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

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

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ROLLS-ROYCE INDUSTRIAL POWER ENGINEERING (OVERSEAS PROJECTS) LIMITED

COMPANY INFORMATION

DIRECTORS	G Allan (resigned 31 December 2013) D J Goma (resigned 8 October 2013) J H Luke (resigned 8 October 2013) C Amsden (appointed 8 October 2013 & resigned 16 June 2014) H Clayton (appointed 8 October 2013) S Martle (appointed 16 June 2014)
COMPANY SECRETARY	D J Goma
REGISTERED NUMBER	00158230
REGISTERED OFFICE	Moor Lane Derby DE24 8BJ

ROLLS-ROYCE INDUSTRIAL POWER ENGINEERING (OVERSEAS PROJECTS) LIMITED

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ROLLS-ROYCE INDUSTRIAL POWER ENGINEERING (OVERSEAS PROJECTS) LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2013

The directors present their report and the financial statements for the year ended 31 December 2013.

RESULTS AND DIVIDENDS

The profit for the year, after taxation, amounted to £9.5 million (2012 - £9.4 million).

A dividend of £20 million was paid during the year (2012: £Nil).

DIRECTORS

The directors who served during the year were:

G Allan (resigned 31 December 2013)
D J Goma (resigned 8 October 2013)
J H Luke (resigned 8 October 2013)
C Amsden (appointed 8 October 2013 & resigned 16 June 2014)
H Clayton (appointed 8 October 2013)

EVENTS SINCE THE END OF THE YEAR

Rolls-Royce Holdings plc (the ultimate parent) announced on 6 May 2014 that it has signed an agreement to sell its Energy gas turbine and compressor business to Siemens for a £785 million cash consideration.

When the sale completes the majority of this company's Energy business assets and liabilities will be transferring to Siemens. This company will receive net book value at date of transfer out of the £785 million cash consideration.

On completion of the transaction, the company's parent, Rolls-Royce plc, will receive a further £200 million for a 25 year licensing agreement, granting Siemens access to relevant Rolls-Royce aero-derivative technology for use in the 4 to 85 megawatt power output gas turbine range. Rolls-Royce's Energy gas turbine and compressor business has around 2,400 employees of which 102 were employed by this company as at 31 December 2013. The transaction is expected to complete before the end of December 2014, subject to closing conditions, including regulatory approvals.

QUALIFYING THIRD PARTY INDEMNITY PROVISIONS

The company has made qualifying third party indemnity provisions for the benefit of its directors, which were made during the year and remain in force at the date of this report.

DISCLOSURE OF INFORMATION TO AUDITOR

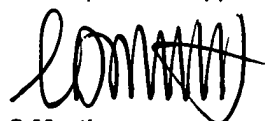
Each of the persons who are directors at the time when this Directors' report is approved has confirmed that:

- so far as that director is aware, there is no relevant audit information of which the company's auditor is unaware, and
- that director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the company's auditor is aware of that information.

AUDITOR

Our auditor, KPMG Audit Plc have instigated an orderly wind down of its business. The Board has decided to put KPMG LLP forward to be appointed as auditors and resolution concerning their appointment will be proposed at the next board of directors meeting.

This report was approved by the board and signed on its behalf.



S Martle
Director

Date: 23 September 2014

ROLLS-ROYCE INDUSTRIAL POWER ENGINEERING (OVERSEAS PROJECTS) LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2013

INTRODUCTION

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

OUR VISION

Since its earliest days, Rolls-Royce has been striving to achieve ever higher standards. Our vision is delivering 'better power for a changing world'.

Better: we will succeed only by continually raising standards. We constantly improve quality, performance and cost. We are inquisitive, energetic and 'better' every day. Even when we may be the best, we must continue to get better.

Power: we are a power systems company that develops, sells and services mission-critical products. Our customers demand innovation that improves performance and reduces the environmental impact of our power systems.

Changing world: the world around is changing rapidly and the pace of change is accelerating. New markets are emerging, shifting the balance of economic power. Regulation is, rightly, driving the requirement for cleaner power and setting new standards for business conduct. Our continuous investment in technology, our ingenuity and our commitment to excellence allow us to seize the opportunities that change presents and to face the future with confidence.

