

Directors' report

The Directors submit their report and audited financial statements of the Company, International Power plc, and the Group, which includes its subsidiary undertakings, for the year ended 31 December 2002.

Introduction

The operating and financial review on pages 6 to 19, the discussion on corporate governance on pages 25 to 28, the corporate social responsibility review on pages 31 to 35, the discussion in respect of employees on pages 36 to 38 and the Directors' remuneration report on pages 39 to 47 form part of this report. The audited financial statements are presented on pages 50 to 79.

Directors

The names and biographical details of the current Directors of the Company are given on pages 22 and 23. Dennis Hendrix who became a Director of the Company in 1997, served as a Non-Executive Director during the year until he retired from the Board on 23 May 2002.

Principal activity

The Group's principal activity is the generation of electricity.

Dividend

The Directors do not propose the payment of a dividend for the year ended 31 December 2002.

Charitable and political donations

The Company does not make political donations. Details of charitable donations are set out on page 34.

Substantial shareholdings

Substantial shareholdings	No of shares	
Merrill Lynch Investment Managers Ltd	134,400,721	12.02%
Franklin Resources, Inc	42,797,512	3.83%
AXA S.A.	39,905,357	3.57%
Legal & General Investment Management Limited	34,230,622	3.06%

Research and development

For the period 1 January 2002 to 31 December 2002 expenditure on the research and development programme was zero. We will look to take advantage of technical advances as they arise but, currently, pure research is not a core element of the business of International Power. We continue to seek to develop power stations in the regions in which we operate.

Share capital

Resolutions will be proposed at the 2003 Annual General Meeting (AGM) requesting shareholders 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 given with the Notice of AGM, which will be sent to shareholders during April 2003.

Employee shares held in trust

At 31 December 2002, 1,917,414 International Power Ordinary Shares were held in trust for the benefit of current and former employees of the Company. The shares had a nominal value of £958,707 and a market value of £1,835,923. The currently operational employee share plans for which these shares may be utilised are the demerger LTIP, the 2002 Performance Share Plan, Profit Sharing Share Scheme and the Demerger Share Plan.

Substantial shareholdings

As at the date of this report, the Company is aware of the interests in 3% or more of the issued share capital of the Company as shown in the table above.

Going concern

The Directors are satisfied that the Company and the Group have adequate resources to continue to operate for the foreseeable future. For this reason, they continue to adopt the 'going concern' basis for preparing the accounts.

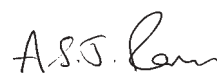
Auditors

A resolution to re-appoint KPMG Audit Plc as auditors of the Company and authorise the Directors to agree their remuneration will be proposed at the AGM.

Prompt payment policy

International Power aims to observe the highest standards of business practice as both a buyer and a seller of products and services. International Power's average number of days outstanding in respect of trade creditors at 31 December 2002 was 34 days.

By order of the Board



Stephen Ramsay
Company Secretary
6 March 2003