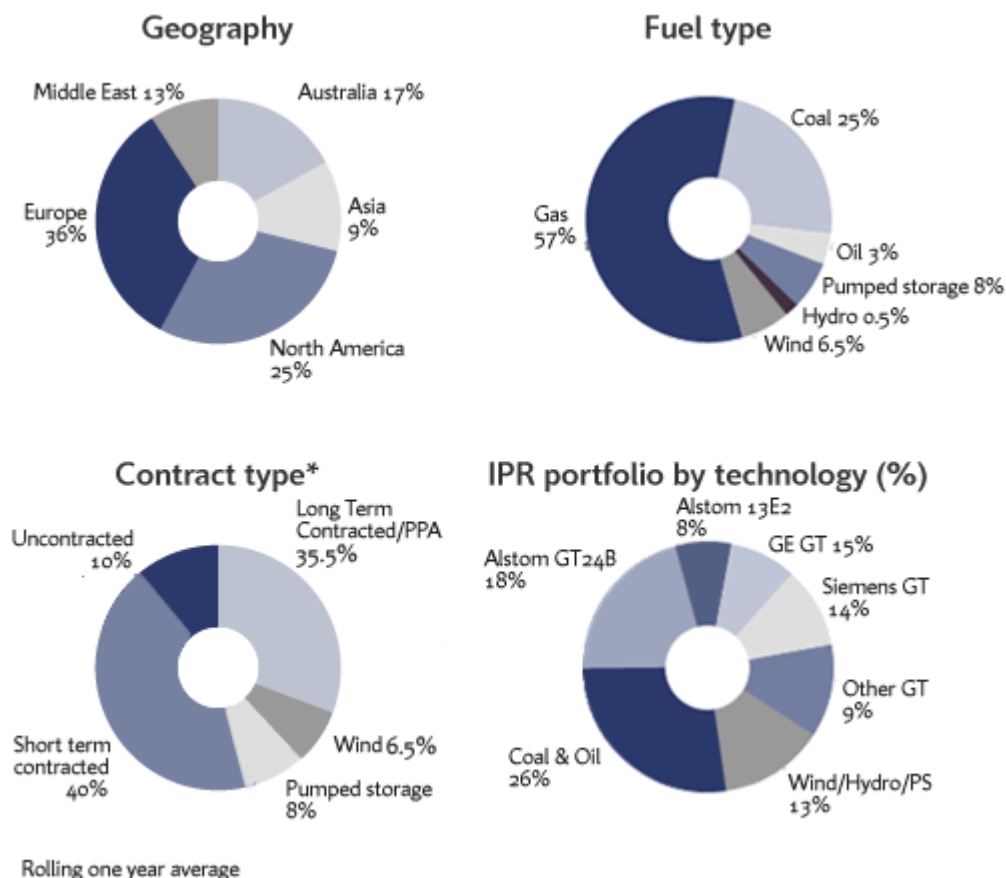


Business Model

International Power plc is a leading independent electricity generating company with interests in over 30,000 MW (gross) of power generating capacity, located in 20 countries. We add value and manage risk through a portfolio management approach, which involves maintaining a balance in the portfolio in terms of geographical spread, fuel diversity and contract type. This portfolio approach gives us access to multiple opportunities to create value whilst mitigating the risks associated with over exposure to any particular market, fuel or contract type.



Note: as at 6 March 2008

Our strategy

We aim to maximise value to our shareholders over time through:

- a portfolio approach;
- maximising the value of our existing portfolio;
- growing the portfolio.

Our portfolio approach

Our balanced geographical presence gives us access to growth opportunities with attractive risk reward profiles whilst protecting the overall business from a downturn in any particular market.

The portfolio approach also extends through to our operational capabilities. We are able to operate a range of power plant technologies, namely thermal, hydro, pumped storage and wind. These technologies produce electricity using different fuel types that include gas, oil, coal and renewable sources such as wind and water. This operational experience allows us to capture opportunities that are most economic and best suited to the market in question.

As electricity is a critical service for any economy, governments carefully decide whether or not they wish to liberalise this key sector. Several governments have retained full control of the sector and others have fully liberalised both the production and supply of electricity. The skills required for operating in liberalised (merchant) or non-liberalised (contracted) markets are very different – and we have both.