OUR BUSINESS MODEL

Our business model places emphasis on reducing costs so that we can generate the funds we need to deliver our vision of 'better power for a changing world'.

The business model is built around our core strategic themes of customer, innovation and profitable growth.

Continuous investment in innovation delivers better products and services on behalf of customers. This allows us to meet their needs and grow profitably.

Around the core strategic themes of the model we:

Grow sales for original equipment and the associated aftermarket through developing strong routes to market based on customer relationships, understanding and knowledge. Allocate capital in a disciplined way, choosing where to grow, and where not to. Reduce costs and generate cash, to enable profitable growth from our order book and the maintenance of a strong balance sheet. Fund research, development, infrastructure and future programmes. Our financial resilience and resources provide a firm foundation from which to invest.

OUR VALUES

We say we are 'trusted to deliver excellence', but simply being Rolls-Royce does not give us the right to make that claim. Trust takes a long time to earn and can be lost in an instant.

Trust: is earned by doing what we say we will. It demands care, consistency, courage and competence. Trust commits us to high ethical standards – it is central to who and what we are.

Deliver: part of being trusted. We must deliver on our promises, meeting our customers' requirements for quality, delivery, responsiveness and reliability, always recognising that the safety of our products and our people is paramount.

Excellence: if we are trusted, and we deliver, then we will be regarded as excellent.

ROLLS-ROYCE INDUSTRIAL POWER ENGINEERING (OVERSEAS PROJECTS) LIMITED

STRATEGIC REPORT (continued) FOR THE YEAR ENDED 31 DECEMBER 2013

BUSINESS REVIEW

Whilst turnover reduced to £63.9 million (2012: £68.7 million) the company improved its profitability with profit before tax increasing to £12.9 million (2012: £11.9 million). In 2012 there was a large one-off Engineered Solution project to upgrade gas generators in Azerbaijan. For 2013 whilst Engineered Solutions trading was reduced the Service and Installation and Commissioning activity, particularly in Kazakhstan, produced strong margin results.

Support of the Long Term Service Agreements (LTSAs) in Azerbaijan, Qatar and Israel continued in the year with additional scope added to both the Qatar Dolphin contract and Azeri AIOC contracts in the year due to the additional units that are planned to come on stream in 2014 and 2015. This was reflected in the increased Order Intake in 2013.

PRINCIPAL RISKS AND UNCERTAINTIES

The following risks have the most material potential impact on the company. Mitigating activities are described for each risk. These risks are specific to the nature of our business notwithstanding that there are other risks that may occur and may impact the achievement of the company's objectives. Where relevant these are managed within the Rolls-Royce group's (Group) risk management procedures.

Product failure - Product not meeting safety expectations, or causing significant impact to customers, our staff or the environment through failure in quality control.

- Operating a safety first culture
- Our engineering design and validation process is applied from initial design, through production and into service
- The Group's safety committee reviews the scope and effectiveness of the Group's product safety policies to ensure that they operate to the highest industry standards
- A Group safety management system (SMS) has been established by a dedicated team. This is governed by the Product Safety Review Board and is subject to continual improvement based on experience and industry best practice. Product safety training is an integral part of our SMS
- Crisis management team led by the Group Director – Engineering and Technology or Group General Counsel as appropriate

Business continuity - Breakdown of external supply chain or internal facilities that could be caused by destruction of key facilities, natural disaster, regional conflict, financial insolvency of a critical supplier or scarcity of materials which would reduce the ability to meet customer commitments, win future business or achieve operational results.

- Continued investment in adequate capacity and modern equipment and facilities
- Identifying and assessing points of weakness in our internal and external supply chain, our IT systems and our people skills
- Selection and development of stronger suppliers
- Developing dual sources or dual capability
- Developing and testing site-level incident management and business recovery plans
- Crisis management team led by the Group Director – Engineering and Technology or Group General Counsel as appropriate
- Customer excellence centres provide improved response to supply chain disruption

Competitor action - The presence of large, financially strong competitors in the majority of our markets means that the Group is susceptible to significant price pressure for original equipment or services even where our markets are mature or the competitors are few. Our main competitors have access to significant government funding programmes as well as the ability to invest heavily in technology and industrial capability.

