

**28 SHARE CAPITAL**

	Authorised Ordinary Shares of 50p		Issued and fully paid Ordinary Shares of 50p	
	Number	£m	Number	£m
At 1 January 2005	2,266,000,000	1,133	1,473,269,066	737
Issue of shares under the Sharesave Plan	–	–	858,892	–
Issue of shares under Executive Share Option Plan	–	–	608,679	–
<b>At 31 December 2005</b>	<b>2,266,000,000</b>	<b>1,133</b>	<b>1,474,736,637</b>	<b>737</b>

	Authorised Ordinary Shares of 50p		Issued and fully paid Ordinary Shares of 50p	
	Number	£m	Number	£m
At 1 January 2004	1,700,000,000	850	1,107,091,994	554
Increase in authorised share capital	566,000,000	283	–	–
Issue of shares	–	–	365,540,834	183
Issue of shares under the Sharesave Plan	–	–	33,077	–
Issue of shares under Executive Share Option Plan	–	–	603,161	–
At 31 December 2004	2,266,000,000	1,133	1,473,269,066	737

**Rights Issue**

The Group's Rights Issue closed on 14 September 2004. A total of 366 million Ordinary Shares were issued at 82 pence per share in a 33 for 100 Rights Issue. Of the total £286 million raised (net of £14 million expenses), £183 million was credited to share capital and £103 million to the share premium account.

**Ordinary Shares**

Ordinary Shares rank equally between each other with regard to the right to receive dividends and also in a distribution of assets on the winding up of the Group.

**Deferred shares**

The Group has 21 Deferred Shares of 1 pence each in issue. These shares were issued to ensure the demerger was effected as efficiently as possible. The holders of Deferred Shares have no rights to receive dividends or to attend or vote at any general meeting.

**Unclassified share**

Further to the redemption of the Special Share in August 2000, the Group's authorised share capital includes one unclassified share of £1.

**Employee share schemes****a) Number of shares and exercise prices under Share Option Plans**

The Group operates the following employee share plans for which shares may be issued by the Group out of authorised but unissued share capital upon exercise of options: the UK Approved Sharesave Plans and the Global Sharesave Plans; the UK Approved and Unapproved Executive Share Option Plans; the Global Executive Share Option Plans; and the 2002 Performance Share Plan. The total number of options outstanding at the end of the year was as follows:

	Option price range	Date exercisable	Number of Ordinary Shares	
			Year ended 31 December 2005	Year ended 31 December 2004
Sharesave Plans	70.33p-178.06p	2004-2009	<b>4,783,486</b>	5,963,482
Executive Share Option Plans	62.32p-343.73p	1998-2015	<b>32,687,124</b>	29,770,835
2002 Performance Share Plan	74.79p	2006 onwards	<b>4,276,215</b>	4,276,215
<b>Total options outstanding</b>			<b>41,746,825</b>	40,010,532

Details of each Plan are set out on the following pages:

#### i) Sharesave Plans

The UK Approved Sharesave Plan and the Global Sharesave Plan are savings related and enable employees in the UK and a number of other jurisdictions to invest up to a maximum of £250 (or foreign currency equivalent) per month for the purpose of acquiring shares in the Group. The option prices are fixed at a discount of 20% to the market value of the Group's Ordinary Shares as at the date of grant of the option.

Options are exercisable at the prices set out below. The option exercise period commences either three or five years after the option has been granted (determined at the time that the employee enters into the savings agreement) and if the options remain unexercised after a period of six months following the beginning of the option exercise period, the options expire. Except for certain specific circumstances (e.g. redundancy) options lapse if the employee leaves the Group before the option exercise period commences. Details of the share options outstanding at the end of the year are as follows:

	Option price	Date exercisable	Number of Ordinary Shares	
			Year ended 31 December 2005	Year ended 31 December 2004
	167.37p	2006	10,082	10,082
	178.06p	2004	–	7,496
	178.06p	2006	6,631	6,631
	80.12p	2005	253,314	1,100,049
	80.12p	2007	2,673,050	2,693,549
	97.93p	2006	104,158	119,227
	97.93p	2008	69,582	72,817
	70.33p	2006	800,205	888,915
	70.33p	2008	654,658	780,259
	97.93p	2007	107,329	128,354
	97.93p	2009	104,477	156,103
			<b>4,783,486</b>	<b>5,963,482</b>

The number and weighted average exercise prices of Sharesave options are as follows:

	Year ended 31 December 2005		Year ended 31 December 2004 (restated for Rights Issue)	
	Number of Ordinary Shares	Weighted average exercise price pence	Number of Ordinary Shares	Weighted average exercise price pence
Options outstanding at beginning of the year	5,963,482	79.18	6,742,186	80.34
Exercised during the year	(858,892)	80.67	(33,077)	79.04
Expired during the year	(321,104)	79.45	(745,627)	89.67
<b>Options outstanding at end of the year</b>	<b>4,783,486</b>	<b>78.90</b>	<b>5,963,482</b>	<b>79.18</b>
<b>Options exercisable at end of the year</b>	<b>253,314</b>		<b>7,496</b>	

The weighted average share price at the date of exercise for Sharesave Plan share options exercised during the year was 240.43 pence (2004: 141.66 pence). The share options outstanding at the end of the year have exercise prices in a range from 70.33 pence to 178.06 pence as outlined in the table above.

For these share options outstanding at the end of the year the weighted average remaining contractual life is 2.12 years (2004: 2.89 years).

