IPR Equity Investment Presentation

PFL Project Management

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2 problems + Analyst Mistake

- How to perform the analysis of IPR to value the company?
- Buy, hold, or sell the IPR stock?

Significant mistake of Ginny Lawson (analyst)

March, 2006

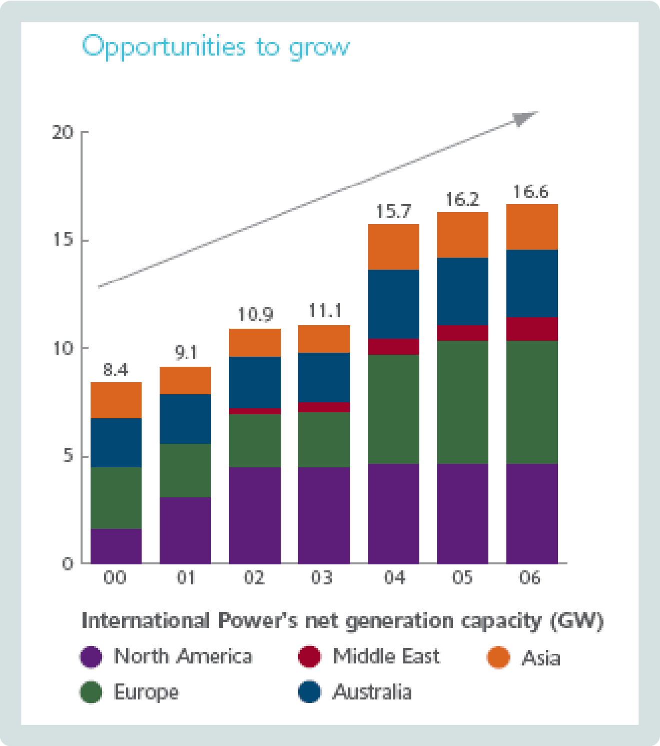
Early April

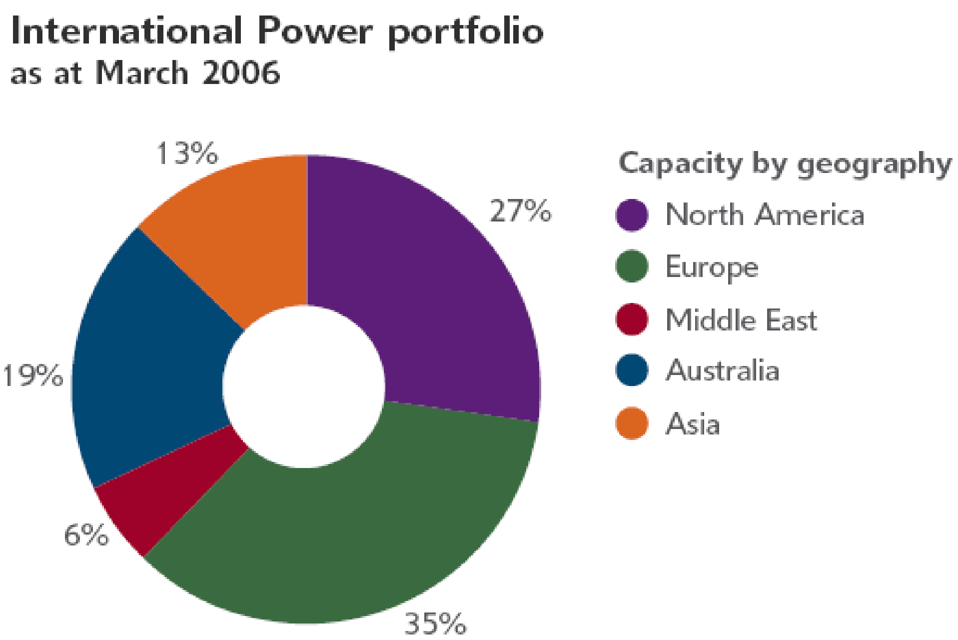
SHE PERFORMED OUTDATED ANALYSIS

International Power plc

Financial Results for the Full Year ended 31 December 2005

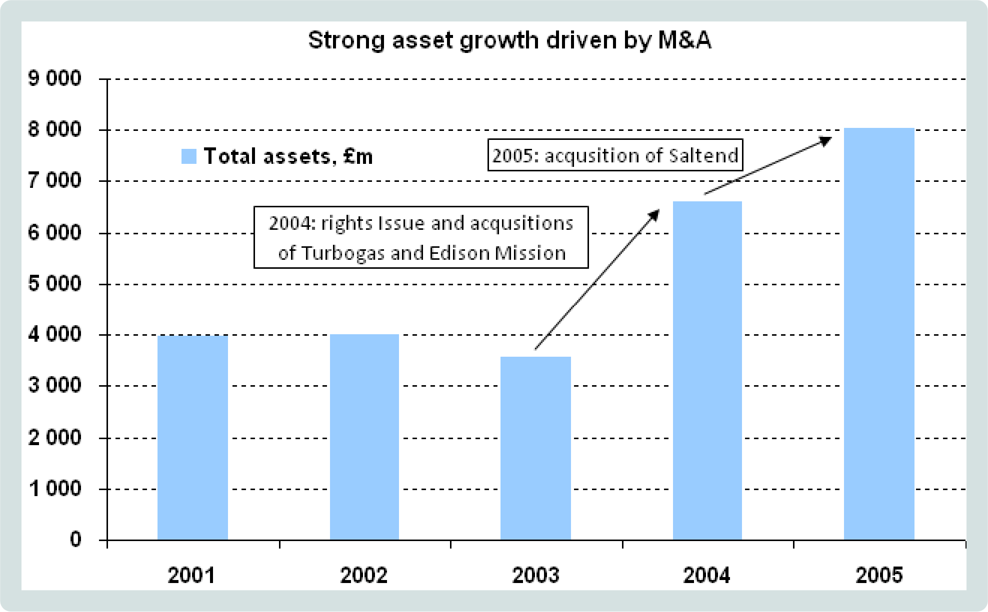
(London – 7 March 2006) International Power today announces its preliminary results for the year ended 31 December 2005, and reports on key developments to date.

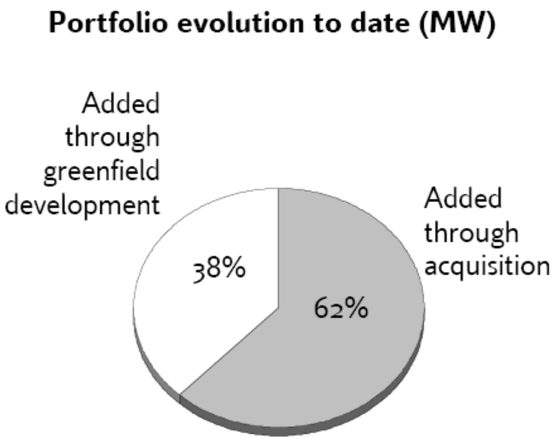




- IP has a portfolio of electricity generating assets (projects) located all over the world and financed with non-recourse project debt and equity. Management of IP is situated in London, UK.
- Some assets are 100% owned by the company (tangible assets); however, other are joint ventures and associates (fixed asset investments).

Aggressive growth history





Acquisition	Gross MW	Performance
EME	6,100	All 9* assets have performed at, or above, acquisition assumptions
Turbogás	990	High availability and strong financial performance