- Accessing and developing key technologies and service offerings which differentiate us competitively
- Focusing on being responsive to our customers and improving the quality, delivery and reliability of our products and services
- Partnering with others effectively

ROLLS-ROYCE INDUSTRIAL POWER ENGINEERING (OVERSEAS PROJECTS) LIMITED

STRATEGIC REPORT (continued) FOR THE YEAR ENDED 31 DECEMBER 2013

- Driving down cost and improving margins
- Protecting credit lines
- Investing in innovation, manufacturing and production
- Understanding our competitors

International trade friction - Geopolitical factors that lead to significant tensions between major trading parties or blocs which could impact the Company's operations. For example: explicit trade protectionism; differing tax or regulatory regimes; potential for conflict; or broader political issues.

- Where possible, locating our domestic facilities in politically stable countries and/or ensuring that we maintain dual capability
- Diversifying global operations to avoid excessive concentration of risks in particular areas
- Network of regional directors proactively monitors local situations
- Maintaining a balanced business portfolio with high technological barriers to entry and a diverse customer base
- Understanding our supply chain risks
- Proactively influencing regulation where it affects us

Compliance - Non-compliance by the Company with legislation or other regulatory requirements in the regulated environment in which it operates (for example: export controls; offset; use of controlled chemicals and substances; and anti-bribery and corruption legislation) compromising our ability to conduct business in certain jurisdictions and exposing the Company to potential: reputational damage; financial penalties; debarment from government contracts for a period of time; and/or suspension of export privileges or export credit financing), any of which could have a material adverse effect.

- An uncompromising approach to compliance is now, and should always be, the only way to do business
- The Group has an extensive compliance programme. This programme and the Global Code of Conduct are promulgated throughout the Group and are updated and reinforced from time to time, to ensure their continued relevance, and to ensure that they are complied with both in spirit and to the letter. The Global Code of Conduct and the Company's compliance programme are supported by appropriate training - A legal and compliance team has been put in place to manage the current specific issue through to a conclusion and beyond
- Lord Gold has reviewed the Group's current compliance procedures and an improvement plan is being implemented

Market shock - The Company is exposed to a number of market risks, some of which are of a macro-economic nature, for example, foreign currency exchange rates, and some which are more specific to the Company, for example liquidity and credit risks, or disruption to other customer operations. Significant extraneous market events could also materially damage the Group's competitiveness and/or credit worthiness. This would affect operational results or the outcomes of financial transactions.

- Maintaining a strong Group balance sheet, through healthy cash balances and a continuing low level of debt
- Providing financial flexibility by the Group maintaining high levels of liquidity and an investment grade 'A' credit rating
- Deciding where and what currencies to source in, where and how much credit risk is extended or taken and hedging residual risk through the financial derivatives markets (foreign exchange, interest rates and commodity price risk)

IT vulnerability - Breach of IT security causing controlled data to be lost, made inaccessible, corrupted or accessed by unauthorised users.

- Establishing 'defence in depth' through deployment of multiple layers of software and processes including web gateways, filtering, firewalls, intrusion, advanced persistent threat detectors and integrated reporting
- Security and network operations centres have been established
- Active sharing of information through industry, government and security forums

FINANCIAL KEY PERFORMANCE INDICATORS

The profit for the year, after taxation, amounted to £9.5 million (2012 - £9.4 million)

ROLLS-ROYCE INDUSTRIAL POWER ENGINEERING (OVERSEAS PROJECTS) LIMITED

**STRATEGIC REPORT (continued)
FOR THE YEAR ENDED 31 DECEMBER 2013**

The company's net assets were £26.4 million (2012 - £36.9 million).

