

COMPANY NUMBER: 158230

**ROLLS-ROYCE INDUSTRIAL POWER ENGINEERING
(OVERSEAS PROJECTS) LIMITED**

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

Directors on
30 October 2006:

R D Buxton
P E Brown
D J Goma
M M Sufrin
J E Warren

Secretary:

D J Goma



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Registered Office : Moor Lane, Derby DE24 8BJ

ROLLS-ROYCE INDUSTRIAL POWER ENGINEERING
(OVERSEAS PROJECTS) LIMITED

REPORT OF THE DIRECTORS

The directors present their audited Annual Report for the year ended 31 December 2005.

ACTIVITY

The Company trades in the business of construction, commissioning, maintenance and refurbishment of major engineering projects in overseas territories.

HEALTH AND SAFETY POLICY

The Company confirms that it complies with the Health and Safety Policy and Procedures of its parent company, Rolls-Royce Group plc. These are described in the annual report of Rolls-Royce Group plc.

RESULTS

The profit for the year before taxation amounted to £2,948,000 (2004: £1,801,000). The profit and loss account is shown on page 7.

The Directors do not recommend the payment of a dividend (2004: nil).

DIRECTORS

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

P E Brown
R D Buxton
D J Goma
M M Sufrin
J E 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	Exercised	31 December 2005
P E Brown	-	-	7,662	-	-	7,662
R D Buxton	19,589*	26,571	246,821	-	-	246,821
D J Goma	458*	-	4,811	992	-	5,803
M M Sufrin	51,856*	31,551*	415,730	892	2,427	414,195
J E Warren	17,478*	12,280*	214,808	251	-	215,059

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

ROLLS-ROYCE INDUSTRIAL POWER ENGINEERING
(OVERSEAS PROJECTS) LIMITED

REPORT OF THE DIRECTORS (continued)

	Annual Performance Related Award Plan ¹		Profit Sharing Share Scheme ²		SharePurchase Plan ³	
	1 January 2005	31 December 2005	1 January 2005	31 December 2005	1 January 2005	31 December 2005
R D Buxton	11,418	11,804	784	-	-	-
D J Goma	-	-	-	-	458	-
M M Sufrin	24,400	13,958	1,203	-	-	-
J E 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 SharePurchase Plan, 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
P E Brown	-	3,860
R D Buxton	18,547	37,127
M M Sufrin	21,037	42,140
J E Warren	10,197	20,443

EMPLOYEES

The Company is a part of the Rolls-Royce Group. The Group's policy is to provide, wherever possible, employment opportunities and training for disabled people, to care for employees who become disabled and to make the best possible use of their skills and potential. It also operates an equal opportunities policy details of which are available to all employees.

There are various forms of communication across the Group, each adapted to the particular needs of individual businesses. The Group consults with employees and their elected representatives on a comprehensive range of topics which relate to its overall business objectives. Management and employee representatives hold regular meetings at every location to discuss opportunities and issues of common interest.

PENSION FUND

The overseas employees of the Company are covered by pension schemes are of the defined contribution type.

ROLLS-ROYCE INDUSTRIAL POWER ENGINEERING
(OVERSEAS PROJECTS) LIMITED

REPORT OF THE DIRECTORS (continued)

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.

AUDITORS AND ANNUAL GENERAL MEETING

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

By Order of the Board

A handwritten signature in black ink, appearing to read 'DJ Goma', with a horizontal line drawn through the bottom of the signature.

DJ Goma
Secretary

30 October 2006

ROLLS-ROYCE INDUSTRIAL POWER ENGINEERING
(OVERSEAS 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 period. Under that law they 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.

ROLLS-ROYCE INDUSTRIAL POWER ENGINEERING
(OVERSEAS PROJECTS) LIMITED

KPMG Audit Plc

*2 Cornwall Street
Birmingham
B3 2DL
United Kingdom*

**Independent auditors' report to the members of Rolls-Royce Power Engineering
(Overseas Projects) Limited**

We have audited the financial statements of Rolls-Royce Power Engineering (Overseas 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.