Saltend	1,200	Excellent operational performance – again delivering above planned financial results

* Now 8 assets, 5,800 MW (gross) following sale of Valley Power in August 2005

Balance Sheet (redeveloped)

Consolidated Balance Sheet, £m	**IFRS**	**change, %**	**IFRS**	**change, %**	**UK GAAP**	**UK GAAP**	**UK GAAP**
	2005 preliminary results	2005/2004	2004	2004/2003	2003	2002	2001
Total fixed assets	6 592	**16%**	5 667	**119%**	2 585	2 981	3 152
Total current assets	1 458	**55%**	941	**-3%**	968	1 031	826
Total assets	**8 050**	**22%**	**6 608**	**86%**	**3 553**	**4 012**	**3 978**
Total current liabilities	1 300	**139%**	545	**-36%**	846	1 405	615
Total non-current liabilities	4 375	**9%**	4 005	**249%**	1 147	838	1 666
Total liabilities	**5 675**	**25%**	**4 550**	**128%**	**1 993**	**2 243**	**2 281**
Shareholders' funds - equity	2 092	**14%**	1 833	**21%**	1 521	1 740	1 670
Minority interest - equity	283	**26%**	225	**477%**	39	29	27
Total equity	**2 375**	**15%**	**2 058**	**32%**	**1 560**	**1 769**	**1 697**
Net assets (= Equity)	**2 375**	**15%**	**2 058**	**32%**	**1 560**	**1 769**	**1 697**
Net debt	**2 979**	**9%**	**2 745**	**297%**	**692**	**812**	**897**
Debt capitalisation (net debt/(eqity + net debt))	**56%**		**57%**		**31%**	**31%**	**35%**

