

COMPANY NUMBER: 158230

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

**Annual Report
for the year ended 31 December 2002**

Directors on
28 January 2004:

R D Buxton
I S Carmichael
D J Goma
M M Sufrin
J E Warren

Secretary:

D J Goma



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 2002.

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 plc. These are described in the annual report of Rolls-Royce plc.

RESULTS

The profit for the year before taxation amounted to £902,000 (2001:£320,000). The profit and loss account is shown on page 7.

DIRECTORATE

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

R D Buxton (appointed 12 November 2002)
 I S Carmichael (appointed 12 November 2002)
 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 2002, including immediate family, in the ordinary share capital of Rolls-Royce plc are as follows:

Rolls-Royce plc Ordinary 20p Shares			Options over Rolls-Royce plc Ordinary 20p Shares			
	Shares @1.1.02 or date of appointment if later	Shares @31.12.02	Options @1.1.02 or date of appointment if later	Granted	Exercised/ lapsed	31.12.02
R D Buxton	5,856	5,856*	124,078	-	-	124,078
I S Carmichael	3,944	3,944*	37,017	-	-	37,017
D J Goma	-	61*	4,560	-	-	4,560
M M Sufrin	18,772	25,438*	211,592	61,170	8,032	264,730
J E Warren	2,341	6,977*	42,436	48,538	-	90,974

*The above interests under ordinary 20p shares include shares held in trust for the following directors:

ROLLS-ROYCE INDUSTRIAL POWER ENGINEERING
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	Annual Performance Related Award Scheme ¹ or date of appointment if later		Profit Sharing Share Scheme ² or date of appointment if later		SharePurchase Plan ³ or date of appointment if later	
	1.1.2002	31.12.2002	1.1.2002	31.12.2002	1.1.2002	31.12.2002
R D Buxton	2,810	2,810	1,721	1,721	-	-
I S Carmichael	2,326	2,326	986	986	-	-
D J Goma	-	-	-	-	-	61
M M Sufrin	7,228	12,508	1,897	3,054	-	-
J E Warren	2,341	6,459	-	-	-	-

¹ Under the Annual Performance Related Award Scheme, 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.

To assist executives in purchasing shares to fulfil their ownership requirement under the rules of the 1999 Executive Share Option Scheme, they were given a once only opportunity to join a plan through which regular fixed salary deductions would be held in a savings account and used to purchase shares at a price of £2.16 at the end of a three year period. Shares would have to be purchased at this price regardless of the prevailing market price at the time.

The interests of Mr R D Buxton in the number of shares with the value of savings accrued to the end of 2002 are detailed below:-

	Shares 31 December 2002
R D Buxton	1,801

EMPLOYEES

The Company is a part of the Rolls-Royce plc 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 Group's pension schemes are mainly of the defined benefit type. The schemes are administered by trustees and the assets of the schemes are invested by them independently of the finances of the Group. The schemes are funded by annual contributions from :

- a) the Company's ultimate parent, fellow subsidiary undertakings; and
- b) scheme members.

Further details of the Group's pension schemes are given in the annual report of the ultimate parent, Rolls-Royce plc

ROLLS-ROYCE INDUSTRIAL POWER ENGINEERING
(OVERSEAS PROJECTS) LIMITED

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



D Goma
Secretary

28 January 2004

ROLLS-ROYCE INDUSTRIAL POWER ENGINEERING
(OVERSEAS PROJECTS) LIMITED

DIRECTORS RESPONSIBILITY FOR FINANCIAL STATEMENTS

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 its results 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 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 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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
ROLLS-ROYCE INDUSTRIAL POWER ENGINEERING
(OVERSEAS PROJECTS) LIMITED

We have audited the financial statements on pages 7 to 12.

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 5, 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 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 of the state of the Company's affairs as at 31 December 2002 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
Birmingham
28 January 2004

ROLLS-ROYCE INDUSTRIAL POWER ENGINEERING
(OVERSEAS PROJECTS) LIMITED

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2002

	Note	2002 (£000)	2001 (£000)
Turnover	2	3,304	2,087
Cost of sales		<u>(2,289)</u>	<u>(1,779)</u>
Operating profit		1,015	308
Net interest and similar income	3	<u>(113)</u>	<u>12</u>
Profit on ordinary activities before taxation		902	320
Tax on profit on ordinary activities	6	<u>(315)</u>	<u>(209)</u>
Retained profit for the financial year	14	<u>587</u>	<u>111</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 pages 9 to 12 form part of these financial statements.

