

Chairman's statement



2002 was once again a year of significant earnings growth for your Company. EPS at 15.5p (excluding exceptional items) was up 26% on 2001, and profit before interest and tax (excluding exceptional items) was £388 million 19% up on 2001.

In light of these excellent results from a difficult year for our industry we have been disappointed by the decline in our share price over the past year. However, we must recognise that our Company's performance is being assessed against the backdrop of a generation industry facing severe difficulties, both in the US and the UK with many of our principal competitors, particularly in the US, having suffered dramatic reductions in their profitability, severe liquidity problems and subsequent very steep falls in their equity values. Stock market conditions have also been severely depressed.

The question therefore arises as to whether the Company's policy on dividends and/or share buybacks should change. To date, we have not altered our policy because we believe that the changes going on in the generation market should provide us with significant opportunities to grow the value of our business this year. It is, therefore, an

essential part of our strategy, in the current business environment, that we retain sufficient liquidity. Coupled with our available resources, this will be a critical competitive advantage enabling us to grow selectively and thereby deliver long-term shareholder value. However, we are very aware that in these difficult times for investors, returns by companies to their shareholders, as part of their total shareholder return, are increasingly important. Within the boundaries prescribed by our lenders we will be keeping the matter under close review.

At the end of 2002 we implemented the next stage of our management succession plan, when David Crane, Chief Operating Officer since demerger, was promoted to Chief Executive Officer. Peter Giller has moved to the non-executive role of Deputy Chairman. I want to express my gratitude to Peter for his leadership and drive in both successfully establishing International Power as an independent company and in laying the sound foundations for our role as an international power generator. We look forward to his continuing support in the next phase of International Power's growth and development.

Since the year-end, Derek Higgs has released his review on Non-Executive Directors and Sir Robert Smith has issued his report on audit committees. We believe that we are already compliant with most of the main recommendations made, but we will report more fully next year, including addressing and explaining any areas where we do not comply.

In this year's *Annual Report* for the first time we report directly on corporate

sustainability (CSR) an aspect of our business that has been of the highest importance to us and has always been at the forefront of our thinking and business practices. The CSR report contained in this *Annual Report* is of necessity brief; however, we encourage you to obtain and review our fully comprehensive CSR report which is available on our website www.ipplc.com or by writing to the Company Secretary at the address at the end of this document.

The way ahead is clearly challenging and, as we have already indicated, our earnings will be lower in 2003 than they were last year. However, the operational progress made to date by International Power since demerger has been good, reflecting our success in managing a portfolio of plant across a broad geography in a manner that diversifies and mitigates the fundamental risks inherent in the international power industry. Therefore, whilst managing the ongoing weakness in the US and UK markets, we will continue to seek opportunities to grow the asset base of our business in the markets where we are active. Accordingly I commend this *Annual Report* to you.

Sir Neville Simms
Chairman