**28 SHARE CAPITAL** continued**ii) Executive Share Option Plans**

The UK Approved and Unapproved Executive Share Option Plans and the Global Executive Share Option Plans are discretionary employee share option plans. Options are granted to those employees selected to participate in the Plan at the discretion of the Directors of the Company. The exercise price of the options is fixed at the market value of the Company's Ordinary Shares as at the date that the options are granted. The option exercise period is between the third and tenth anniversaries of the date of grant of the options and if the options are not exercised before the expiry of the tenth anniversary of the date of grant then the options lapse. Except for certain specific circumstances (e.g. redundancy) options lapse if the employee leaves the Group before the option exercise period commences or if the employee resigns from the Company. Details of the share options outstanding at the end of the year are as follows:

	Option price	Date exercisable	Number of Ordinary Shares	
			Year ended 31 December 2005	Year ended 31 December 2004
	272.55p	1998-2005	–	294,581
	287.76p	1999-2006	<b>416,298</b>	489,158
	343.73p	2000-2007	<b>499,572</b>	574,892
	313.92p	2001-2008	<b>712,903</b>	776,425
	277.55p	2003-2010	<b>2,574,081</b>	2,864,320
	209.22p	2004-2011	<b>1,612,812</b>	2,044,424
	193.19p	2004-2011	<b>136,076</b>	186,197
	174.50p	2005-2012	<b>3,673,817</b>	4,050,234
	62.32p	2006-2013	<b>10,626,586</b>	11,354,245
	123.53p	2007-2014	<b>6,845,144</b>	7,136,359
	179.25p	2008-2015	<b>5,589,835</b>	–
			<b>32,687,124</b>	29,770,835

The number and weighted average exercise prices of share options are as follows:

	Year ended 31 December 2005		Year ended 31 December 2004 (restated for Rights Issue)	
	Number of Ordinary Shares	Weighted average exercise price pence	Number of Ordinary Shares	Weighted average exercise price pence
Options outstanding at beginning of the year	<b>29,770,835</b>	<b>141.65</b>	26,261,100	145.88
Granted during the year	<b>5,589,835</b>	<b>179.25</b>	6,393,750	123.53
Exercised during the year	<b>(608,679)</b>	<b>142.02</b>	(603,161)	62.32
Expired during the year	<b>(2,064,867)</b>	<b>187.83</b>	(2,280,854)	160.54
<b>Options outstanding at end of the year</b>	<b>32,687,124</b>	<b>145.14</b>	29,770,835	141.65
<b>Options exercisable at end of the year</b>	<b>9,625,559</b>		7,229,997	

The weighted average share price at the date of exercise for Executive Share Options exercised during the year was 232.62 pence (2004: 136.01 pence). The share options outstanding at the end of the year have exercise prices in a range from 62.32 pence to 343.73 pence as outlined in the table above.

For these share options outstanding at the end of the year the weighted average remaining contractual life is 7.1 years (2004: 7.6 years).

**iii) 2002 Performance Share Plan**

Under this Plan, Directors and certain senior managers of the Group are awarded conditional awards over Ordinary Shares in the Group. These conditional awards may vest three years after the awards have been made subject to the satisfactory performance of a performance condition (determined at the time that the conditional awards are made). In 2003 the Group granted to the Trustee of the International Power Employee Share Ownership Trust an option to acquire 3,807,057 Ordinary Shares in the Group at an option price of 84 pence per share. Following the Rights Issue in 2004, the number of shares under option was increased to 4,276,215 and the option exercise price was adjusted to 74.79 pence per share. This option can only be exercised to the extent required to satisfy conditional awards made under the Performance Share Plan. These conditional awards can only vest after the end of the relevant performance period and only to the extent to which the performance conditions have been satisfied.

The above option of 4,276,215 on the Ordinary Shares remained outstanding and unexercised at 31 December 2003, 2004 and 2005 at an exercise price of 74.79 pence per share.

The life of this option is open-ended. It is anticipated that this share option will be utilised to satisfy the release of awards made under the 2002 Performance Share Plan from 2006 onwards. Assuming full vesting of the awards made as at 31 December 2005, it is estimated that this option will have been fully exercised by the end of 2008.

**b) Fair value of options under Share Option Plans****i) Sharesave plans**

No savings related options were awarded during the current or prior year.

**ii) Executive Share Options Plans**

The estimated fair value of the options granted during the year was 47 pence (2004: 32 pence).

These fair values were calculated using the Black-Scholes option pricing model. The inputs into the model were as follows:

	2005	2004
Weighted average share price	<b>179p</b>	124p
Weighted average exercise price	<b>179p</b>	124p
Expected volatility	<b>30%</b>	30%
Expected life	<b>4 years</b>	4 years
Risk free rate	<b>4.84%</b>	4.55%
Expected dividend yield	<b>1.94%</b>	1.94%

Expected volatility was determined by calculating the historical volatility of the Company's share price over the previous six years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

**iii) 2002 Performance Share Plan**

No performance share plan options were granted during the current or prior year.

**c) Managers' share bonus arrangements**

During 2004, 571,710 shares in International Power were acquired in respect of a project incentive arrangement for staff (excluding Executive Directors) for a consideration of £887,497. These shares have been placed in an Employee Share Ownership Trust. No additional purchases were made during 2005 in respect of this plan.

**d) Employee Share Ownership Trust**

A number of International Power plc Ordinary Shares are held in Employee Share Ownership Trusts (ESOTs). These shares are held by the ESOTs to meet awards made under the Group's 2002 Performance Share Plan and the Bonus Share Retention Plan. At 31 December 2005, the ESOTs held a total of 2,081,573 International Power plc Ordinary Shares (2004: 3,398,444). At 31 December 2005 the market value of these shares was £4,985,367 (2004: £5,191,123). The maximum number of shares required to meet all outstanding awards (assuming full vesting of those awards) as at 31 December 2005 was 7,522,005 (2004: 7,772,077).