representation of our total outputs, normalised by kWh equivalent. As a result, this method has allowed us to calculate our total output of SO₂, NO_x and CO₂ per kWh equivalent.

Demonstrating excellence

Tejo Energia, the owning company of the Pego project, has been awarded the Municipal Medal for Social and Economic Merit again in 2005. The medal is a prestigious award, subject to a high level of competition. The award recognises Pego's environmental achievements, environmental record, safety practices, relations with the community and partnerships in social projects on a local and regional level.

In Australia, the Hazelwood plant has received the Victorian government's approval for the continuation of its West Field mine development. In return Hazelwood undertook to limit its life-time emission of CO₂ to 445 million tonnes. This is the first time an Australian power generator has made such a commitment to the management of greenhouse emissions.

Targets

International Power has established a systematic dual approach to CSR target setting. Certain targets are set at an asset level (bottom up) via local business plans whilst other more generic targets are set at a corporate level (top down). This dual approach encourages consistency throughout the Company from a corporate level whilst allowing specific local targets to be set which may not be applicable to other sites or regions. In 2006 we will continue to ensure that we include both monitoring of achieved performance (reactive) and forward looking preventative (proactive) targets. A table of targets is available on our website: www.ipplc.com.

This approach allows us to develop and set an appropriate range of targets for our business. Some targets set in 2005 will continue and will be expanded year-on-year as part of an ongoing improvement programme. New performance targets are also added each year, as needed.

Future regulations

As always, one of our key objectives is to comply with all applicable legislation at local, regional, national and international level. We also keep abreast of all forthcoming legislation likely to affect our business. Assessing the likely ramifications for individual assets is the responsibility of the Company's Health, Safety and Environment Committee.

The revised Large Combustion Plant Directive and the EU Emissions Trading Directive are already having an impact at our European assets. We have continued to participate in industry-wide discussions to advise the UK Department of the Environment, Food and Rural Affairs and the Environment Agency for England and Wales on the implementation of both Directives. This is to ensure that the industry's view is voiced in terms of potential impact across the entire sector. International Power has strategies in place to enable our business to comply with the requirements of these key pieces of legislation.

Charitable giving

The Company's Charities and Donations Committee oversees the award of charitable and other donations. In addition to assessing requests and making awards in response to applications for assistance from a variety of charities and good causes, the Committee is also responsible for selecting the Company's community-based nominated charities and annual flagship projects. Donations are also made to alleviate hardship and to support relief efforts in response to natural disasters.

Within our regional businesses, each of our assets has an annual fund for charitable projects in the local area.

Nominated charities

International Power designates a number of organisations as nominated charities for periods of three years, providing a guaranteed level of annual funding over this time to support longer-term projects and planning. In 2005, the decision was made to continue with Sight Savers as one of our nominated charities for another three-year period. This three-year commitment allows us to build a strong relationship with our nominated charity. Sight Savers will be given an annual sum

of £20,000 to fund cataract operations and train medical staff in Pakistan. In addition, we have decided to support the expansion of the Sight Savers eye hospital in Karachi, Pakistan, as a discrete project. We are donating the £50,000 required to fund equipment and instruments for the clinic, which deals specifically with child blindness. Our other nominated charity will continue to be Crisis, a London-based organisation which supports the homeless. Crisis also receives £20,000 per year for a three-year period.

During 2005 International Power and its subsidiaries contributed £1,173,707 to charitable causes and other community projects. Companies in which we have a minority shareholding (associates and joint ventures) contributed a further £662,132.

Flagship projects

Our flagship project programme – selected each year from nominations provided by our staff – has been running for four years. They are community projects funded annually by International Power. Flagship projects can range in size and scope, but they all have the same aim: improving quality of life in different corners of the world. The projects chosen for 2005 included a four-bed intensive care unit in Kot Addu, close to our KAPCO plant, and the refurbishing of a school in Thailand, near our Pluak Daeng plant. Both projects are now complete.

The status of our previous flagship projects can be found on our corporate website: www.ipplc.com.

Our responses to the Hurricane Katrina and Pakistani earthquake disasters

In response to the devastation along the US Gulf Coast caused by Hurricane Katrina, International Power plc's US subsidiary, American National Power, Inc., made a corporate donation to the American Red Cross of US\$50,000 and matched employees' donations up to an additional US\$50,000.

Following the devastating earthquake that hit Pakistan in October 2005, Kot Addu Power Company, Hub Power Company and Uch Power Company together donated over £1 million to President Musharraf's Relief Fund.



Award winners Hassam Fateen and Taha Farooq pictured here with celebrities Patrick Stewart (left) and Danny John Jules (right), and Ken Teasdale of International Power (centre).

Young Environmentalist of the Year

The annual 'Young Environmentalist of the Year' awards took place at the Dorchester Hotel, London in November 2005. The awards, which International Power has co-sponsored since 2001, challenge children to prepare projects highlighting an area of environmental concern and to demonstrate an understanding and empathy with the issue.

This year's winners were Hussam Fateen from Pakistan (13-16 year-olds) with a project on threats to sea turtles in Pakistan and Taha Farooq also from Pakistan (8-12 year-olds) with a project on endangered species.