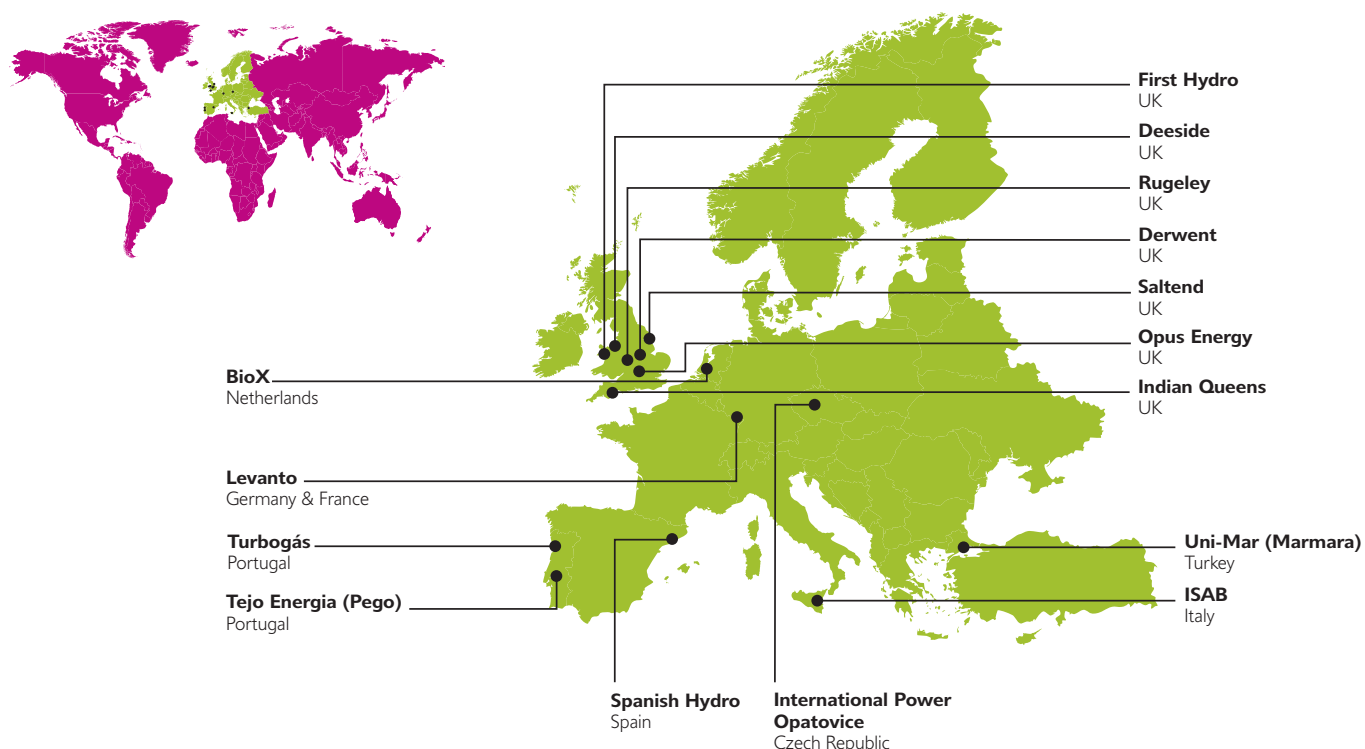


Regional review Europe



Profit from operations increased by 59% to £450 million, from £283 million in 2005. This growth reflects strong contributions from our UK assets, primarily First Hydro, Saltend and Rugeley, and International Power Opatovice in the Czech Republic. Our assets in Iberia, Italy and Turkey are all contracted and continue to deliver good operational and financial performance.

- ➔ Profit from operations increased to £450 million from £283 million last year
- ➔ Strong contribution from the UK business
- ➔ First major wind farm acquisition with purchase of Levanto wind farm portfolio in Germany and France

	Year ended 31 December 2006 £m	Year ended 31 December 2005 £m
Profit from operations	615	370
Exceptional items and specific IAS 39 mark to market movements – (profits)/losses	(165)	(87)
PFO (excluding exceptional items and specific IAS 39 mark to market movements)	450	283

	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)
As at 5 March 2007					
Assets in operation					
International Power Opatovice, Czech Republic ⁽¹⁾	Coal/gas (Cogen)	585	585	2,040 MWth	2,040 MWth
Levanto, Europe	Wind	361	361	–	–
ISAB, Italy	Gas (IGCC)	528	181	–	–
Tejo Energia (Pego), Portugal	Coal	600	300	–	–
Turbogás, Portugal	Gas (CCGT)	990	594	–	–
Spanish Hydro, Spain	Hydro	84	57	–	–
Uni-Mar (Marmara), Turkey	Gas (CCGT)	480	160	–	–
Deeside, UK	Gas (CCGT)	500	500	–	–
Derwent, UK	Gas (CCGT)	214	50	–	–
Indian Queens, UK	Oil (OCGT)	140	140	–	–
First Hydro, UK	Pumped storage	2,088	1,462	–	–
Rugeley, UK	Coal/50 MW of OCGT	1,050	1,050	–	–
Saltend, UK	Gas (CCGT/Cogen)	1,200	840	0.30m lbs/hr	0.21m lbs/hr
Europe total in operation		8,820	6,280		
Assets under construction					
Levanto, Europe	Wind	75	75		
Europe total under construction		75	75		
Other investments					
BioX, Netherlands	Renewable energy company	–	–	–	–
Opus Energy, UK	Independent supplier of electricity to small and medium-size businesses	–	–	–	–

⁽¹⁾ Gross capacity amount shown for International Power Opatovice represents the actual net interest owned directly or indirectly by International Power Opatovice.