The government controlled markets offer opportunities to sell power to government bodies via long-term contracts that offer stable and regulated returns. Assets in the liberalised or merchant markets are subject to the forces of supply and demand, and these markets are generally cyclical and more volatile. Both these markets offer attractive risk/reward environments for investments. International Power maintains a balanced presence in both types of markets, providing the business with a stable platform of contracted earnings and cash flow overlaid by merchant generation which offers greater potential when markets are favourable.

Maximising the value of our existing portfolio

Our specific strategies for value enhancement in each country and for each individual asset are tailored to local requirements, but generally we seek to achieve the following:

- **Optimise the operations of our power plants** We optimise the operation of our power plants through several means, including managing all of our assets to high standards of safety and operating performance; managing our assets on a portfolio basis, particularly with regard to contingency and strategic spare parts planning, so as to minimise the loss of generation during planned and forced outages; closely co-ordinating plant operation with trading activity to maximise the value of our uncontracted output; standardising management reporting for all investments; and utilising our management experience to prepare successfully, certain of our plants, for the introduction of competition in some of the energy markets in which we operate.
- **Leverage our existing assets** We leverage our investments to enhance earnings in several ways, including financing at a variety of corporate, project and intermediate corporate levels; capturing operational, trading, and administrative economies of scale in asset aggregation; capitalising on market knowledge derived through asset ownership and leveraging off the skills, expertise and ideas of the people we and our associates employ.
- **Trade assets to maximise value** We expect to increase the size of our portfolio over time. However, as part of our strategy to maximise the value of our investments, we will sell an asset if this generates a higher return, or if we can obtain a comparable return with lower risk elsewhere.
- **Seek effective routes to market** We seek to improve our access and routes to the market in those geographical areas where it is appropriate. In July 2005, for example, we formed a partnership with EnergyAustralia to supply power and gas to retail customers, predominately in South Australia and Victoria.

Our growth

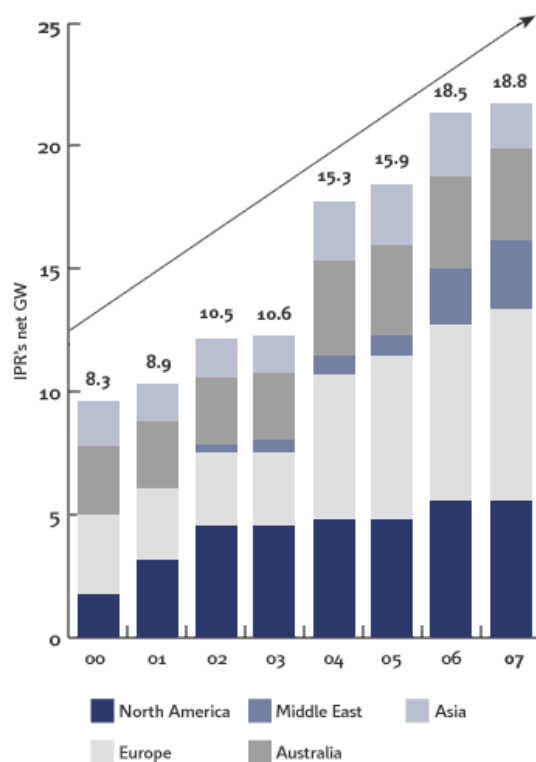
Following the establishment of the business in October 2000, on the demerger of National Power PLC, the Group has grown significantly, more than doubling our operational capacity through successful acquisitions and greenfield developments in our core markets.

Growth continues to be an important part of our business model, and when we look at opportunities we have very clear investment criteria. In merchant markets, we focus on the following key factors:

- the balance of supply and demand for power, both current and future – to ensure that conditions for a wholesale power generator are attractive;
- the regulatory framework – to ensure the market structure encourages open competition, and that the playing field is level;
- ensuring that our assets will deliver reliable power at margins that will support our investment.