FUTURE OUTLOOK

As per the post balance sheet event (note 20), the sale of the majority of the Energy assets and liabilities of this company will significantly reduce the activities of the company post the expected December 2014 completion.

The retained Energy business is profitable and expected to remain so.

This company will remain open for the next few years to satisfy any requirement that may arise as part of the SFO investigation and ongoing tax requirements, however the sale of the company's assets and liabilities expected in December 2014 may be followed by branch closures in due course.

Plans for the longer term future of the company within the Rolls-Royce Group are uncertain. The non-Energy portion of the business is currently restricted to some fixed assets and operating costs of an international office in Abu Dhabi.

BRANCHES

The company has branches in Azerbaijan, Indonesia, Israel, Kazakhstan, Qatar, Slovakia, Tunisia and United Arab Emirates.

This report was approved by the board on 23 September 2014 and signed on its behalf.



S Martle
Director

ROLLS-ROYCE INDUSTRIAL POWER ENGINEERING (OVERSEAS PROJECTS) LIMITED

**STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE DIRECTORS' REPORT,
STRATEGIC REPORT AND THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013**

The directors are responsible for preparing the Strategic report, 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 they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and 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 accounting 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;
- 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 adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. 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.

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

We have audited the financial statements of Rolls-Royce Industrial Power Engineering (Overseas Projects) Limited for the year ended 31 December 2013, set out on pages 8 to 19. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 AUDITOR

As explained more fully in the Directors' responsibilities statement set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

OPINION ON FINANCIAL STATEMENTS

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2013 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

OPINION ON OTHER MATTER PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



Ian Bone (Senior statutory auditor)
for and on behalf of
KPMG Audit Plc - Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL
Date: 23 September 2014

ROLLS-ROYCE INDUSTRIAL POWER ENGINEERING (OVERSEAS PROJECTS) LIMITED

**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2013**

	Note	2013 £000	2012 £000
TURNOVER	2	63,885	68,711
Cost of sales		<u>(47,401)</u>	<u>(51,904)</u>
GROSS PROFIT		16,484	16,807
Administrative expenses		<u>(3,507)</u>	<u>(4,850)</u>
OPERATING PROFIT	3	12,977	11,957
Interest receivable and similar income	6	49	58
Interest payable and similar charges	7	<u>(78)</u>	<u>(141)</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		12,948	11,874
Tax on profit on ordinary activities	8	<u>(3,419)</u>	<u>(2,460)</u>
PROFIT FOR THE FINANCIAL YEAR	15	<u>9,529</u>	<u>9,414</u>

All amounts relate to continuing operations.

There were no recognised gains and losses for 2013 or 2012 other than those included in the profit and loss account.

The notes on pages 10 to 19 form part of these financial statements.

ROLLS-ROYCE INDUSTRIAL POWER ENGINEERING (OVERSEAS PROJECTS) LIMITED
REGISTERED NUMBER: 00158230

BALANCE SHEET
AS AT 31 DECEMBER 2013

	Note	£000	2013 £000	£000	2012 £000
FIXED ASSETS					
Tangible assets	9		343		537
CURRENT ASSETS					
Stocks	10	1,714		6,475	
Debtors	11	14,919		17,719	
Cash at bank		19,885		35,417	
		<u>36,518</u>		<u>59,611</u>	
CREDITORS: amounts falling due within one year	12	(9,994)		(22,197)	
NET CURRENT ASSETS			26,524		37,414
TOTAL ASSETS LESS CURRENT LIABILITIES			<u>26,867</u>		<u>37,951</u>
PROVISIONS FOR LIABILITIES					
Other provisions	13		(444)		(1,057)
NET ASSETS			<u>26,423</u>		<u>36,894</u>
CAPITAL AND RESERVES					
Called up share capital	14		50		50
Profit and loss account	15		26,373		36,844
SHAREHOLDERS' FUNDS	16		<u>26,423</u>		<u>36,894</u>

The financial statements were approved and authorised for issue by the board on 23 September 2014 and were signed on its behalf by:



S Martle
Director

Date: 23 September 2014

The notes on pages 10 to 19 form part of these financial statements.

