

COMPANY NUMBER 1343303

NEI POWER PROJECTS LIMITED

**Annual Report
for the year ended 31 December 2005**

**Directors on
5 April 2006:**

**G Allan
J Warren**

Secretary:

D Goma



Registered Office: Moor Lane, Derby DE24 8BJ

NEI POWER PROJECTS LIMITED

REPORT OF THE DIRECTORS

The directors present their Report and audited Financial Statements for the year ended 31 December 2005.

ACTIVITY

The Company did not trade on its own account during the year but acted as an agent on behalf of Rolls-Royce Power Engineering plc.

DIRECTORS

The directors of the Company during the year were as follows:

G Allan
J Warren

DIRECTORS' SHARE INTERESTS

None of the directors, or their immediate family, had any beneficial interest in the shares of the Company during the year. The beneficial interests of directors holding office at 31 December 2005, including immediate family, in the ordinary share capital of Rolls-Royce Group plc are as follows:

	Rolls-Royce Group plc Ordinary 20p Shares		Options over Rolls-Royce Group plc Ordinary 20p Shares			
	1 January 2005	31 December 2005	1 January 2005	Granted in 2005	Exercised in 2005	31 December 2005
G Allan	10,371*	8,430*	5,277	-	-	5,277
J Warren	17,478*	12,280*	214,808	251	-	215,059

*The above interests include shares held in trust for the following directors:

	Annual Performance Related Award Plan ¹		Profit Sharing Share Scheme ²		ShareBonus Scheme ³	
	1 January 2005	31 December 2005	1 January 2005	31 December 2005	1 January 2005	31 December 2005
G Allan	5,992	3,364	670	-	2,121	2,715
J Warren	12,598	7,241	-	-	-	-

¹ Under the Annual Performance Related Award Plan, shares vest after two years.

² Under the Profit Sharing Share Scheme, shares vest after three years.

³ Under the ShareBonus Scheme, shares vest after five years.

Conditional awards were granted under the Rolls-Royce Group plc Performance Share Plan (PSP) whereby shares released are dependent upon certain performance criteria being achieved over a three year performance period.

	PSP	
	1 January 2005	31 December 2005
J Warren	10,197	20,443

PAYMENT TO SUPPLIERS

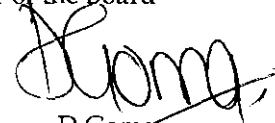
The Company seeks the best possible terms from suppliers and, in entering into binding purchasing contracts, gives consideration to quality, delivery, price and the terms of payment. Suppliers are, in this way, made aware of these terms. The Company abides therewith whenever it is satisfied that suppliers have provided the goods or services in accordance with agreed terms and conditions.

NEI POWER PROJECTS LIMITED

AUDITORS AND ANNUAL GENERAL MEETING

Elective Resolutions are in force to dispense with the obligations of laying the Annual Report before the Company in general meeting, appointing auditors annually and holding Annual General Meetings.

By Order of the Board


D Goma
5 April 2006

NEI POWER PROJECTS LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with UK Accounting Standards.

The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Under applicable law the directors are also responsible for preparing a Directors' Report that complies with that law.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF NEI POWER PROJECTS LIMITED

We have audited the financial statements of NEI Power Projects Limited for the year ended 31 December 2005 which comprise the Profit and Loss Account, the Balance Sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities on page 4, the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements:

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2005 and of its result for the year then ended; and
- have been properly prepared in accordance with the Companies Act 1985.

KRG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
5 April 2006

NEI POWER PROJECTS LIMITED

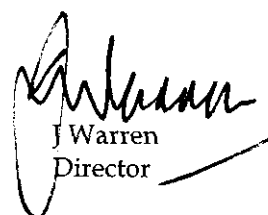
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2005

The Company did not trade on its own account during the year and all expenses have been borne by the ultimate parent company. The Company did not receive any income or incur any expenditure during the year and consequently has made neither profit nor loss.

BALANCE SHEET AT 31 DECEMBER 2005

	<u>note</u>	<u>2005</u> (£)	<u>2004</u> (£)
Current Assets			
Debtors	3	<u>100</u>	<u>100</u>
Net Assets		<u>100</u>	<u>100</u>
Capital And Reserves			
Called up share capital	4	<u>100</u>	<u>100</u>
Equity Shareholders Funds		<u>100</u>	<u>100</u>

These financial statements were approved by the Board on 5 April 2006 and are signed on its behalf by:


J Warren
Director

The notes on page 7 form part of these financial statements.

NEI POWER PROJECTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. Principal Accounting Policies

a) Basis of Accounting

These financial statements have been prepared on the historical cost basis and in accordance with applicable accounting standards.

b) Cash flow statements

Under Financial Reporting Standard 1, the Company is exempt from the requirement to prepare a cash flow statement on the grounds that it is a wholly-owned subsidiary undertaking.

c) Related Party Transactions

Under Financial Reporting Standard 8, the Company is exempt from the requirement to disclose related party transactions with the Rolls-Royce group and its associates on the grounds that it is a wholly owned subsidiary undertaking.

2. Directors' Remuneration

None of the directors received any separate remuneration from the Company in respect of their services to the Company.

3. Debtors - amounts falling due within one year

	<u>2005</u> (£)	<u>2004</u> (£)
Amount owed by parent undertaking.	<u>100</u>	<u>100</u>

4. Share Capital

	<u>2005</u> (£)	<u>2004</u> (£)
Ordinary Shares of £1 each		
Authorised :	<u>100</u>	<u>100</u>
Issued and Fully Paid :	<u>100</u>	<u>100</u>

5. Ultimate Parent Company

The Company's ultimate parent company is Rolls-Royce Group plc which is incorporated in Great Britain and registered in England and Wales. Copies of the annual report of Rolls-Royce Group plc can be obtained from Rolls-Royce Group plc, PO Box 31, Moor Lane, Derby DE24 8BJ.