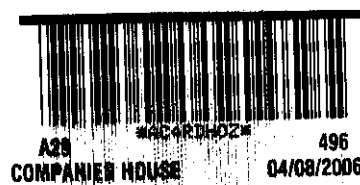


Company Registration Number 2928100

AES INDIAN QUEENS POWER LIMITED

Report and Financial Statements

31 December 2005



AES INDIAN QUEENS POWER LIMITED

REPORT AND FINANCIAL STATEMENTS 2005

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AES INDIAN QUEENS POWER LIMITED

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

V Danks
N Hopkins
A McKay

SECRETARY

A McKay

REGISTERED OFFICE

Gaverigan
St Dennis
St Austell
Cornwall
PL26 8BY

BANKERS

Barclays Bank PLC
Barclays Capital Service Centre
PO Box 46116
London
EC4N 8WB

SOLICITORS

Skadden, Arps, Slate, Meagher & Flom
1 Canada Square
Canary Wharf
London
E14 5DS

AUDITORS

Deloitte & Touche LLP
Bristol

AES INDIAN QUEENS POWER LIMITED

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 December 2005.

PRINCIPAL ACTIVITY

AES Indian Queens Power Limited (the "Company") was formed on 6 May 1994 to design, construct, finance, own and operate a power generation facility in Cornwall. Its principal trading activities are the supply of electricity to the National Grid and the provision of grid imbalance regulation.

REVIEW OF DEVELOPMENTS AND FUTURE PROSPECTS

The directors intend to continue to supply electricity to the National Grid in the future.

Details of significant events since the balance sheet date are contained in note 21 to the financial statements.

FINANCIAL RISK MANAGEMENT

The company's activities expose it to a number of financial risks including credit risk and cash flow risk. The company does not use derivative financial instruments for speculative purposes.

Cash flow risk

The company's activities expose it primarily to the financial risks of changes in fuel prices. Where appropriate, the company uses fuel cap contracts to hedge these exposures.

Credit risk

The company's principal financial assets are bank balances and cash, trade and other receivables.

The company's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The company has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

RESULTS AND DIVIDENDS

The result for the year is set out in the profit and loss account on page 5. The directors have decided not to propose a dividend for the year ended 31 December 2005 (2004: nil).

DIRECTORS AND THEIR INTERESTS

The current directors are shown on page 1. The following directors served throughout the year and to date:

V Danks	
N Hopkins	(appointed 27 October 2005)
W Luraschi	(resigned 27 October 2005)
A McKay	
B Sharp	(resigned 27 October 2005)

None of the directors had any interests in the shares of the company as defined in the Companies Act 1985, or any other group company at 31 December 2005 or at any time during the year.

AES INDIAN QUEENS POWER LIMITED

DIRECTORS' REPORT (continued)

AUDITORS

Deloitte & Touche LLP have expressed their willingness to remain in office as auditors of the company. A resolution to reappoint Deloitte & Touche LLP will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors
and signed on behalf of the Board



A McKay
Secretary

1st August 2006

AES INDIAN QUEENS POWER LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

United Kingdom 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 as at the end of the financial year and of the profit or loss of the company 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; and
- prepare the financial statements on a 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 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 are also responsible for the system of internal control, safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF

AES INDIAN QUEENS POWER LIMITED

We have audited the financial statements of AES Indian Queens Power Limited for the year ended 31 December 2005 which comprise the profit and loss account, the balance sheet and the related notes 1 to 23. 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 auditors' 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, the company's directors are responsible for the preparation of financial statements in accordance with applicable United Kingdom law and United Kingdom Generally Accepted Accounting Practice.

Our responsibility is to audit the financial statements in accordance with relevant United Kingdom 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 in accordance with the relevant framework 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.

We read the directors' report and the other information contained in the annual report for the above year as described in the contents section and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

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 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 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 United Kingdom 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
- the financial statements have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP

DELOITTE & TOUCHE LLP

Chartered Accountants and Registered Auditors
Bristol, United Kingdom

2 August 2006

AES INDIAN QUEENS POWER LIMITED

PROFIT AND LOSS ACCOUNT Year ended 31 December 2005

	Note	2005 £'000	2004 £'000
TURNOVER	1	6,172	4,841
Cost of sales		(5,297)	(2,761)
GROSS PROFIT		875	2,080
Administrative expenses		(2,752)	(2,055)
Other operating income - insurance proceeds		2,735	484
OPERATING PROFIT	2	858	509
Exceptional profit on disposal of fixed assets	4	-	400
Interest receivable and similar income	5	1,172	1,112
Interest payable and similar charges	6	(2,774)	(2,835)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(744)	(814)
Tax credit on loss on ordinary activities	7	93	383
RETAINED LOSS FOR THE FINANCIAL YEAR	19	(651)	(431)

All amounts derive from continuing operations.