ROLLS-ROYCE INDUSTRIAL POWER ENGINEERING (OVERSEAS PROJECTS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

1. ACCOUNTING POLICIES

1.1 Basis of preparation of financial statements

The financial statements have been prepared on a going concern basis under the historical cost convention and in accordance with applicable accounting standards.

As described in note 20 the majority of this business is expected to be sold in 2014. The consideration for this will be at least the carrying value of the relevant net assets. However the company will continue operations so there is no indication that an alternative basis of preparation is required.

1.2 Cash flow statement

The company is a wholly owned subsidiary of Rolls-Royce Power Engineering plc and is included in the consolidated financial statements of Rolls-Royce plc, which are publicly available. Consequently, the company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS1.

1.3 Related party transactions

The company has taken advantage of the exemption in FRS8 not to disclose related party transactions with other group companies.

1.4 Turnover

Turnover comprises sales to external customers after discounts, excluding value added tax.

Sales of products are recognised when the significant risks and rewards of ownership of the goods are transferred to the customer, the sales price agreed and the receipt of payment can be assured.

Sales of services are recognised by reference to the stage of completion based on services performed to date. The assessment of the stage of completion is dependent on the nature of the contract, but will generally be based on: costs incurred to the extent these relate to services performed up to the reporting date; achievement of contractual milestones where appropriate.

Linked sales of products and services are treated as a single contract where these components have been negotiated as a single commercial package and are so closely interrelated that they do not operate independently of each other and are considered to form a single project with an overall profit margin. Turnover is recognised on the same basis as for other sales of products and services as described above.

Provided that the outcome of construction contracts can be assessed with reasonable certainty, the turnover and costs on such contracts are recognised based on stage of completion and the overall contract profitability.

Full provision is made for any estimated losses to completion of contracts having regard to the overall substance of the arrangements.

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.

ROLLS-ROYCE INDUSTRIAL POWER ENGINEERING (OVERSEAS PROJECTS) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013**

1. ACCOUNTING POLICIES (continued)

1.5 Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost of fixed assets, less their estimated residual value, over their expected useful lives on the following bases:

Plant & machinery - 5 to 25 years on a straight line basis.

1.6 Stocks and work in progress

Stocks and work in progress are valued at the lower of cost and net realisable value after making due allowance for obsolete and slow-moving stocks. Cost includes all direct costs and an appropriate proportion of fixed and variable overheads.

1.7 Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at rates of exchange ruling at the balance sheet date.

Transactions in foreign currencies are translated into sterling at the rate ruling on the date of the transaction.

Exchange gains and losses are recognised in the profit and loss account.

1.8 Long-term contracts

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. 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.

1.9 Interest

Interest receivable/payable is credited/charged to the profit and loss account using the effective interest method.

ROLLS-ROYCE INDUSTRIAL POWER ENGINEERING (OVERSEAS PROJECTS) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013**

2. GEOGRAPHICAL TURNOVER

Turnover is analysed as follows:

	2013 £000	2012* £000
Europe	11,236	13,573
Middle East & Asia	50,122	52,080
Africa	2,527	2,926
North America	-	132
Total	63,885	68,711

* 2012 restated - £37.1m of Azerbaijan turnover was incorrectly included in Europe - this has now been reclassified as Middle East & Asia.

3. OPERATING PROFIT

The operating profit is stated after charging:

	2013 £000	2012 £000
Depreciation of tangible fixed assets:		
- owned by the company	194	127
Operating lease rentals	2,085	1,990

4. AUDITORS' REMUNERATION

	2013 £000	2012 £000
Fees payable to the company's auditor and its associates for the audit of the company's annual accounts	3	3

Fees paid to the company's auditor, KPMG Audit plc, and its associates for services other than the statutory audit of the company are not disclosed in Rolls-Royce Industrial Power Engineering (Overseas Projects) Limited's accounts since the consolidated accounts of Rolls-Royce Industrial Power Engineering (Overseas Projects) Limited's ultimate parent, Rolls-Royce Holdings plc, are required to disclose non-audit fees on a consolidated basis.

