

**VIKING POWER LIMITED**  
**(Registered Number : 3229304)**

**DIRECTORS' REPORT AND FINANCIAL STATEMENTS**

**31 December 2003**



## VIKING POWER LIMITED

### DIRECTORS' REPORT

The Directors present their Annual Report and the audited Financial Statements for the year ended 31 December 2003.

#### PRINCIPAL ACTIVITY

The principal activity of the business is to develop, arrange financing for and generate electricity from an independent power project.

#### REVIEW OF BUSINESS

No income has been received in the year, it is anticipated that income will begin in 2004.

#### FINANCIAL REVIEW

The loss of the Company was £779,950 (2002: loss of £6,826,650). The Directors do not propose any dividend and therefore the loss for the year of £779,950 has been transferred to reserves.

#### DIRECTORS

The Directors who held office throughout the year were as follows:

D A Bee	(Chairman) (resigned 29 January 2003)
M Mencil	(Chairman) (appointed 20 March 2003)
R Jones	(resigned 22 August 2003)
M Parkes	(resigned 30 July 2003)
C Forrest	(appointed 22 August 2003)
R Stevenson	(appointed 30 July 2003)

#### DIRECTORS' INTERESTS

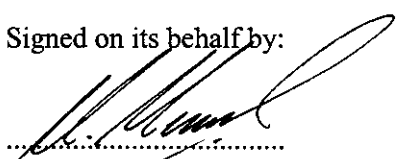
None of directors, or their immediate family, had any beneficial interest in the shares of the Company during the year. The beneficial interests of directors holding office at 31 December 2003, including immediate family, in the ordinary share capital of Rolls-Royce Group plc are as follows:

	Rolls-Royce Group plc Ordinary 20p Shares		Options over Rolls-Royce Group plc Ordinary Shares			
	Ordinary shares of 20p each as at 1 January 2003 or date of appointment if later	Ordinary shares of 20p each as at 31 December 2003	as at 1 January 2003 or date of appointment if later	Share options granted in 2003	Share options lapsed / exercised in 2003	Total share options as at 31 December 2003
M Mencil	733	733	5,418	-	4,254	1,164
R Stevenson	3,518	3,518	-	2,320	-	2,320

None of the directors exercised any share options during the year.

Approved by the Board

Signed on its behalf by:



M Mencil

8 September 2004

## **VIKING POWER LIMITED**

### **STATEMENT OF DIRECTORS' RESPONSIBILITIES**

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss for that year. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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 maintaining proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the 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 fraud and other irregularities.

## **VIKING POWER LIMITED**

### **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF VIKING POWER LIMITED**

We have audited the Financial Statements on pages 5 to 13.

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**

The Directors are responsible for preparing the Directors' report and, as described on page 3, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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 transactions with the company is not disclosed.

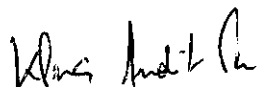
#### **Basis of audit opinion**

We conducted our audit in accordance with Auditing Standards 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 judgements 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.

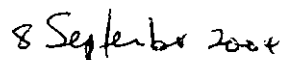
We planned and performed our audit so as to obtain all the information and explanations necessary in order to provide us with sufficient evidence to give reasonable assurance that the Financial Statements are free from material misstatement, whether caused by fraud or other irregularity or error. In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

#### **Opinion**

In our opinion the accounts give a true and fair view of the state of the company's affairs as at 31 December 2003 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



KPMG Audit Plc  
Chartered Accountants  
Registered Auditor



8 Salisbury Square  
London  
EC4Y 8BB

**VIKING POWER LIMITED**  
**PROFIT AND LOSS ACCOUNT**  
**For the year ended 31 December 2003**

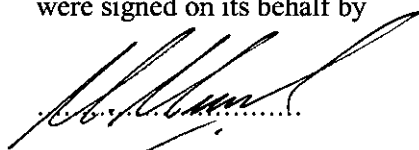
	Note	2003 £	2002 £
Turnover		-	1,611,902
Cost of Sales	4	-	(7,625,297)
Gross loss		-	(6,013,395)
Administrative expenses		(419,075)	(192,877)
Operating loss		(419,075)	(6,206,272)
Interest receivable and similar income		-	21,965
Interest payable and similar charges	5	(721,518)	(649,775)
Loss on ordinary activities before taxation		(1,140,593)	(6,834,082)
Tax on ordinary activities	6	360,643	1,958,771
Loss on ordinary activities after tax		(779,950)	(4,875,311)
Dividends		-	(1,951,339)
Retained loss for the year		(779,950)	(6,826,650)
Retained (loss) / profit at 1 January		(5,088,828)	1,737,822
Accumulated loss at 31 December		(5,868,778)	(5,088,828)

