



First Hydro, UK

- Profit from operations up 168% to £260 million from £97 million last year
- Growth in earnings mainly attributable to First Hydro, ISAB, Turbogás, Saltend and Rugeley
- Successfully completed acquisition and integration of 1,200 MW Saltend CCGT
- Receipt of £68 million compensation at Rugeley from TXU

	Year ended 31 December 2005	Year ended 31 December 2004
	£m	£m
Revenue	1,387	520
Profit from operations (before exceptional items)	260	97
Exceptional items	110	11
Profit from operations (post exceptional items)	370	108

Regional review

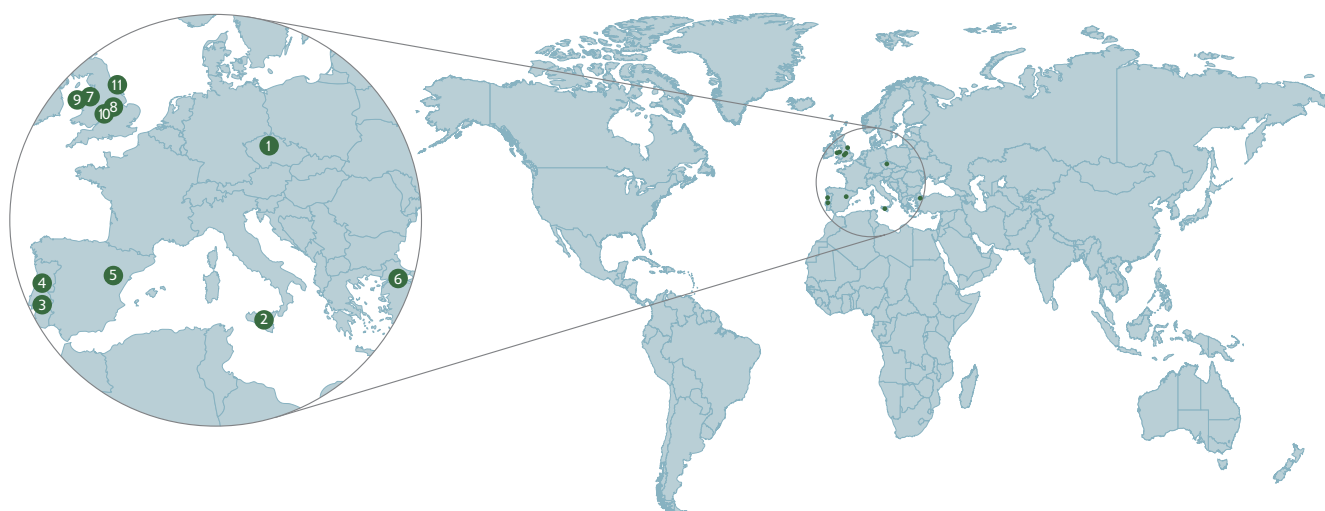
Europe

Europe generated revenue of £1,387 million (2004: £520 million) and profit from operations of £260 million, up from £97 million in 2004. Key contributors to this growth in earnings were First Hydro, ISAB, Turbogás and Saltend, together with a strong improvement in earnings at Rugeley. Spanish Hydro, International Power Opatovice (previously called EOP), Pego and Uni-Mar also performed well.

First Hydro delivered a strong contribution to profits with a robust performance in both the UK wholesale electricity and balancing services markets. High levels of availability and reliability in 2005 once again enabled First Hydro successfully to provide reserve capacity and rapid response services in the market.

In the UK, the rising oil price was a key factor in driving up the price of gas which, in turn, generally sets the price of power. Whilst this helped improve financial performance at Rugeley (which is coal fired with relatively stable fuel costs), underlying spreads for gas fired generation have not improved to the same extent. In 2006, forward markets indicate that both dark and spark spreads should be up on 2005. Approximately 65% of the expected output for 2006 from Rugeley, Deeside and Saltend is now forward contracted.

