

HEARTLANDS POWER LIMITED
(Registered Number : 3335516)

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

31 December 1997



HEARTLANDS POWER LIMITED

DIRECTORS' REPORT

The Directors present their Annual Report and the audited Financial Statements for the period ended 31st December 1997.

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

Start-up costs during the period largely relate to assets in the course of construction and are currently being funded by a loan from Rolls-Royce Power Ventures Limited. These have been capitalised and are reasonable for a business at this stage. No income has been received in the period, it is anticipated that income will begin in 1998.

FINANCIAL REVIEW

The profit of the company was nil and consequently no amount has been transferred to reserves. The Directors do not propose any dividend.

The company was incorporated on the 18th March 1997 and these accounts have therefore been prepared for the period to 31st December 1997 to be coterminous with the accounts of Rolls-Royce Power Ventures Limited.

DIRECTORS

The Directors who held office throughout the period were as follows:-

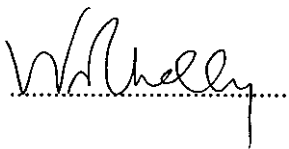
W R Kelly (Chairman)
K B Smith

DIRECTORS' INTERESTS

None of the Directors held any beneficial interest in the shares of the Company at any time during the period.

Approved by the Board

Signed on its behalf by:


.....

HEARTLANDS POWER LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the Directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the company and of the profit or loss for that period. 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.

HEARTLANDS POWER LIMITED
AUDITORS' REPORT TO THE MEMBERS
OF HEARTLANDS POWER LIMITED

We have audited the Financial Statements on pages 5 to 9.

Respective Responsibilities of Directors and Auditors

As described on page 3, the Company's Directors are responsible for the preparation of Financial Statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of 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 affairs of the Company as at 31st December 1997 and of the result of the Company for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor

8 Salisbury Square
London
EC4Y 8BB

30 September 1998

HEARTLANDS POWER LIMITED

PROFIT AND LOSS FOR THE PERIOD ENDED 31 DECEMBER 1997

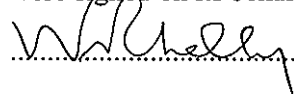
The company received no income during the period and all costs incurred relate to the development of the power project and have been capitalised as described on Page 7. Consequently the company recognised no gains or losses during the period, hence no profit and loss account has been presented.

HEARTLANDS POWER LIMITED
BALANCE SHEET AT 31 DECEMBER 1997

	Note	1997 £
Fixed Assets		
Tangible assets	4	17,501,580
		<hr/> 17,501,580 <hr/>
Current assets		
Debtors	5	2
Creditors		
Amounts falling due within one year	6	(17,501,580)
Net current liabilities		<hr/> (17,501,578) <hr/>
Total assets		<hr/> 2 <hr/>
Net Assets		<hr/> 2 <hr/>
Capital and Reserves		
Called up share capital	8	2
Profit and loss account		-
Equity Shareholders' Funds		<hr/> 2 <hr/>

The notes on pages 7 to 9 form part of these financial statements.

These Financial Statements were approved by the Board of Directors on 22nd September 1998 and were signed on its behalf by

..... W R Kelly

HEARTLANDS 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 Company is exempt from the requirement of FRS1(revised) to prepare a cash flow statement as it is a wholly-owned subsidiary of Rolls-Royce plc and its cash flows are included within the consolidated cash flow statement of that company.

Under FRS8 the company is exempt from the requirement to disclose related party transactions with the Rolls-Royce Group and its associated undertakings on the grounds that it is a wholly owned subsidiary undertaking of Rolls-Royce plc.

(b) Cost Capitalisation

Costs directly attributable to the construction of the plant have been included tangible fixed assets. The cost will be amortised over the life of the project.

2. AUDIT FEE

Audit fees have been borne by the parent company.

3. EMOLUMENTS OF DIRECTORS

The Directors did not receive any emoluments during this or the previous period.

HEARTLANDS POWER LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

4. GROUP TANGIBLE FIXED ASSETS

	Assets in the course of construction £	Total £
Cost		
At beginning of period	17,501,580	17,501,580
Additions	-	-
At end of period	17,501,580	17,501,580
Depreciation		
At beginning of period	-	-
Charge for the period	-	-
At end of period	-	-
Net Book Value At 31 December 1997	17,501,580	17,501,580

5. DEBTORS

	1997 £
Called up share capital not paid	2

6. CREDITORS: Amounts falling due within one year

	1997 £
Amounts due to parent undertaking	17 501 580

HEARTLANDS POWER LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

7. COMMITMENTS

Commitments at the end of the financial period, for which no provision has been made, are £18,671K.

8. SHARE CAPITAL

	Authorised £	Allotted and Paid Up £
Shares of £1 each	1,000	2

9. ULTIMATE HOLDING COMPANIES

Rolls-Royce 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