

Directors' report

Introduction

The Directors submit their report and the audited financial statements of International Power plc (the Company) for the year ended 31 December 2005. The principal activity of the Company is to act as the holding company for a group of companies and a number of associated companies and joint ventures (the Group). The principal activities of the Group are the generation and sale of electricity.

Key information

The following sections form part of this Directors' report:

- Business and financial review (pages 12 to 43);
- Corporate governance (pages 48 to 53);
- Financial risk management objectives and policies (pages 38 and 53);
- Employees (pages 60 and 61);
- Directors' remuneration (pages 64 to 75);
- Current Directors' biographical details and Directors who served through the year (pages 44 and 45).

Dividend

The Directors propose to pay a dividend of 4.5p per Ordinary Share in respect of the year ended 31 December 2005. This dividend has not been included within creditors as it was not approved before the year end. The dividend paid during the year of 2.5p per Ordinary Share represents the dividend in respect of the year ended 31 December 2004.

Charitable and political donations

The Group does not make political donations. Details of charitable donations are set out on pages 58 and 59.

Research and development

Pure research is not a core element of the business of the Company. For the period under review, the Company did not undertake any expenditure on research and development. The Company will look to take advantage of technical advances as they arise and will continue to seek to develop power stations in the regions in which the Group operates making effective use of current and new technology as it arises.

Share capital

During the period 1 January 2005 to 31 December 2005 the Company did not purchase any of its Ordinary Shares.

Resolutions will be proposed at the 2006 AGM to renew for a further year the Directors' general authority to allot shares; to renew for a year the partial disapplication of shareholders' statutory pre-emption rights over Ordinary Shares and, to renew the authority to purchase a proportion of the Company's shares.

An explanation of these and other resolutions being proposed at the 2006 AGM will be provided in the Notice of AGM, which will be sent to shareholders during April 2006.

Shares held in trust

As at 31 December 2005 2,081,573 Ordinary Shares of the Company were held in trust for the benefit of employees of the Company and its subsidiaries. These shares had a nominal value of £1,040,786 and a market value of £4,985,367. The employee share plans for which these shares may be utilised are the 2002 Performance Share Plan and the bonus and share retention plans.

Substantial shareholdings

As at the date of this report, the Company is aware of interests in 3% or more of the issued share capital of the Company on behalf of the organisations as shown in the table below.

Substantial shareholdings	Number of shares
AXA S.A.	74,899,385* 5.08% [†]
Legal and General Investment Management Limited	58,779,494 3.98%
Standard Life Investments Limited	58,397,077 3.96%

* Announced Pre Rights Issue

[†] Percentage figure relates to issued share capital Pre Rights Issue

Going concern

The Directors are satisfied that the Company and the Group have adequate resources to continue to operate for the foreseeable future. Accordingly, the Directors continue to adopt the 'going concern' basis for the preparation of the financial statements.

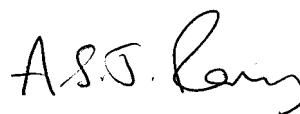
Auditors

A resolution to re-appoint KPMG Audit Plc as auditors of the Company and to authorise the Directors to agree their remuneration will be proposed at the forthcoming AGM.

Prompt payment policy

The Company aims to observe the highest standard of business practice as both a buyer and seller of products and services. The Company's average number of days outstanding in respect of trade creditors at 31 December 2005 was 36 days.

By order of the Board



Stephen Ramsay
Company Secretary
6 March 2006