Income Statement (redeveloped)

Consolidated Income Statement, £m	IFRS	change, %	IFRS	change, %	UK GAAP	UK GAAP	UK GAAP
	2005 preliminary results	2005/2004	2004	2004/2003	2003	2002	2001
Turnover: Group and share of joint ventures and associates	2 936	1	1 267	0	1 273	1 129	1 103
Less: share of joint ventures' and associates' turnover	-1 003	1	-499	0	-421	-412	-546
Group turnover	**1 933**	**152%**	**768**	**-10%**	**852**	**717**	**557**
Gross profit	**420**	**221%**	**131**		**-281**	**56**	**172**
Operating pofit and Fixed asset investment income	611	**162%**	233		-84	327	324
PBT	419	**225%**	129		-184	195	204
Profit	**330**	**217%**	**104**		**-212**	**119**	**140**
Profit excluding exceptional items	**244**	**103%**	**120**				
Dividends	66	**78%**	37		0	0	0
Diluted EPS including exceptional items	18,5	**150%**	7,4		-17,6	9,0	10,7
EPS including exceptional items	19,3	**158%**	7,5		-17,6	9,0	11,0
Dividends per share	4,5	**80%**	2,5		0,0	0,0	0,0
Profit margin	17.1%		13.5%		-24.9%	16.6%	25.1%

	2001	2002	2003	2004	2005
Total assets, £m	3 978	4 012	3 553	6 608	8 050
Group turnover	557	717	852	768	1 933
Profit from operations	324	327	-84	233	611
Profit from operations excluding exceptional items	326	388	285	222	501
Net debt	897	812	692	2 745	2 979

2004. Rights Issue: £286 million. September 2004: 366 million of Ordinary Shares were issued. Acquisitions of £1195 million.

Main deals:

- *November 2004*, acquisition of Turbogas: €195 million. During the period since acquisition turnover of £35 million and operating profit of £7 million are included within the consolidated profit and loss account.

- December 2004, acquisition of Edison Mission Energy in a 70:30 partnership with Mitsui & Co of Japan (US$2,079 million). During the period since acquisition turnover of £22 million and operating profits of £9 million are included within the consolidated profit and loss account. (It was impossible to recalculate proffit of the IBR for the whole 2004 due to accounting

2005. Acquisitions of £571 million.

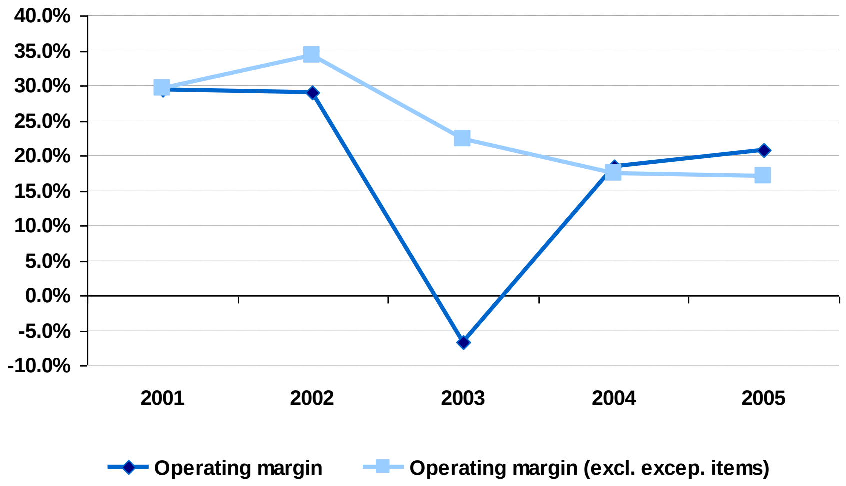
Main deal:

