

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 2006. 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, and closely related activities such as district heating and desalination.

Business review

The Company is required to present a fair review of the business and the Group during the year ended 31 December 2006 and of the position of the Group at the end of the financial year and a description of the principal risks and uncertainties facing the Group (known as a 'Business Review'). The information that fulfils the requirements of the Business Review can be found in the following sections of the *Annual Report*:

- Business and financial review; pages 8 to 43
- Current Directors' biographical details and Directors who served through the year; pages 44, 45 and 49
- Corporate governance; pages 48 to 55
- Employees; pages 62 and 63
- Directors' remuneration; pages 64 to 75.

Dividend

The Directors propose to pay a dividend of 7.9p per Ordinary Share in respect of the year ended 31 December 2006.

Charitable and political donations

The Group does not make political donations. Details of charitable donations are set out in the CR section on page 60.

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 and when available.

Share capital

During the period 1 January 2006 to 31 December 2006 the Company did not purchase any of its Ordinary Shares.

Resolutions will be proposed at the 2007 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 2007 AGM will be provided in the Notice of AGM, which will be sent to shareholders during April 2007.

Shares held in trust

As at 31 December 2006 1,241,452 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 £620,726 and a market value of £4,739,243. The employee share plan for which these shares may be utilised is the 2002 Performance Share 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	Number of shares	
AXA S.A.	74,899,335	5.02%
Standard Life Investments Limited	58,397,077	3.91%
Fidelity Management & Research Co	57,450,450	3.85%
Legal and General Investment Management Limited	51,404,644	3.44%
Aviva plc	45,024,267	3.02%

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.

Disclosure of information to the auditor

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of this information.

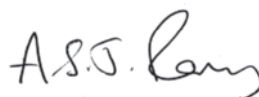
Auditor

A resolution to re-appoint KPMG Audit Plc as auditor of the Company and to authorise the Directors to agree the auditor's 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 2006 was 38 days.

By order of the Board



Stephen Ramsay
Company Secretary
5 March 2007