

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 2003. 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:

- The Operating and financial review (pages 5 to 21).
- Corporate governance (pages 27 to 35).
- Employees (pages 44 and 45).
- Directors' remuneration (pages 46 to 59).
- Current Directors' biographical details and Directors who served through the year (pages 22 and 23).
- Directors who served during the year (page 27).
- Audited financial statements (pages 62 to 91).

Dividend

The Directors do not propose the payment of a dividend for the year ended 31 December 2003.

Charitable and political donations

The company does not make political donations. Details of charitable donations are set out on page 41.

Research and development

Pure research is not a core element of the business of the Company. Therefore, 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 to 31 December 2003, and utilising the authority given by shareholders at the 2003 Annual General Meeting, the Company purchased on the London Stock Exchange 10,652,323 of its own Ordinary Shares at a total cost of £12,847,593. These shares were cancelled by the Company following their purchase.

Resolutions will be proposed at the 2004 Annual General Meeting (AGM) to renew for a further five years 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 2003 AGM will be provided in the Notice of AGM, which will be sent to shareholders during March 2004.

Shares held in trust

As at 31 December 2003, 3,003,312 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 £1,501,656 and a market value of £3,709,090. The employee share plan for which these shares may be utilised is the 2002 Performance Share Plan and the bonus and share retention plan.

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	NO. OF SHARES	
Merrill Lynch Investment Managers Ltd	112,589,353	10.16%
BriTel Fund Trustees Ltd	51,778,561	4.67%
AXA S.A.	39,905,357	3.57%
Legal & General Investment Management Ltd	34,230,622	3.06%
Morley Fund Management Ltd	33,897,293	3.06%

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 accounts.

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 standards 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 2003 was 32 days.

By order of the Board

Stephen Ramsay
Company Secretary
26 February 2004