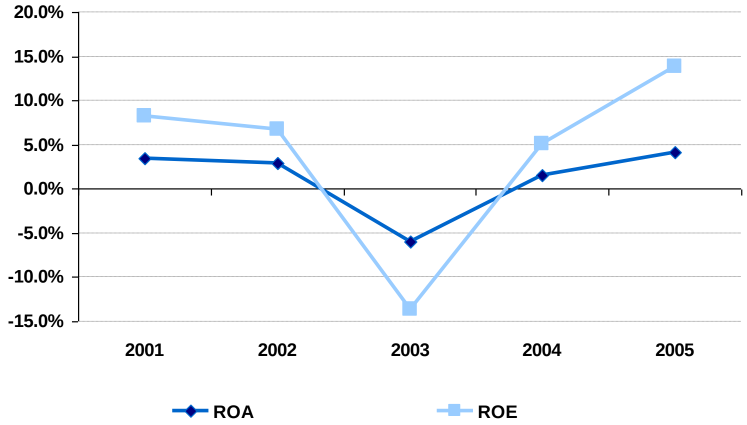
- July 2005, purchase of 100% of Saltend (1,200 MW CCGT power plant) for £495 million. In the period from 28 July 2005 to 31 December 2005, Saltend contributed £187 million to revenue and £50 million to the Group's profit from operations.

Disposals of £211 mln. Disposed assets were mostly accounted for as assets available for sale, associates and joint ventures => There is no need to make an adjustment to income statement.

Contribution of newly acquired companies to revenues and profits was large but it wasn't fully reflected in the income statement for 2004. But assets of acquired companies were fully consolidated to the balance sheet. So financial ratios based on income statement can't be supposed representative for investments decisions!

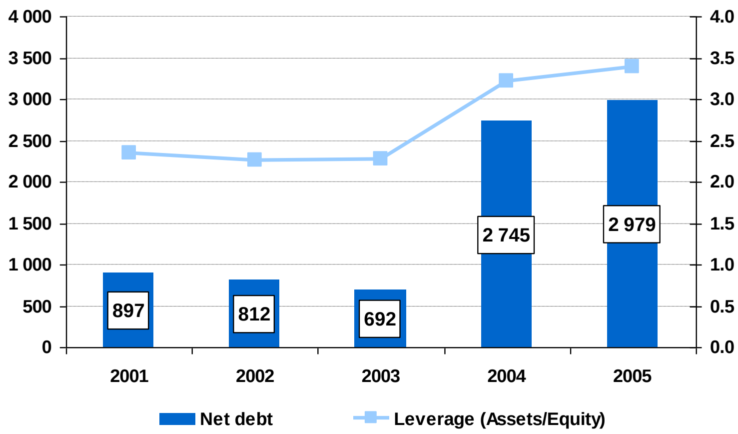
Profitability Recovery





DuPont analysis

	2001	2002	2003	2004	2005
Profit margin (Profit/Turnover)	12.7%	10.5%	-16.7%	8.2%	11.2%
Assets turnover (Turnover/Assets)	0.28	0.28	0.36	0.19	0.36
Leverage (Assets/Equity)	2.34	2.27	2.28	3.21	3.39
ROA	3.5%	3.0%	-6.0%	1.6%	4.1%
ROE	8.2%	6.7%	-13.6%	5.1%	13.9%



Corporate and Group debt

During 2005 both Standard & Poor's and Moody's reviewed the credit rating at corporate level. Standard & Poor's maintained the rating of BB-, but upgraded the outlook from negative to stable and Moody's maintained its rating of B2 with stable outlook. In January 2006 a rating from Fitch was issued of BB with stable outlook.

On 31 December 2005 we had aggregated debt financing of £3,651 million denominated principally in US dollars, Australian dollars, sterling, Euro, Czech koruna and Thai baht. Of this amount £187 million is due for repayment in 2006, with the majority of the remaining balance due after 2010.

