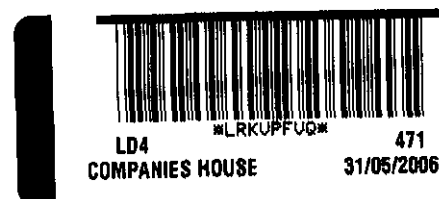


HEARTLANDS POWER LIMITED
(Registered Number : 3335516)

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

31 December 2005



HEARTLANDS POWER LIMITED

DIRECTORS' REPORT

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

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

The company continues to operate on a fully merchant basis.

FINANCIAL REVIEW

The loss of the Company was £1,294,000 (2004: profit £10,041,000). The Directors do not propose any dividend and therefore the profit for the year has been transferred to reserves.

DIRECTORS

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

J B Cheatham (Chairman)
J O'Dell
R Stevenson

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 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 Shares			
	Ordinary shares of 20p each as at 1 January 2005 or date of appointment if later	Ordinary shares of 20p each as at 31 December 2005	as at 1 January 2005 or date of appointment if later	Share options granted in 2005	Share options exercised in 2005	Total share options as at 31 December 2005
J B Cheatham	40,813	41,503	239,556	289	-	239,845
J O'Dell	491	1,889	7,292	1,382	(4,398)	4,276
R Stevenson	637	2,425	5,838	-	(3,518)	2,320

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

	Annual Performance Related Award Plan ¹		Profit Sharing Share Scheme ²	
	1 January 2005	31 December 2005	1 January 2005	31 December 2005
J B Cheatham	40,813	20,515	-	-
R Stevenson	-	-	637	-

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.

Rolls-Royce Group plc Preference 0.1p Shares		
	Shares at 1 January 2005 or date of appointment if later	Shares at 31.12.05
J O'Dell	24,550	64,713

HEARTLANDS POWER LIMITED

DIRECTORS' REPORT (continued)

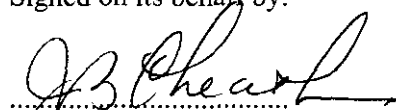
DIRECTORS' INTERESTS (Continued)

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 B Cheatham	31,685	61,504

Approved by the Board

Signed on its behalf by:



J B Cheatham
23 May 2006

HEARTLANDS POWER 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 HEARTLANDS POWER LIMITED

We have audited the financial statements of Heartlands Power 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.

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
HEARTLANDS POWER LIMITED (continued)**

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 loss for the year then ended; and
- have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit plc

KPMG Audit plc
Chartered Accountants

Registered Auditor

23 May 2006

8 Salisbury Square
London

EC4Y 8BB

HEARTLANDS POWER LIMITED

PROFIT AND LOSS ACCOUNT

PROFIT AND LOSS FOR THE YEAR ENDED 31 DECEMBER 2005

	Note	2005 £000	2004 £000
Turnover		2,801	17,151
Cost of Sales		(3,600)	(3,767)
Gross (loss) / profit		(799)	13,384
Administrative expenses		(283)	(334)
Operating (loss) / profit		(1,082)	13,050
Interest receivable and similar income		18	31
Interest payable and similar charges	4	(784)	(1,156)
(Loss) / profit on ordinary activities before taxation		(1,848)	11,925
Tax on (loss) / profit on ordinary activities	5	554	(1,884)
Retained (loss) / profit for the year		(1,294)	10,041
Accumulated profit / (loss) at 1 January		9,765	(276)
Accumulated profit at 31 December		8,471	9,765

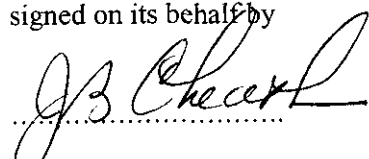
The Company had no recognised gains or losses during the year other than those passing through the profit and loss account.

HEARTLANDS POWER LIMITED
BALANCE SHEET AT 31 DECEMBER 2005

	Note	2005 £000	2004 £000
Fixed Assets			
Intangible assets	6	335	-
Tangible assets	7	33,454	35,647
		<u>33,789</u>	<u>35,647</u>
Current assets			
Debtors	8	682	259
Cash at bank and in hand		403	194
Creditors			
Amounts falling due within one year	9	(711)	(1,990)
Net current assets / (liabilities)		<u>374</u>	<u>(1,537)</u>
Total Assets less current liabilities		34,163	34,110
Creditors			
Amounts falling due after one year	10	(18,270)	(16,705)
Provisions for liabilities and charges	11	(6,922)	(7,140)
Net Assets		<u>8,971</u>	<u>10,265</u>
Capital and Reserves			
Called up share capital	12	500	500
Profit & Loss Account		8,471	9,765
Equity Shareholders' Funds	13	<u>8,971</u>	<u>10,265</u>

The notes on pages 9 to 14 form part of these Financial Statements.