ROLLS-ROYCE INDUSTRIAL POWER ENGINEERING (OVERSEAS PROJECTS) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013**

5. STAFF COSTS

Staff costs were as follows:

	2013	2012
	£000	£000
Wages and salaries	3,439	4,551
Social security costs	393	203
Other pension costs	120	55
	3,952	4,809

The average monthly number of employees during the year was as follows:

	2013	2012
	No.	No.
Project Engineers	135	145

During the year, no director received any emoluments (2012 - £NIL). The directors are paid by the parent company Rolls-Royce plc.

6. INTEREST RECEIVABLE

	2013	2012
	£000	£000
Other interest receivable	49	58

7. INTEREST PAYABLE AND SIMILAR CHARGES

	2013	2012
	£000	£000
Exchange loss	78	141

ROLLS-ROYCE INDUSTRIAL POWER ENGINEERING (OVERSEAS PROJECTS) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013**

8. TAXATION

	2013 £000	2012 £000
Analysis of tax charge in the year		
Current tax (see note below)		
Group relief payable at 23.25% (2012: 24.5%)	762	517
	<u>762</u>	<u>517</u>
Foreign tax on income for the year	2,657	1,910
Total current tax	<u>3,419</u>	<u>2,427</u>
Deferred tax		
In respect of prior periods	-	33
Tax on profit on ordinary activities	<u><u>3,419</u></u>	<u><u>2,460</u></u>

Factors affecting tax charge for the year

The tax assessed for the year is higher than (2012 - lower than) the standard rate of corporation tax in the UK of 23.25% (2012 - 24.5%). The differences are explained below:

	2013 £000	2012 £000
Profit on ordinary activities before tax	12,948	11,874
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 23.25% (2012 - 24.5%)	3,010	2,909
Effects of:		
Income non-taxable in the UK	(2,248)	(2,392)
Unrelieved overseas tax for year	2,657	1,910
Current tax charge for the year (see note above)	<u><u>3,419</u></u>	<u><u>2,427</u></u>

Factors that may affect future tax charges

The 2013 Budget announced that the UK corporation tax rate will reduce to 21 per cent from 1 April 2014 and to 20 per cent from 1 April 2015. These reductions were substantively enacted on 2 July 2013.

As per note 20 (post balance sheet events), the majority of this company's Energy business assets and liabilities will be transferring to Siemens. This will, in turn, affect the company's future tax charge.

ROLLS-ROYCE INDUSTRIAL POWER ENGINEERING (OVERSEAS PROJECTS) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013**

9. TANGIBLE FIXED ASSETS

	Plant & machinery £000
Cost	
At 1 January 2013	712
Foreign exchange movement	(1)
At 31 December 2013	<u>711</u>
Depreciation	
At 1 January 2013	175
Charge for the year	194
Foreign exchange movement	(1)
At 31 December 2013	<u>368</u>
Net book value	
At 31 December 2013	<u><u>343</u></u>
At 31 December 2012	<u><u>537</u></u>

10. STOCKS

	2013 £000	2012 £000
Work in progress	683	590
Finished goods	2,925	3,252
Long term contract balances	(1,894)	2,633
	<u>1,714</u>	<u>6,475</u>

Long term contract balances consist of:

	2013 £000	2012 £000
Costs to date less provision for losses	<u>(1,894)</u>	<u>2,633</u>

ROLLS-ROYCE INDUSTRIAL POWER ENGINEERING (OVERSEAS PROJECTS) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013**

11. DEBTORS

	2013 £000	2012 £000
Trade debtors	10,557	11,027
Amounts owed by group undertakings	1,971	367
Other debtors	305	386
Prepayments and accrued income	289	43
Amounts recoverable on long term contracts	1,797	5,896
	<u>14,919</u>	<u>17,719</u>

**12. CREDITORS:
Amounts falling due within one year**

	2013 £000	2012 £000
Payments received on account	-	321
Trade creditors	331	739
Amounts owed to group undertakings	3,278	13,598
Corporation tax	302	308
Other taxation and social security	648	429
Other creditors	514	2,225
Accruals and deferred income	4,921	4,577
	<u>9,994</u>	<u>22,197</u>

13. PROVISIONS

	Contract loss provisions £000
At 1 January 2013	1,057
Amounts used	(613)
At 31 December 2013	<u>444</u>

Contract loss provisions

The loss provisions in the year relate to delays and cost overruns on two fixed price installation and commissioning contracts. The provisions are expected to be utilised in 2014 as the contract work is concluded.