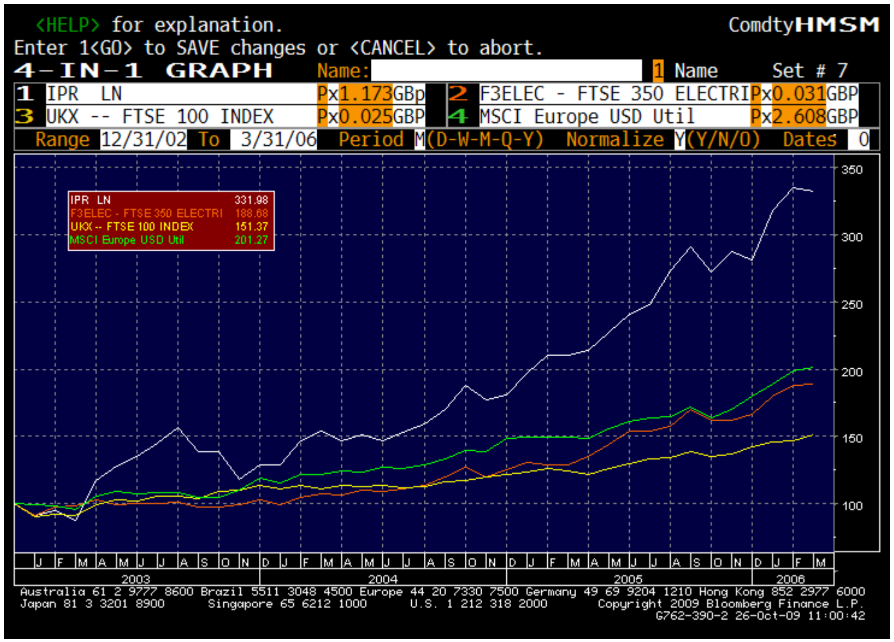
- Non-recourse project finance is at the core of IPR's financing strategy and capital structure – this provides the most appropriate level of debt for each asset and also excellent risk mitigation for the IPR.
- Non-recourse project debt is secured by pledge of particular project's assets and is paid entirely from this project's cash flows, but the IPR is not liable for this debt. If project defaults the lender can seize this project's assets, but lender's claims are limited to this project's assets.
- Fixed interest debt 69% of total debt. The weighted average interest of the fixed rate debt was 7% in 2005.
- In order to hedge the net assets of foreign operations, borrowings are generally in the same currency as the underlying investment.

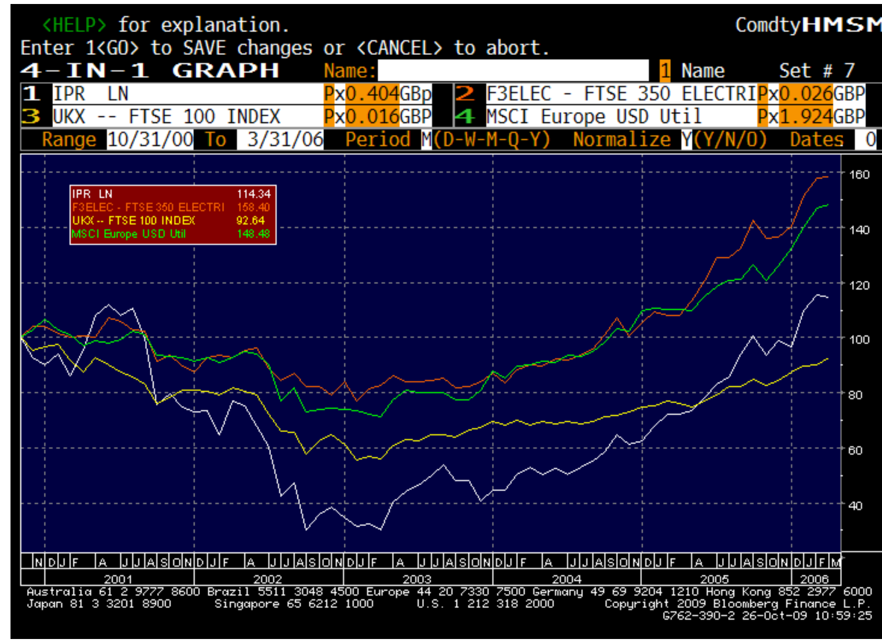
Net debt structure

As at 31 Dec 2005 £m	Total	IPR Corporate	Project cash (debt)*	JV's / Associates off-balance sheet net debt*
Cash and cash equivalents	620	185	435	
Recourse debt				
Corporate Revolver	(64)	(64)		
Convertible bond (2023)	(125)	(125)		
	(189)	**(189)**	**-**	
Non recourse debt				
IPM - acquisition debt	(295)	-	(295)	-
IPM - Mitsui preferred equity	(175)	-	(175)	-
North America	(507)	-	(507)	(216)
Europe	(1,128)	-	(1,128)	(304)
Middle East	(261)	-	(261)	(374)
Australia	(1,013)	-	(1,013)	(53)
Asia	(31)	-	(31)	(678)
	(3,410)	**-**	**(3,410)**	**(1,625)**
Total net debt	**(2,979)**	**(4)**	**(2,975)**	**(1,625)**