Turbogás, Portugal

In the UK, power prices were driven by high gas prices during 2006. With its relatively low and stable fuel (coal) costs, Rugeley benefited from higher power prices and achieved an average spread (excluding CO₂ costs) of £28/MWh, compared to £15/MWh in 2005. First Hydro delivered a strong performance as it benefited from high power price volatility, an improved peak/off peak power price differential, and increased demand for ancillary services. With over 40,000 successful mode changes (the number of times the plant changes from stop to start or from part to full load generation) during the year, an increase of 19% on 2005, and with reliability of almost 100%, operational performance at First Hydro was robust and enabled the plant to capture value from attractive market conditions.

Saltend benefited from a lower-than-market gas cost in 2006 (secured under the indexed gas contract), and operated at a load factor in excess of 90% during the first half of the year. In the second half, after completing a planned outage in Q3, the original equipment manufacturer advised of a further modification required to the gas turbine following a failure at a third party location. This modification work was completed in Q4 2006 and despite the unplanned outage, Saltend was a key contributor to profit growth in the region.

Profit at Deeside improved as the asset used its high flexibility to capture strong peak prices in 2006. This, together with a planned outage in Q1 accounts for its low load factor, which was more than offset by higher achieved prices.

Given the high level of power prices in 2006, we took the opportunity to forward contract most of the output at both Rugeley and Saltend for 2007 and 2008. For 2007, we have contracted 90% of expected output at Rugeley and 95% at Saltend. For 2008, we have contracted 80% of expected output at Rugeley and Saltend.

The installation of flue gas desulphurisation (FGD) equipment, required to significantly reduce sulphur dioxide (SO₂) emissions at Rugeley, is progressing well. The final commissioning of the FGD equipment will be carried out alongside a major planned outage in Q2/Q3 2008. The planned outage and FGD installation will together take approximately 13 weeks, resulting in an expected load factor of 60% in 2008.

The 140 MW oil fired open cycle gas turbine (OCGT) Indian Queens peaking plant in Cornwall was acquired from AES for £32 million and has been integrated into our UK asset portfolio. Since acquisition the asset has performed well and our experience in the balancing and reserve markets should enable us to create additional value from this asset.

In May, International Power acquired a 30% equity interest for a cash consideration of £7 million in Opus Energy, an independent supplier of electricity in the UK that focuses on the small business sector. International Power has a call option on the remaining 70% of Opus, exercisable in 2009.

The mild winter in Q4 2006 resulted in lower heat sales in the Czech Republic although this was more than offset by higher power generation sales and increased year-on-year power prices. This helped International Power Opatovice deliver another strong financial performance.

Construction of FGD and selective catalytic reduction (SCR) equipment at Pego is progressing well and is expected to be completed by mid 2008. As a consequence Pego emissions of SO₂ and oxides of nitrogen (NO_x) will be significantly lower than the limits imposed by the EU Large Combustion Plant Directive (LCPD).

In May, International Power agreed to develop bio-fuel fired plants and Clean Development Mechanism (CDM) projects with BioX Group, one of Europe's leading integrated bio-fuel traders. As part of the agreement, International Power acquired a 10% stake in BioX Group for £8 million, and a call option over the remaining 90%, exercisable in 2010.

In November, International Power completed its first major wind farm acquisition through the purchase of the 436 MW Levanto onshore wind farm portfolio from Christofferson Robb & Company (CRC) for an equity investment of £129 million (including acquisition costs). The Levanto wind farm portfolio comprised 286 MW of capacity in operation, 126 MW under construction and 24 MW of fully permitted capacity. Since acquisition, 75 MW of wind farms under construction have reached commercial operation. The acquisition and our partnership with CRC provides the Group with an immediate renewables business of scale and access to a pipeline of development opportunities in Europe.

	Spread* (£/MWh)			Load factor (%)		
	2005	2006	2007 forecast	2005	2006	2007 forecast
Rugeley	15	28	32	60	55	70
Deeside	12	22	19	60	40	70

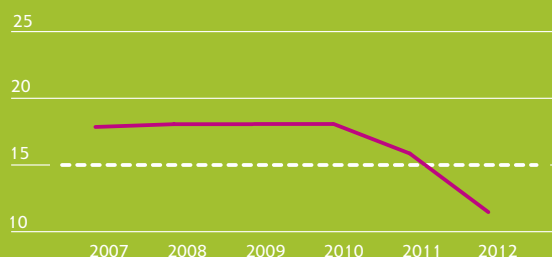
* Excludes CO₂ costs

International Power Opatovice, Czech Republic



→ Projected reserve margin – UK

Peak reserve margin (%)





Indian Queens, UK