ROLLS-ROYCE INDUSTRIAL POWER ENGINEERING (OVERSEAS PROJECTS) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
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14. SHARE CAPITAL

	2013 £000	2012 £000
Allotted, called up and fully paid		
50,000 Ordinary shares of £1 each	50	50

15. RESERVES

	Profit and loss account £000
At 1 January 2013	36,844
Profit for the financial year	9,529
Dividends: Equity capital	(20,000)
At 31 December 2013	26,373

16. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	2013 £000	2012 £000
Opening shareholders' funds	36,894	27,480
Profit for the financial year	9,529	9,414
Dividends (Note 17)	(20,000)	-
Closing shareholders' funds	26,423	36,894

17. DIVIDENDS

	2013 £000	2012 £000
Dividends paid on equity capital	20,000	-

ROLLS-ROYCE INDUSTRIAL POWER ENGINEERING (OVERSEAS PROJECTS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

18. CONTINGENT LIABILITIES

On 6 December 2012, Rolls-Royce Holdings plc (RRH) announced that it had passed information to the SFO relating to concerns in overseas markets. Since that date RRH has continued its investigations and is engaging with the SFO and other authorities in the UK, the USA and elsewhere.

In December 2013, RRH announced that it had been informed by the SFO that it had commenced a formal investigation. The consequence of these disclosures will be decided by the regulatory authorities. It remains too early to predict the outcomes, but these could include the prosecution of individuals and of the Group. Accordingly, the potential for fines, penalties or other consequences (including debarment from government contracts, suspension of export privileges and reputational damage) cannot currently be assessed. As the investigation is ongoing, it is not yet possible to identify the timescale in which these issues might be resolved.

19. OPERATING LEASE COMMITMENTS

At 31 December 2013 the company had annual commitments under non-cancellable operating leases as follows:

	Land and buildings		Other	
	2013	2012	2013	2012
	£000	£000	£000	£000
Expiry date:				
Within 1 year	1,238	1,540	278	402
Between 2 and 5 years	341	1,456	352	180

Leases of land and buildings are typically subject to rent reviews at specified intervals and provide for the lessee to pay all insurance, maintenance and repair costs.

20. POST BALANCE SHEET EVENTS

Rolls-Royce Holdings plc (the ultimate parent) announced on 6 May 2014 that it has signed an agreement to sell its Energy gas turbine and compressor business to Siemens for a £785 million cash consideration.

When the sale completes the majority of this company's Energy business assets and liabilities will be transferring to Siemens. This company will receive net book value at date of transfer out of the £785 million cash consideration.

On completion of the transaction, the company's parent, Rolls-Royce plc, will receive a further £200 million for a 25 year licensing agreement, granting Siemens access to relevant Rolls-Royce aero-derivative technology for use in the 4 to 85 megawatt power output gas turbine range. Rolls-Royce's Energy gas turbine and compressor business has around 2,400 employees of which 102 were employed by this company as at 31 December 2013. The transaction is expected to complete before the end of December 2014, subject to closing conditions, including regulatory approvals.

**NOTES TO THE FINANCIAL STATEMENTS
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21. CONTROLLING PARTY

The immediate parent undertaking is Rolls-Royce Power Engineering plc.

The ultimate parent undertaking and controlling party is Rolls-Royce Holdings plc, which is the parent undertaking of the largest group to consolidate these financial statements. Rolls-Royce plc is the parent undertaking of the smallest group to consolidate these financial statements.

The consolidated financial statements of these groups are available to the public and may be obtained from 65 Buckingham Gate, London, SW1E 6AT.