* Project debt is secured solely on the assets of the project concerned (non recourse)

IP price performance





- IPR LN – International Power
- F3ELEC – FTSE 350 Electricity
- UKX – FTSE 100
- MSCI Europe Utilities

P/E calculation for IP

April 2006

Peers' P/E	**15**	source: Deutsche Bank
IP price, p	**281.5**	3 April 2006
Market cap, £m	**4 147.9**	3 April 2006

	2005 preliminary results	P/E	P/E premium(+)/discount(-) to peers	2004 (for comparison)
Equity attributable to holders of the parent, £m	2 375			2 058
Price-to-Book	1.7			
Profit attributable to holders of the parent, £m	285			98
Dividends	66			37
Basic EPS including exceptional items, p	**19.4**	**14.5**	**-3.3%**	**7.5**
Basic EPS excluding exceptional items, p	**13.5**	**20.9**	**39.0%**	**8.6**
Diluted EPS including exceptional items, p	**18.5**	**15.2**	**1.4%**	**7.4**
Diluted EPS excluding exceptional items, p	**13.0**	**21.7**	**44.4%**	**8.5**
DPS, p	**4.5**			**2.8**
Number of shares, m	1 474			1 306
Div. yield	1.6%			1.0%

CAPM

RFR	4.50%	
MRP	4.10%	*since 1900*
Beta	1	*Bloomberg*
Return	8.60%	
Current payout ratio	30%	
Target payout ratio	40%	
High growth period	3	*years*

P/E sensetivity

growth 2006-2008 \ *growth 2008+*	0%	1%	2%	3%	4%	5%
0%	4.40	4.92	5.59	6.51	7.83	9.87
5%	5.05	5.65	6.43	7.49	9.02	11.39
10%	5.76	6.45	7.35	8.57	10.32	13.05
15%	6.53	7.32	8.35	9.75	11.75	14.86
20%	7.38	8.27	9.44	11.03	13.30	16.84
25%	8.29	9.31	10.63	12.42	14.99	18.99
30%	9.28	10.42	11.91	13.92	16.82	21.32

Conclusions

- IP is rated **BUY** by our team as we see potential for relative outperformance due to:
- (1) Valuations: it looks slightly overpriced on P/E basis, but taking into account that IP's profitability is recovering and strong internal cash flow generation for financing investments in greenfield P/E premium looks justified
- (2) Momentum: strong momentum
- (3) Fundamental attractiveness:
- **- industry specific:** growth of electricity consumption in Emerging Markets, insufficient electricity generation capacity around the world,
- **- company specific:**
- - The company paid out dividends in 2004 the first time since 2000!
- - strong M&A track record;
- - diversified assets portfolio (risk mitigation across 5 core regional markets) with presence in Emerging Markets and potential of high free cash flow generation,
- - future aggressive expansion through CAPEX and acquisitions is limited because of rather high debt burden but isn't impossible due to rich internal cash flow generation
- - room for profitability expansion and integration of previously bought assets
- - good corporate governance (listing on LSE and NYSE)

£m	Year ended 31 December 2005	2004	% change
Operating cash flow from subsidiaries	492	198	
Dividends - JVs and associates	92	69	33%
Capex - maintenance	(72)	(59)	
Cash generated from operations	512	208	146%
Interest paid	(196)	(84)	
Tax paid	(31)	(20)	
Free cash flow	285	104	174%

- Successful integration reflected in excellent results
- Strong performance by all acquired assets

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EME	6,100	All 9* assets have performed at, or above, acquisition assumptions
Turbogás	990	High availability and strong financial performance
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Any questions?

You can use our contacts if you come up with any new questions after the presentation…………………………………………………..

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