These Financial Statements were approved by the Board of Directors on 23 May 2006 and were signed on its behalf by



J.B. Cheatham

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 Group 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 joint ventures on the grounds that it is a wholly owned subsidiary undertaking of Rolls-Royce Group plc.

(b) Cost Capitalisation

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

(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

(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. PROFIT ON ORDINARY ACTIVITIES

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

HEARTLANDS POWER LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. EMOLUMENTS OF DIRECTORS

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

4. INTEREST PAYABLE AND SIMILAR CHARGES

	2005 £000	2004 £000
External parties	436	667
Fellow group undertakings	348	489
	<hr/> 784	<hr/> 1,156

Interest payable to Group undertakings was to Rolls-Royce Power Development Limited, a fellow subsidiary of Rolls-Royce Power Ventures Limited. In 2004, this category represented interest payable to Rolls-Royce Power Ventures Limited, the immediate holding company of Heartlands Power Limited.

5. TAXATION CHARGE ON (LOSS) / PROFIT ON ORDINARY ACTIVITIES

	2005 £000	2004 £000
Current tax:		
Group relief (receivable) / payable at 30%	<hr/> (336)	<hr/> 1,565
	(336)	1,565
Deferred taxation: Origination and reversal of timing differences	(218)	319
	<hr/>	<hr/>
Total tax charge	(554)	1,884
	<hr/>	<hr/>
Reconciliation of tax charge:		
(Loss) / Profit on ordinary activities before taxation	(1,848)	11,925
Nominal charge at UK Corporation tax rate of 30%	(555)	3,577
Capital allowances in excess of depreciation for period	219	135
Other timing differences	-	(2,147)
	<hr/>	<hr/>
Total current tax	(336)	1,565

HEARTLANDS POWER LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

6. INTANGIBLE FIXED ASSETS

	EU Emissions Trading Permits £	Total £
Cost and Valuation:		
At 1 January 2005	-	-
Issued in the year	335	335
Utilised / Disposed of in the year	-	-
	<hr/>	<hr/>
At 31 December 2005	335	335
	<hr/>	<hr/>

7. TANGIBLE FIXED ASSETS

	Land & Buildings £000	Plant & Equipment £000	Total £000
<i>Cost</i>			
At beginning of year	2,522	41,839	44,361
Additions			
At end of year	2,522	41,839	44,361
<i>Depreciation</i>			
At beginning of year	-	(8,714)	(8,714)
Charge for the year	-	(2,193)	(2,193)
	<hr/>	<hr/>	<hr/>
At the end of the year	-	(10,907)	(10,907)
	<hr/>	<hr/>	<hr/>
Net Book Value			
At 31 December 2005	2,522	30,932	33,454
	<hr/>	<hr/>	<hr/>
At 31 December 2004	2,522	33,125	35,647
	<hr/>	<hr/>	<hr/>

HEARTLANDS POWER LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

8. DEBTORS

	2005 £000	2004 £000
Trade debtors	344	258
Amounts owed by group undertakings	2	1
Group relief receivable	336	-
	<hr/> 682	<hr/> 259

9. CREDITORS: Amounts falling due within one year

	2005 £000	2004 £000
Trade creditors	204	34
Amounts owed to group undertakings	52	230
Accruals	88	151
Group relief payable	-	1,565
Tax and social security	32	10
EU Emissions Trading Scheme Government Grant	182	-
EU Emissions Trading Scheme Liability	153	-
	<hr/> 711	<hr/> 1,990

10. CREDITORS: Amounts falling due after one year

	2005 £000	2004 £000
Amounts owed to group undertakings	18,270	16,705
	<hr/>	<hr/>

HEARTLANDS POWER LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

11. PROVISIONS for liabilities and charges

Deferred Taxation

	2005 £000	2004 £000
At beginning of year	7,140	6,821
Amount (credited) / charged to Profit & Loss Account	(218)	319
	<hr/>	<hr/>
At end of year	6,922	7,140
	<hr/>	<hr/>
The analysis of the deferred tax provision is as follows:		
	2005 £000	2004 £000
Accelerated capital allowances	6,922	7,140
	<hr/>	<hr/>
	6,922	7,140
	<hr/>	<hr/>

12. SHARE CAPITAL

	Ordinary shares £1 each £000	Nominal Value £000
Authorised		
At 1 January 2005 and 31 December 2005	500	500
	<hr/>	<hr/>
Issued and fully paid		
At 1 January 2005 and 31 December 2005	500	500
	<hr/>	<hr/>

HEARTLANDS POWER LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

13. RECONCILIATION OF SHAREHOLDERS' FUNDS

	2005 £000	2004 £000
Shareholders' funds at beginning of year	10,265	224
Retained (loss) / profit	(1,294)	10,041
Shareholders' funds at 31 December	8,971	10,265

14. ULTIMATE HOLDING COMPANIES

Rolls-Royce Group plc, a company registered in England & Wales, is the ultimate holding company and heads the 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. Copies of both companies' financial statements can be obtained from 65 Buckingham Gate, London SW1E 6AT.