ROLLS-ROYCE INDUSTRIAL POWER ENGINEERING
(OVERSEAS PROJECTS) LIMITED
BALANCE SHEET AT 31 DECEMBER 2002

	<u>Note</u>	<u>2002</u> <u>(£000)</u>	<u>2001</u> <u>(£000)</u>
Tangible Fixed Assets	7	11	17
Current Assets			
Stocks	8	865	1,289
Debtors - amounts due within one year	9	819	656
Cash at bank and in hand	10	1,045	224
		<u>2,729</u>	<u>2,169</u>
Creditors: amounts falling due within one year	11	<u>(1,689)</u>	<u>(1,722)</u>
Net current assets		1,040	447
Net Assets		<u>1,051</u>	<u>464</u>
Capital and Reserves			
Called up share capital	13	50	50
Profit and loss account	14	<u>1,001</u>	<u>414</u>
Total Equity Shareholders' Funds	15	<u>1,051</u>	<u>464</u>

These financial statements were approved by the Board of Directors on 28 January 2004 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 plc, the ultimate parent company.

c) Turnover

Turnover, excluding value added tax and discounts, comprises sales to outside customers. Long-term contracts are included in turnover on the basis of the sales value 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 five to 25 years.

e) Stock, contract provision 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 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.

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2. **Turnover**

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

3. **Net interest and similar income**

	<u>2002</u>	<u>2001</u>
	(£000)	(£000)
Exchange (loss) / profit	<u>(113)</u>	<u>12</u>

4. **Staff Numbers and Costs**

The average number of employees, other than directors, employed by the Company during the year were as follows.

	<u>2002</u>	<u>2001</u>
Overseas	<u>-</u>	<u>2</u>

The number actually employed at 31 December	<u>-</u>	<u>3</u>
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The aggregate payroll costs of these persons were as follows:

Wages and salaries	<u>-</u>	<u>95</u>
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5. **Directors' Remuneration**

None of the directors received remuneration from the Company in respect of their services to the Company.

6. **Taxation on profit on ordinary activities**

<i>Taxation based on the profit for the year of the Company</i>	<u>2002</u>	<u>2001</u>
	£000	£000
Corporation tax payable at 30%	272	96
Double tax relief	<u>(272)</u>	<u>(96)</u>
	-	-
Overseas tax - current year	295	209
Overseas tax - prior year	<u>20</u>	<u>-</u>
	<u>315</u>	<u>209</u>

Reconciliation of Tax Charge

Profit on ordinary activities before taxation	<u>902</u>	<u>320</u>
Nominal charge at UK Corporation tax rate of 30%	271	96
Unrelieved overseas tax	23	113
Expenses not deductible for taxation purposes	1	-
Prior year adjustments to overseas tax	<u>20</u>	<u>-</u>
Total current tax	<u>315</u>	<u>209</u>

ROLLS-ROYCE INDUSTRIAL POWER ENGINEERING
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7. Tangible Fixed Assets

	2002 (£000)	2001 (£000)
Plant and equipment		
Cost		
At 1 January	23	22
Exchange rate adjustment	(3)	1
At 31 December	<u>20</u>	<u>23</u>
Depreciation		
At 1 January	6	2
Charge in year	3	4
At 31 December	<u>9</u>	<u>6</u>
Net Book Value at 31 December	<u>11</u>	<u>17</u>

8. Stocks

	2002 (£000)	2001 (£000)
Long term contracts work in progress	<u>865</u>	<u>1,289</u>

9. Debtors - amounts falling due within one year

	2002 (£000)	2001 (£000)
Trade debtors	348	649
Other debtors	-	7
Amounts due from fellow subsidiaries	<u>471</u>	<u>-</u>
	<u>819</u>	<u>656</u>

10. Cash at bank and in hand

	2002 (£000)	2001 (£000)
Other bank balance and cash in hand	<u>1,045</u>	<u>224</u>

11. Creditors

	2002 £000	2001 £000
Group relief payable	-	-
Overseas tax	13	123
Other taxes and social security	-	46
Amounts owed to parent company & fellow subsidiaries	717	890
Accruals and deferred income	881	663
Payments received on account	<u>78</u>	<u>-</u>
	<u>1,689</u>	<u>1,722</u>

12. Provisions

Amounts formerly shown as provisions have now been reclassified as accruals and deferred income.

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13.	<u>Share Capital</u>		
	Ordinary Shares of £1 each	2002 (£000)	2001 (£000)
	<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>		
		2002 (£000)	2001 (£000)
	<i>Profit and loss account:</i>		
	At 1 January	414	303
	Profit for the financial year	<u>587</u>	<u>111</u>
	At 31 December	<u>1,001</u>	<u>414</u>
15.	<u>Reconciliation of movements in shareholders' funds</u>		
		2002 (£000)	2001 (£000)
	Profit for the financial year	587	111
	Opening shareholders' funds	<u>464</u>	<u>353</u>
	Closing shareholder' funds	<u>1,051</u>	<u>464</u>
16.	<u>Ultimate Parent Company</u>		

The Company's ultimate parent company is Rolls-Royce plc which is incorporated in Great Britain and registered in England and Wales. Copies of the annual report of Rolls-Royce plc can be obtained from Rolls-Royce plc, PO Box 31, Moor Lane, Derby DE24 8BJ.