As a result of the improvement in outlook for dark spreads, we performed a review of the carrying value of Rugeley which was impaired in 2002. As a consequence of this review, we fully reversed the remaining impairment at Rugeley of £52 million.



	Fuel/type	Gross capacity power MW	Net capacity power MW	Gross capacity heat (MWth) steam (million lbs/hr)	Net capacity heat (MWth) steam (million lbs/hr)	
Assets in operation						
1	International Power Opatovice, Czech Republic ⁽¹⁾⁽²⁾	Coal/gas (Cogen)	585	580	1,945 MWth	1,925 MWth
2	ISAB, Italy	Gas (IGCC)	528	181	–	–
3	Tejo Energia (Pego), Portugal	Coal	600	300	–	–
4	Turbogás, Portugal	Gas (CCGT)	990	594	–	–
5	Spanish Hydro, Spain	Hydro	84	57	–	–
6	Uni-Mar (Marmara), Turkey	Gas (CCGT)	480	160	–	–
7	Deeside, UK	Gas (CCGT)	500	500	–	–
8	Derwent, UK	Gas (CCGT)	214	50	–	–
9	First Hydro, UK	Pumped storage	2,088	1,462	–	–
10	Rugeley, UK	Coal/50 MW of OCGT	1,050	1,050	–	–
11	Saltend, UK	Gas (CCGT/Cogen)	1,200	840	0.30m lbs/hr	0.21m lbs/hr
Europe total in operation			8,319	5,774		

⁽¹⁾ In October 2005, Elektrárny Opatovice (EOP) changed its name to International Power Opatovice.

⁽²⁾ Gross capacity amount shown for International Power Opatovice represents the actual net interest owned directly or indirectly by International Power Opatovice.

In February 2006, we confirmed our intention to install flue gas desulphurisation (FGD) equipment at Rugeley. FGD equipment will allow Rugeley to reduce sulphur emissions and operate at a higher load factor. This decision was primarily based on the anticipated longer-term CO₂ allocations for coal fired plant in the UK. We are currently negotiating an Engineering, Procurement and Construction (EPC) contract for this project.

During 2005 Rugeley received £68 million in partial settlement in respect of our claim for compensation for the termination of the TXU tolling agreement in November 2002. A further £15 million was received in January 2006, taking total receipts to £83 million.

The acquisition of Saltend was completed in July 2005 in a 70:30 partnership with Mitsui & Co., Ltd of Japan. Approximately 7% of the plant's generating capacity and all of the plant's steam output

is contracted to BP Chemicals Limited until 2015 with the balance of the power output sold into the UK power market. As Saltend was acquired with a gas contract for its fuel supply, its fuel cost has been largely unaffected by the volatility of UK gas prices in the year. Saltend has delivered a strong financial performance.

In Portugal, Turbogás and Pego continue to perform well with high availability and a high utilisation by the off-taker, REN. In December 2005, we acquired an additional 5% shareholding in the 600 MW Pego power plant (and associated companies) from EdF for a consideration of £5 million, increasing our ownership to 50%, or 300 MW (net). International Power Opatovice delivered another good performance in 2005 due to a strong demand for power and district heating.



Saltend

Europe

In July 2005, Saltend power plant became the latest addition to International Power's UK portfolio when it was acquired in a 70:30 partnership with Mitsui & Co., Ltd of Japan. Saltend is a 1,200 MW combined cycle gas turbine (CCGT) cogeneration plant located near Hull, England. The plant primarily sells its output in the England and Wales power market, and supplies approximately 7% of its power and steam output to the adjacent BP Chemicals site.

Commissioned in 2000, Saltend is one of the latest gas fired plants to be built in the UK, and it is well placed to meet the economic and ecological demands of the UK power market. The plant is committed to continuous improvement and this is reflected in its management systems, which have been accredited with: ISO 9001- 2000 Quality Management; ISO 14001 - 1996 Environment Management; and OHSAS 18001 Occupational Health and Safety Management. Saltend is a premier example of advanced and proven technology built around highly efficient equipment that forms the base of a lasting and successful future.