**VIKING POWER LIMITED**  
**BALANCE SHEET AT 31 DECEMBER 2003**

	Note	2003 £	2002 £
Fixed Assets			
Tangible assets	7	-	-
Investments	8	-	2
		<u>-</u>	<u>2</u>
Current assets			
Debtors	9	1,806,189	1,796,708
Cash at bank and in hand		46,063	1,177,957
Creditors			
Amounts falling due within one year	10	(1,304,064)	(1,350,852)
		<u>548,188</u>	<u>1,623,813</u>
Net current assets			
		<u>548,188</u>	<u>1,623,815</u>
Total Assets less current liabilities			
Creditors			
Amounts falling due after one year	11	(6,416,866)	(6,712,543)
Provisions for liabilities and charges	12	-	-
		<u>(5,868,678)</u>	<u>(5,088,728)</u>
Net Liabilities			
Capital and Reserves			
Called up share capital	14	100	100
Profit & Loss Account		(5,868,778)	(5,088,828)
		<u>(5,868,678)</u>	<u>(5,088,728)</u>
Equity Shareholders' Funds	15		
		<u>(5,868,678)</u>	<u>(5,088,728)</u>

The notes on pages 7 to 13 form part of these Financial Statements.

These Financial Statements were approved by the Board of Directors on 8 September 2004 and were signed on its behalf by

  
M Mencel

## VIKING POWER LIMITED

### NOTES TO THE FINANCIAL STATEMENTS

#### 1. ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's Financial Statements.

##### (a) Basis of preparation

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

The financial statements have been prepared on the going concern basis, notwithstanding net liabilities of £5,868,678 which the directors believe to be appropriate for the following reasons. The company is dependent for its working capital on funds provided to it by Rolls-Royce Power Ventures Limited, the company's immediate holding undertaking. Rolls-Royce Power Ventures Limited has provided the company with an undertaking that for at least 12 months from the date of approval of these financial statements, it will continue to make available such funds as are needed by the company and in particular will not seek repayment of the amounts currently made available. This should enable the company to continue in operational existence for the foreseeable future by meeting its liabilities as they fall due for payment. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

Based on this undertaking the directors believe that it remains appropriate to prepare the financial statements on a going concern basis. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

##### (b) Cost Capitalisation

Costs directly attributable to the construction of the plant have previously been included in tangible fixed assets. The costs were fully amortised in 2002.

##### (c) Depreciation

Fixed assets are depreciated on a straight line basis from the time that they are first brought into use as to write off their cost, less estimated residual value, on a monthly basis over the following years:

Fixtures and fittings – computer equipment	3 years
Fixtures and fittings – other	Over the length of the contract with a maximum of 20 years
Plant and Machinery	Over the length of the contract with a maximum of 20 years

While the plant is operating under a Supplemental Agreement the depreciation charge for plant and machinery is reduced by 50%.

## VIKING POWER LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (continued)

#### 1. ACCOUNTING POLICIES (continued)

##### (d) Taxation

Provision for taxation is made at the current rate and for deferred taxation at the projected rate on all timing differences which have originated, but not reversed at the balance sheet date.

#### 2. AUDIT FEE

Audit fees have been borne by Rolls-Royce Power Ventures Limited, the holder of 100 per cent of the Company's share capital.

#### 3. EMOLUMENTS OF DIRECTORS

The Company paid no emoluments to the directors in respect of their services during the year.

#### 4. EXCEPTIONAL ITEMS

	2003	2002
	£	£
Charged against operating profit		
Asset impairment	-	6,751,478

An impairment provision of £6,751,478 was made in 2002 in respect of the power project, in light of an overall deterioration in the UK power market. The impairment to reduce the power project to its recoverable amount was based on a value in use calculation, using a pre tax discount rate of 10%. A similar impairment review was performed in 2003. It was concluded that no further impairment is required at this time.

#### 5. INTEREST PAYABLE AND SIMILAR CHARGES

	2003	2002
	£	£
Interest payable to investing companies	721,518	649,775



# VIKING POWER LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 6. TAXATION CHARGE ON LOSS ON ORDINARY ACTIVITIES

	2003 £	2002 £
Current tax:		
Corporation tax adjustment for prior years	-	15,154
Group relief receivable at 30%	(490,637)	-
	<hr/> (490,637)	<hr/> 15,154
Deferred tax:		
Origination and reversal of timing differences	129,994	(1,973,925)
	<hr/> 129,994	<hr/> (1,973,925)
Total tax credit	<hr/> (360,643)	<hr/> (1,958,771)
	<hr/>	<hr/>
	2003 £	2002 £
Reconciliation of Tax Charge:		
Loss on ordinary activities before taxation	(1,140,593)	(6,834,082)
	<hr/> (1,140,593)	<hr/> (6,834,082)
Nominal charge at UK corporation tax rate of 30%	(342,177)	(2,050,225)
Adjustment for prior years	-	15,154
Income not taxable	(312)	-
Expenses not deductible for taxation purposes	32,142	76,574
Capital allowances (in excess of) / below depreciation for the period	(180,290)	1,957,551
Other timing differences for the period	-	16,100
	<hr/> (342,177)	<hr/> (2,050,225)
Total current tax	<hr/> (490,637)	<hr/> 15,154
	<hr/>	<hr/>