Although we do not take any significant price risk in our long-term contracted markets, we do look for many of the same key factors. Essentially, we want to ensure that we generate power that is affordable to the local economy, that we are in countries that have high growth in demand and encourage inward foreign investment, and that our plants are well situated close to the major centres of demand. We do, of course, require all the necessary legal and contractual safeguards in our offtake contracts, but our best guarantee of long-term contractual security is the economic viability of the power plant in the local economy in which it operates.

We review very carefully market fundamentals before making any investment in new markets. We consider entering into alliances with other companies through partnerships, if we believe such alliances will enable us to implement our strategy, in relation to particular markets or more generally. We ensure that all acquisitions and greenfield projects are quickly and efficiently integrated into our regional business structures. The expected returns from the acquisitions are built into regional business performance targets and we measure delivery against these targets at a regional and Group level through growth in profit from operations, earnings per share (EPS) and free cash flow.



Note: as at 31 December 2007

Our overarching criterion, irrespective of the market structure in which we operate, is that our investments make money for our shareholders over the long-

term. We subject new investment opportunities to rigorous evaluation criteria, with a focus on the following elements:

- **Financial return** New investments must meet stringent financial return criteria. We use a range of financial criteria in our project evaluations including assessing the effect of the transaction on our financial key performance indicators (KPIs); profit from operations, EPS and free cash flow, but the fundamental principle is that we must reasonably believe any prospective capital investment will yield, on an after-tax cash flow basis, a return (adjusted for risk) in excess of our estimated cost of capital. As part of this evaluation, we test investment Projections to ensure that they are both reasonable over the life of the investment and balanced in terms of timing of cash flow, based on realistic assumptions.
- **Market suitability** We intend to invest in countries that have a track record of respecting foreign direct investment, that offer a significant opportunity for future investment and growth, have strong market fundamentals in terms of demand/supply balance and that complement our portfolio of assets.
- **Degree of control** We focus our investments where we have a controlling share or are otherwise able to contribute directly to the realisation of projected return on investment. Generally we do not intend to make passive investments. In some cases we have agreed to share management control of our investments where we have partners that have complementary or similar commercial, technical and operating expertise.

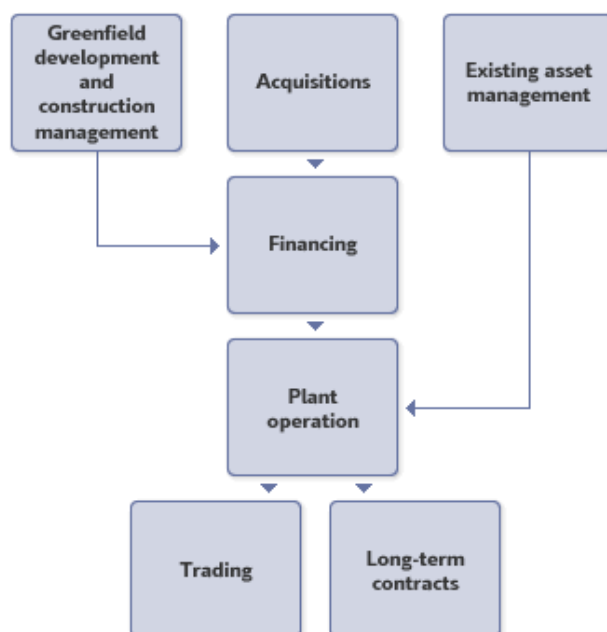
With non-recourse project debt as a fundamental building block, our capital structure is prudently balanced to provide us with the flexibility to carry out growth initiatives without overstressing our financial resources. We have access to multiple financial resources – including strong cash generation from our portfolio, our borrowing facilities and capacity, and our partnering capabilities – to execute selected opportunities which meet our stringent investment criteria.

In addition to pursuing the development and acquisition of single assets, we will also seek to acquire portfolios of generation assets if they become available on attractive terms.

In conjunction with our focus on value enhancing growth opportunities, we also remain committed to delivering free cash flow needed to fund that growth and, of course, our dividend policy.

Our capabilities

The Company's core capabilities for implementing our strategy can be categorised into the following seven areas:



International Power's high quality asset portfolio, together with the capabilities of our teams around the world, forms a strong combination for revenue optimisation, effective risk management and future growth in earnings and cash flow.