There are no recognised gains or losses in either the current or prior financial year other than the gains and losses disclosed in the profit and loss account. Accordingly, no separate statement of total recognised gains and losses is required.

AES INDIAN QUEENS POWER LIMITED

BALANCE SHEET At 31 December 2005

	Note	2005 £'000	2004 £'000
FIXED ASSETS			
Tangible fixed assets	8	24,983	25,129
CURRENT ASSETS			
Stocks	9	1,071	833
Debtors	10	2,358	2,317
Cash at bank and in hand	11	25,634	26,718
		<u>29,063</u>	<u>29,868</u>
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	12	<u>(8,104)</u>	<u>(5,359)</u>
NET CURRENT ASSETS		<u>20,959</u>	<u>24,509</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>45,942</u>	<u>49,638</u>
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	13	(41,197)	(44,149)
PROVISIONS FOR LIABILITIES AND CHARGES	16	<u>(79)</u>	<u>(172)</u>
NET ASSETS		<u><u>4,666</u></u>	<u><u>5,317</u></u>
CAPITAL AND RESERVES			
Called up share capital	17	4,200	4,200
Profit and loss account	18	466	1,117
TOTAL SHAREHOLDERS' FUNDS	19	<u><u>4,666</u></u>	<u><u>5,317</u></u>

These financial statements were approved by the Board of Directors on 1st August 2006.

Signed on behalf of the Board of Directors



A McKay
Director

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2005

1. ACCOUNTING POLICIES

The financial statements are prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards.

Turnover

Turnover for the sale of electricity and the provision of ancillary services are recorded based upon output or product delivered as specified under contract, all of which arises in the United Kingdom and is stated net of applicable value added tax and sales discounts.

Foreign currencies

Transactions in foreign currencies are recorded at the rates ruling on the date of transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rates of exchange ruling at the balance sheet date. All differences are taken to the profit and loss account.

Tangible fixed assets

Tangible fixed assets relate to the power generation facility which was completed in December 1996.

Depreciation is provided on tangible fixed assets in order to write them down to their residual value over the course of their useful economic life which is estimated to be between three and thirty years.

Stock

Stocks are valued at the lower of cost and net realisable value.

Leases

Assets held under finance leases and hire purchase contracts are capitalised at their fair value on the inception of the leases and depreciated over the shorter of the period of the lease and the estimated useful economic lives of the assets. The finance charges are allocated over the period of the lease in proportion to the capital amount outstanding and are charged to the profit and loss account.

Operating lease rentals are charged to the profit and loss account on a straight-line basis over the period of the lease.

Taxation

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted at the balance sheet date.

Deferred tax is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements. Deferred tax is not provided on timing differences arising from the revaluation of fixed assets where there is no commitment to sell the asset, or on unremitted earnings of subsidiaries and associates where there is no commitment to remit these earnings. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

AES INDIAN QUEENS POWER LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2005

1. ACCOUNTING POLICIES (continued)

Cash flow statement

As a wholly owned subsidiary of a UK registered company, AES Indian Queens Power Limited, has taken advantage of the exemption in Financial Reporting Standard No. 1, from the requirement to produce a cash flow statement. A consolidated cash flow statement is included in AES UK Holdings Limited group accounts.

2. OPERATING PROFIT

	2005 £'000	2004 £'000
Operating profit is after charging:		
Depreciation of owned assets	700	531
Depreciation of assets held under finance leases	796	833
Rentals under operating leases - other operating leases	25	25
Auditors' remuneration:		
- audit services	27	24
- other services	-	16

3. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

V Danks and A McKay are also directors of AES Indian Queens Operations Limited and are paid by other group companies. N Hopkins is an employee of AES Electric & W Luraschi and B Sharp are employees of AES Corporation. It is not practical to allocate their remuneration between their services as directors of AES Indian Queens Holdings Limited and as employees and directors of other companies. Disclosure of the remuneration for V Danks and A McKay for the year ended 31 December 2005 is in the accounts for AES Indian Queens Operations Limited.

As the company has no employees, no wages or wage related costs were paid by the company during the year.