# VIKING POWER LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 7. TANGIBLE FIXED ASSETS

	Assets in the course of construction	Total
	£	£
<i>Cost</i>		
At beginning and end of year	7,234,256	7,234,256
<i>Depreciation</i>		
At beginning and end of year	(7,234,256)	(7,234,256)
Net Book Value		
At 31 December 2003 and at 31 December 2002	-	-

The depreciation charge at the beginning of the year includes an impairment charge of £6,751,478, as set out in note 4.

### 8. FIXED ASSET INVESTMENTS

	Subsidiary Undertakings 2003	2002
	£	£
Shares at Cost		
At beginning of year	2	-
Additions	-	2
Amounts written off investments	(2)	-
At end of year	-	2

The investment in Seal Sands Network Limited, a company registered in the UK was written off in the year. This occurred when Seal Sands Network Limited was dissolved on 5 August 2003.

# VIKING POWER LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 9. DEBTORS

	2003 £	2002 £
Amounts owed by group undertakings	66,179	318,145
Prepayments	4,430	-
Amounts owed by investing companies	100	100
Tax and social security	-	103,626
Group relief receivable	490,637	-
Deferred taxation (See Note 12)	1,244,843	1,374,837
	<hr/>	<hr/>
	1,806,189	1,796,708
	<hr/>	<hr/>

### 10. CREDITORS: Amounts falling due within one year

	2003 £	2002 £
Amounts owed to group undertakings	1,052,870	1,052,870
Other creditors	48,170	215,732
Tax and social security	-	82,250
Accruals and provisions	203,024	-
	<hr/>	<hr/>
	1,304,064	1,350,852
	<hr/>	<hr/>

### 11. CREDITORS: Amounts falling due after one year

	2003 £	2002 £
Amounts owed to parent undertaking	6,416,866	6,712,543
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# VIKING POWER LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 12. DEFERRED TAX ASSET

#### Deferred Taxation

	2003 £	2002 £
At beginning of year	(1,374,837)	599,088
Amount charged / (credited) to the profit & loss account	129,994	(1,973,925)
	<hr/>	<hr/>
At end of year	(1,244,843)	(1,374,837)
	<hr/>	<hr/>
Deferred taxation is analysed as follows:		
	2003 £	2002 £
Accelerated capital allowances	(891,961)	(1,072,251)
Other timing differences	(352,882)	(302,586)
	<hr/>	<hr/>
Total	(1,244,843)	(1,374,837)
	<hr/>	<hr/>
Analysed as – debtors (note 9)	1,244,843	1,374,837
	<hr/>	<hr/>

### 13. COMMITMENTS

Commitments for capital expenditure at the end of the financial year, for which no provision was made, are £9,857,130 (£10,311,000). This relates to a remaining capital investment commitment with Rolls-Royce Power Engineering Limited (RRPE). Payment of this amount is contingent upon RRPE fully meeting the terms of, and obligations under, the Turnkey Contract.

# VIKING POWER LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 14. SHARE CAPITAL

	Ordinary shares £1 each	Nominal Value £
<b>Authorised</b>		
At 1 January 2003 and 31 December 2003	100	100
	<hr/>	<hr/>
<b>Issued and fully paid</b>		
At 1 January 2003 and 31 December 2003	100	100
	<hr/>	<hr/>

### 15. RECONCILIATION OF SHAREHOLDERS' FUNDS

	2003 £000	2002 £000
Shareholders' funds at 1 January	(5,088,728)	1,737,922
Retained losses	(779,950)	(6,826,650)
	<hr/>	<hr/>
Shareholders' funds at 31 December	(5,868,678)	(5,088,728)
	<hr/>	<hr/>

### 16. ULTIMATE HOLDING COMPANIES

Rolls-Royce Group plc, a company registered in England & Wales, is the ultimate holding company and heads the largest group in which the results of the Company are consolidated. Rolls-Royce Power Ventures Limited, a company registered in England and Wales, is the immediate holding company and heads the smallest group in which the results of the Company are consolidated. Copies of both companies' consolidated financial statements can be obtained from 65 Buckingham Gate, London SW1E 6AT.