International Power has in-depth experience in plant operations and engineering. This not only ensures smooth plant operations, but also ensures that we understand all operational and technical issues relating to the potential acquisition or development of new power plants. Today, the Group has skills to execute power projects right from inception through to the delivery of power in the most advanced and complex traded markets of the world.

Greenfield development and construction management We have excellent experience of developing large capital intensive infrastructure projects – from selecting the appropriate site to securing multiple government/stakeholder approvals and project managing the entire construction programme right through to successful commercial operation. International Power's successful growth in the Middle East is the most graphic example of our greenfield development expertise, where, in the six years from 2000 to 2006 the Company has developed and has an interest in six major projects with a total enterprise value of approximately £4 billion.

Acquisitions We have demonstrated our ability to execute acquisitions at the right time and at the right value, together with the capability to integrate quickly and seamlessly newly acquired assets into the portfolio. An excellent example of International Power's acquisition capabilities is the successful purchase of the EME international asset portfolio, in association with Mitsui, which was completed in late 2004. The portfolio has since met or exceeded financial and operational performance targets. Other examples are the acquisitions of Saltend (UK) in 2005, and Coleto Creek (Texas) in 2006.

Financing Given the very capital intensive nature of our business, the ability to fund projects is vital for success. International Power has consistently proven its financing capabilities through the execution of numerous greenfield and acquisition financings, together with refinancings of existing assets. We have

completed this in different parts of the world, under different circumstances and through the combined use of local and international capital. As examples, Shuweihat S1 and Umm Al Nar, two power and water projects in the Middle East, were both financed in a challenging geopolitical environment, and Saltend, when acquired in 2005, was the first merchant plant in the UK to be project financed with non-recourse debt in over five years. In 2006 we refinanced Rugeley power station in the UK and successfully put in place project finance for the acquisition of Coleto Creek in Texas. Non-recourse project finance is at the core of International Power's financing strategy and capital structure – this provides the most appropriate level of debt for each asset and also excellent risk mitigation for the Group.

Plant operations We have comprehensive power station operational experience and skills. Through-life engineering and maintenance plans, meticulously implemented, ensure maximum availability and are key for delivering value in both our merchant and long-term contracted markets. Effective plant operations are enhanced by ensuring information is shared around the portfolio and key operational staff are rotated to different assets on a regular basis. Safe behaviour is a cornerstone of International Power's operations, and we share best practices across the portfolio to ensure all of our assets operate to the highest possible safety standards.

Long-term contract expertise We have strong commercial skills to structure and negotiate long-term power and water contracts in regulated markets such as Asia and the Middle East. Under these contracts, key cost risks such as fuel and turbine maintenance are mitigated through long-term hedging and supply arrangements. Overall, the contracts provide visibility and stability of earnings and cash generation over the long-term.

Trading We operate in a number of merchant markets. We have developed the skills necessary to maximise our returns in these markets, with a practical focus on co-ordinating trading and operations to ensure we optimise our returns by having our plant available whenever our trading teams see value. For us, trading predominately means selling the physical output generated by our plants. Our traders operate within strict guidelines and risk policies to ensure our traded position is carefully monitored and managed. This includes matching fuel purchases with power sales and carrying out only a very limited amount of non-asset backed trading. Where possible we will forward sell output if we consider the return is favourable, which provides some certainty for near-term earnings and cash flow. We also ensure that lessons learnt in any particular market – for example experience of the environmental legislation in Europe relating to CO2 allocations – are shared across the business.

Existing asset management All our investments have to deliver performance targets on a standalone basis first, and then as part of the regional and global portfolio. Through regular and robust technical, commercial and financial reviews, the corporate headquarters and regional offices together monitor the performance of each asset in the portfolio. We work to ensure that we maximise fleet efficiencies where we operate plants with similar technologies, for example through global spare parts supply agreements or by bringing certain engineering services in-house. In addition, we have a Health, Safety and Environment Committee which co-ordinates the Group's activities and enables best practices to be adopted at all plants. This co-ordinated approach helps us manage operational risk and extract the full portfolio benefits.