4. EXCEPTIONAL PROFIT ON DISPOSAL OF FIXED ASSETS

The profit on disposal of fixed assets in the prior year relates to the breakdown of a transformer. This was sold for scrap but insurance proceeds of £1,161,000 were received resulting in a profit on disposal of £400,000 in the year ended 31 December 2004. This exceptional profit had no impact on the tax charge for the year.

5. INTEREST RECEIVABLE AND SIMILAR INCOME

	2005 £'000	2004 £'000
Interest from bank deposits	1,172	1,112

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2005

6.	INTEREST PAYABLE AND SIMILAR CHARGES	2005	2004
		£'000	£'000
	Interest payable to parent company	-	4
	Bank interest payable	2,774	2,831
		<u>2,774</u>	<u>2,835</u>
7.	TAX CREDIT ON LOSS ON ORDINARY ACTIVITIES	2005	2004
		£'000	£'000
	Corporation tax		
	Corporation tax charge for the year	-	-
	Deferred taxation		
	Timing differences, origination and reversal	(93)	383
	Adjustments in respect of prior years	-	-
		<u>(93)</u>	<u>383</u>
	Tax credit on loss on ordinary activities	(93)	383

The standard rate of current tax for the year, based on the UK standard rate of corporation tax is 30% (2004: 30%). The current tax charge for the year differs from the standard rate for the reasons set out in the following reconciliation:

	£'000	£'000
Loss on ordinary activities before tax	<u>(744)</u>	<u>(814)</u>
	£'000	£'000
Tax on loss on ordinary activities at standard rate	223	244
Factors affecting the charge:		
Disallowable expenses	(44)	4
Capital allowances timing differences	131	154
Losses carried forward	(317)	(509)
Other deferred tax movements	7	107
	<u>-</u>	<u>-</u>
Current tax charge for the year	<u>-</u>	<u>-</u>

The company is not aware of any factors which might materially affect the future tax charge. No deferred tax asset is recognised for corporation tax losses, as such losses are surrendered to other group companies.

AES INDIAN QUEENS POWER LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2005

8. TANGIBLE FIXED ASSETS

	Plant £'000
Cost	
At 1 January 2005	34,854
Additions	1,350
Disposals	(739)
	<hr/>
At 31 December 2005	35,465
	<hr/>
Accumulated depreciation	
At 1 January 2005	9,725
Charge for year	1,496
Disposals	(739)
	<hr/>
At 31 December 2005	10,482
	<hr/>
Net book value	
At 31 December 2005	<u>24,983</u>
	<hr/>
At 31 December 2004	<u>25,129</u>

The net book value of the company's plant includes £17,864,762 (2004: £17,464,995) in respect of assets held under a finance lease.

9. STOCKS

	2005 £'000	2004 £'000
Spare parts	632	650
Fuel	439	183
	<hr/>	<hr/>
	1,071	833
	<hr/>	<hr/>

10. DEBTORS

	2005 £'000	2004 £'000
Trade debtors	1,955	547
Prepayments and other debtors	403	1,770
	<hr/>	<hr/>
	2,358	2,317
	<hr/>	<hr/>

AES INDIAN QUEENS POWER LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2005

11. CASH AT BANK AND IN HAND

Within the cash balance, £23,231,045 (2004: £23,351,802) is held in an escrow account. Barclays Bank PLC, through BLAF (No. 3) Limited, has a charge on all sums outstanding regarding this account and all other rights and benefits accruing in connection therewith.

Barclays Bank PLC also has a fixed and floating charge over the undertaking and all property and assets present and future.

12. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	2005 £'000	2004 £'000
Bank loans and overdrafts (notes 14 and 15)	2,999	807
Obligations under finances leases and hire purchase contracts	1,901	1,828
Trade creditors	1,524	259
Amounts owed to group undertakings	7	40
Group relief payable	504	504
Other creditors	220	318
Other taxation and social security	321	14
Accruals and deferred income	628	1,589
	<u>8,104</u>	<u>5,359</u>

13. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2005 £'000	2004 £'000
Bank loans and overdrafts (note 14 and 15)	14,691	17,676
Obligations under finance leases and hire purchase contracts	26,506	26,473
	<u>41,197</u>	<u>44,149</u>

The term facility loan is repayable in 17 years and accrues interest at LIBOR plus 1.0625%. The interest rate increased in May 2004 to LIBOR plus 1.3625% and then again in May 2005 to LIBOR plus 1.7125%.

The facility loan is secured on a pari-passu basis by the assets of AES Indian Queens Power Limited. These assets consist of shares in AES Indian Queens Power Limited, material project agreements, all insurance and the proceeds thereof, charge upon the lease, all moveable property and receivables and all monies and investments in the project held by Barclays Bank PLC. The finance lease is repayable over 25 years from 28 May 1997.