**Independent auditors' report to the members of Rolls-Royce Power Engineering
(Overseas Projects) 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 profit 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

30 October 2006

ROLLS-ROYCE INDUSTRIAL POWER ENGINEERING
(OVERSEAS PROJECTS) LIMITED

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2005

	Note	2005 (£000)	2004 (£000)
Turnover	2	9,541	6,897
Cost of sales		<u>(6,803)</u>	<u>(4,959)</u>
Gross profit		2,738	1,938
Commercial and administrative costs		(50)	(4)
Operating profit		<u>2,688</u>	<u>1,934</u>
Net interest and similar charges	3	260	(133)
Profit on ordinary activities before taxation	4	2,948	1,801
Tax on profit on ordinary activities	7	<u>(1,112)</u>	<u>(564)</u>
Profit on ordinary activities after taxation for the financial year	14	<u>1,836</u>	<u>1,237</u>

All of the above results derive from continuing operations.

The Company has no recognised gains or losses in either the current or preceding years other than those disclosed in the profit and loss account.

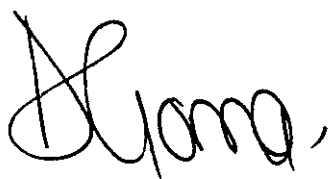
The notes on pages9 to 12 form part of these financial statements.

ROLLS-ROYCE INDUSTRIAL POWER ENGINEERING
(OVERSEAS PROJECTS) LIMITED

BALANCE SHEET AT 31 DECEMBER 2005

	<u>Note</u>	<u>2005</u> <u>(£000)</u>	<u>2004</u> <u>(£000)</u>
Tangible Fixed Assets	8	1	5
Current Assets			
Stocks	9	305	138
Debtors – amounts due within one year	10	1,653	1,045
Cash at bank and in hand	11	<u>9,452</u>	<u>5,269</u>
		11,410	6,452
Creditors: amounts falling due within one year	12	<u>(5,969)</u>	<u>(2,851)</u>
Net current assets		<u>5,441</u>	<u>3,601</u>
Net Assets		<u>5,442</u>	<u>3,606</u>
Capital and Reserves			
Called up share capital	13	50	50
Profit and loss account	14	<u>5,392</u>	<u>3,556</u>
Shareholders' Funds	15	<u>5,442</u>	<u>3,606</u>

These financial statements were approved by the Board of Directors on 30 October 2006 and are signed on its behalf by:



D J Goma
Director

The notes on pages 9 to 12 form part of these financial statements.

ROLLS-ROYCE INDUSTRIAL POWER ENGINEERING
(OVERSEAS 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 as one is prepared by Rolls-Royce Group plc, the ultimate parent company.

c) Turnover

Turnover excludes value added tax and discounts. Long-term contracts are included in turnover on the basis of the sales value of work performed during the year and stage of completion of these contracts.

d) Fixed Assets

Depreciation is provided on the original cost of plant and equipment and is calculated on a straight line basis at rates sufficient to reduce them to their estimated residual value. Estimated lives are in the range 5 to 25 years.

e) Stock and long- term contracts

Work in progress is valued at the lower of cost and net realisable value. Full provision is made for any estimated losses to completion of contracts having regard to the overall substance of the arrangements including, if appropriate, related commitments and undertakings given by customers. Provided that the outcome of long- term contracts can be assessed with reasonable certainty, such contracts are valued at cost plus attributable profit earned to date.

Progress payments received, when greater than recorded turnover, are deducted from the value of work in progress except to the extent that payments on account exceed the value of work in progress on any contract where the excess is included in creditors.

f) 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 of Rolls-Royce Group plc.

g) 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.

h) Foreign Currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Amounts denominated in foreign currencies at the year end have been converted at the exchange rates ruling at 31st December. Exchange differences on trading transactions are dealt with in arriving at the profit on ordinary activities before taxation. Other exchange differences are dealt with through reserves.

ROLLS-ROYCE INDUSTRIAL POWER ENGINEERING
(OVERSEAS PROJECTS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

2. Turnover

The turnover represents work carried out overseas in the oil and gas engineering sector.

3. Net interest and similar charges

	<u>2005</u> (£000)	<u>2004</u> (£000)
Bank interest receivable	44	-
Exchange gain / (loss)	216	(132)
	<u>260</u>	<u>(132)</u>

4. Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging the following:

	<u>2005</u> (£000)	<u>2004</u> (£000)
Depreciation	4	6
Auditors' remuneration		
- for audit work	2	2
- for other non-audit services	1	4
	<u>3</u>	<u>6</u>

5. Employee information

	<u>2005</u>	<u>2004</u>
Average weekly numbers of employees during year	3	3
<i>Analysis of employees by type:</i>		
Project engineers	3	3
	<u>(£000)</u>	<u>(£000)</u>
Wages and salaries	244	208
Pensions	2	-
	<u>246</u>	<u>208</u>

6. Directors' Remuneration

None of the directors received remuneration from the Company in respect of their services to the Company (2004: £ nil).

ROLLS-ROYCE INDUSTRIAL POWER ENGINEERING
(OVERSEAS PROJECTS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

7. Tax on profit on ordinary activities

<i>Tax based on the profit for the year of the Company</i>	2005 £000	2004 £000
Corporation tax payable at 30% (2004: 30%)	621	460
Double tax relief	(621)	(460)
	-	-
Group Relief payable at 30% (2004: 30%)	263	88
Overseas tax - current year	829	476
- prior years	20	-
	<u>1,112</u>	<u>564</u>
Reconciliation of Tax Charge		
Profit on ordinary activities before taxation	<u>2,948</u>	<u>1,801</u>
Nominal charge at UK Corporation tax rate of 30%	884	540
Unrelieved overseas tax for period	228	16
Expenses not deductible for taxation purposes	-	8
	<u>-</u>	<u>8</u>
Total current tax	<u>1,112</u>	<u>564</u>

8. Tangible Fixed Assets

	2005 (£000)	2004 (£000)
Plant and equipment		
Cost		
At 1 January	28	31
Exchange rate adjustment	3	(3)
At 31 December	<u>31</u>	<u>28</u>
Depreciation		
At 1 January	23	20
Exchange rate adjustment	3	(3)
Charge in year	4	6
At 31 December	<u>30</u>	<u>23</u>
Net Book Value at 31 December	<u>1</u>	<u>5</u>

9. Stocks

	2005 (£000)	2004 (£000)
Long term contracts work in progress	<u>305</u>	<u>138</u>

10. Debtors - amounts falling due within one year

	2005 (£000)	2004 (£000)
Trade debtors	1,653	1,019
Other debtors	-	26
	<u>1,653</u>	<u>1,045</u>

ROLLS-ROYCE INDUSTRIAL POWER ENGINEERING
(OVERSEAS PROJECTS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

11.	<u>Cash at bank and in hand</u>	2005	2004
		(£000)	(£000)
	Other bank balance and cash in hand	<u>9,452</u>	<u>5,269</u>
12.	<u>Creditors</u>	2005	2004
		£000	£000
	Group relief payable to fellow subsidiary	230	88
	Overseas tax	86	66
	Other taxes and social security	6	6
	Amounts owed to parent company & fellow subsidiaries	1,438	385
	Accruals and deferred income	<u>4,209</u>	<u>2,306</u>
		<u>5,969</u>	<u>2,851</u>
13.	<u>Share Capital</u>	2005	2004
		(£000)	(£000)
	Ordinary Shares of £1 each		
	<u>Authorised :</u>	<u>50</u>	<u>50</u>
	<u>Issued and Fully Paid:</u>	<u>50</u>	<u>50</u>
14.	<u>Reserves</u>	2005	2004
		(£000)	(£000)
	<i>Profit and loss account:</i>		
	At 1 January	3,556	2,319
	Profit for the financial year	<u>1,836</u>	<u>1,237</u>
	At 31 December	<u>5,392</u>	<u>3,556</u>
15.	<u>Reconciliation of movements in shareholders' funds</u>	2005	2004
		(£000)	(£000)
	Profit for the financial year	1,836	1,237
	Opening shareholders' funds	<u>3,606</u>	<u>2,369</u>
	Closing shareholder' funds	<u>5,442</u>	<u>3,606</u>
16.	<u>Ultimate Parent Company</u>		

The Company is a subsidiary undertaking of Rolls-Royce Group plc, incorporated in Great Britain. The largest group in which the results of the company are consolidated is that headed by Rolls-Royce Group plc. The smallest group in which the results of the company are consolidated is that headed by Rolls-Royce plc, incorporated in Great Britain. The consolidated accounts of these groups are available to the public and may be obtained from 65 Buckingham Gate, London, SW1E 6AT.