The finance lease is linked to the escrow deposit account and earns interest at LIBOR less a margin renewable every six months and repayable over 25 years. It is secured by the assets to which it relates.

AES INDIAN QUEENS POWER LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2005

14. BORROWINGS	2005 £'000	2004 £'000
Bank loans	17,690	18,483
Obligations under finance leases and hire purchase contracts	28,407	28,301
	<u>46,097</u>	<u>46,784</u>
	£'000	£'000
Due within one year	4,900	2,635
Due after more than one year	41,197	44,149
	<u>46,097</u>	<u>46,784</u>

An analysis of the maturity profile of the company's financial liabilities as at the year end is given in note 15.

15. MATURITY PROFILE OF FINANCIAL LIABILITIES

	2005 Bank borrowings £'000	2005 Other £'000	2005 Total £'000	2004 Bank borrowings £'000	2004 Other £'000	2004 Total £'000
Within one year or less or on demand	2,999	1,901	4,900	807	1,828	2,635
More than one year but not more than two years	1,757	1,977	3,734	1,553	1,890	3,443
More than two years but not more than five years	12,934	6,418	19,352	5,721	6,138	11,859
More than five years	-	18,111	18,111	10,402	18,445	28,847
	<u>17,690</u>	<u>28,407</u>	<u>46,097</u>	<u>18,483</u>	<u>28,301</u>	<u>46,784</u>

AES INDIAN QUEENS POWER LIMITED

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2005

16. PROVISION FOR LIABILITIES AND CHARGES

	2005	2004
	£'000	£'000
Deferred taxation		
At 1 January 2005	172	555
Profit and loss credit	(93)	(383)
	<u>79</u>	<u>172</u>
At 31 December 2005	<u>79</u>	<u>172</u>

The amounts of deferred taxation provided in the accounts are as follows:

	£'000	£'000
Capital allowances in excess of depreciation	773	545
Other	(694)	(373)
	<u>79</u>	<u>172</u>

17. CALLED UP SHARE CAPITAL

	2005	2004
	£'000	£'000
Authorised share capital		
50,000,000 ordinary shares of £1 each	50,000	50,000
	<u>£'000</u>	<u>£'000</u>
Called up, allotted and fully paid		
4,200,000 Ordinary shares of £1 each	4,200	4,200
	<u>4,200</u>	<u>4,200</u>

18. MOVEMENTS ON RESERVES

	Profit and loss account £'000
At 1 January 2005	1,117
Retained loss for the financial year	(651)
	<u>466</u>
At 31 December 2005	<u>466</u>

AES INDIAN QUEENS POWER LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2005

19.	RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS	2005 £'000	2004 £'000
	Loss for the financial year	(651)	(431)
	Opening shareholders' funds	5,317	5,748
	Closing shareholders' funds	<u>4,666</u>	<u>5,317</u>

20. OTHER FINANCIAL COMMITMENTS

Operating lease commitments

At 31 December 2005 the company was committed to making the following payments during the next year in respect of operating leases:

	Land and buildings £'000
Leases which expires in more than five years	<u>25</u>

Capital commitments

At 31 December 2005, the company was committed to capital expenditure of £nil (2004: £1,038,000 in respect of the purchase of a new transformer).

21. SUBSEQUENT EVENTS

In September 2005 the company defaulted in relation to covenant compliance on its bank borrowings. The default was subsequently waived by the company's bankers on 13 January 2006 and the borrowing agreement amended. The maturity profile of financial liabilities as at the year end is shown in note 15. As a result of the amendment to the borrowing agreement all debt is now due within five years.

22. RELATED PARTY TRANSACTIONS

The company is a wholly owned subsidiary and has accordingly taken advantage of the exemption available under FRS8 from disclosing transactions with group entities.

AES INDIAN QUEENS POWER LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2005

23. ULTIMATE PARENT COMPANY AND CONTROLLING PARTY

The immediate parent company is AES Indian Queens Holdings Limited, a company registered in England and Wales.

The ultimate parent company and controlling party is The AES Corporation, a company incorporated in the State of Delaware, USA. Copies of the ultimate parent company's financial statements can be obtained from the Securities and Exchange Commission, 450 5th Street NW, Washington DC 20549, USA.

The largest and smallest group of which the company is a member and for which group accounts are drawn up is that of, AES UK Holdings Limited registered in England and Wales. Copies of the report and accounts are available from 18 Parkshot, Richmond, Surrey, TW9 2RG.