

Registered number 1975872

## **ROLLS-ROYCE TOTAL CARE SERVICES LIMITED**

Annual report and financial statements  
for the year ended 31 December 2006

**Directors on  
22 October 2007:**

**D J Goma  
S J Hollingsworth  
M King  
J Warren**

**Secretary :**

**D J Goma**

**SATURDAY**



**\*ADQZPU50\***

**A03**

**27/10/2007**

**97**

**COMPANIES HOUSE**

**Registered Office : Moor Lane, Derby DE24 8BJ**

## Contents

	<b>Page</b>
Directors' report	1-5
Statement of directors' responsibilities	6
Independent auditors' report	7
Profit and loss account	8
Balance sheet	9
Notes to the financial statements	10-15

## Directors' report

The directors present their annual report on the affairs of the company, together with the financial statements and auditors' report, for the year ended 31 December 2006

### Principal activities

The principal activity of the company during the year was the provision of aftermarket services to customers of Rolls-Royce plc

### Business review

#### *Services*

TotalCare® packages cover long-term management of the maintenance and associated logistics for Rolls-Royce plc engines and systems, monitoring the equipment in service to deliver the system availability our customers require with predictable costs

During the year, TotalCare® services have been developed in accordance with customer requirements. Customers continue to seek a broad service scope

The company is well positioned to meet the challenges of increased customer demand, and committed to ensuring reliable execution of such service provisions

#### *Trading*

Turnover grew by 49% compared to the previous period. All geographical markets experienced turnover growth, especially the USA and Asia. Turnover growth is driven by an increasing fleet of Rolls-Royce powered aircraft covered by TotalCare® packages

Operating profit of £16m is 4% lower than 2006, and includes the effect of a weakening US dollar. Supply chain and cost reduction initiatives continue to be explored and driven through to implementation

#### *Risks*

Revenue growth is reliant on the growth in engine sales by Rolls-Royce plc, where competitive pressures in the market are most evident from the major American based engine manufacturers

New entrants to the aftermarket industry are a potential threat, though this is mitigated by continued growth in the company order book for long-term TotalCare® agreements

The company has significant levels of transactions in US dollars, and thus has an exposure to movements in exchange rates. The 'other finance charges' as set out in note 3 to the accounts have arisen from the sale of US dollars held by the company to Rolls-Royce plc at market rates

#### *Outlook*

The company is focused on growing its order book, and works with Rolls-Royce plc, to ensure the offering of TotalCare® solutions in support of new engine sale proposals

The order book has started the year well, with Singapore Airlines selecting TotalCare® to support Trent 800 engines on 19 aircraft

The group expects to deliver further turnover growth in 2007

## Directors' report

---

### Financial risk management objectives and policies

The Rolls-Royce Group has an established, structured approach to risk management, which is detailed in the consolidated accounts of Rolls-Royce Group plc. The company acts in accordance with this policy.

The company's activities expose it to a number of financial risks including credit risk and cash flow risk.

#### *Cash flow risk*

The company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates.

#### *Credit risk*

The company's principal financial assets are bank balances and cash and 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. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows.

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.

### Directors

The directors, who served throughout the year, were as follows:

C J Cuddington	Resigned as a director 31 March 2007
D J Goma	
S J Hollingsworth	
J E Warren	
M King	Appointed as a director 02 April 2007

## Directors' report

### Directors' interests

None of the directors who held office at the end of the financial year, or their immediate family, had any beneficial interest in the shares of Rolls-Royce Total Care Services Limited at the beginning or at the end of the financial year. Details of interests of those directors, including immediate family, in the share capital of the ultimate holding company were as follows

	Rolls-Royce Group plc Ordinary 20p Shares	
	1 January 2006	31 December 2006
C J Cuddington	154,449*	138,680*
D J Goma	-	1,593*
S J Hollingsworth	24,723*	28,074*
J E Warren	12,280*	13,423*

\*The above interests include shares held in trust for the directors listed below

	Annual Performance Related Award Plan <sup>1</sup>		Share Purchase Plan <sup>2</sup>		Share Bonus Plan <sup>2</sup>	
	1 January 2006	31 December 2006	1 January 2006	31 December 2006	1 January 2006	31 December 2006
C J Cuddington	26,120	20,974	-	-	6,165	7,112
D J Goma	-	-	-	74	-	-
S J Hollingsworth	12,654	10,376	1,026	1,184	-	-
J Warren	7,241	6,235	-	-	-	-

<sup>1</sup> Under the Annual Performance Related Award plan, shares vest after two years

<sup>2</sup> Under the Share Bonus Plan shares vest after five years

	Deferred Share Incentive Plan <sup>1</sup>	
	1 January 2006	31 December 2006
C J Cuddington	58,822	-

<sup>1</sup> Under the Deferred Share Incentive Plan, shares vest after three years

## Directors' report

	Options over Rolls-Royce Group plc Ordinary Shares of 20p each			
	1 January 2006	Lapsed in 2006	Exercised in 2006	31 December 2006
C J Cuddington	555,106	-	205,270	349,836
D J Goma	5,803	-	1,747	4,056
S J Hollingsworth	242,098	-	228,852	13,246
J Warren	215,059	-	200,112	14,947

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

	Performance Share Plan	
	1 January 2006	31 December 2006
C J Cuddington	60,393	82,929
S J Hollingsworth	39,187	54,962
J Warren	20,443	29,198

The market price of the ordinary shares of the Company's ultimate parent company, Rolls-Royce Group plc at December 31, 2006, was 447 75p and the range during 2006 was 379 50p to 490 00p

### Supplier payment policy

The company seeks the best possible terms from suppliers and when entering into binding purchasing contracts, gives consideration to quality, delivery, price and terms of payment. In the event of disputes, efforts are made to resolve them quickly.

### Directors' indemnities

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 auditors

Each of the persons who is a director at the date of approval of this report confirms that

(1) so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware, and

(2) the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

## Directors' report

This confirmation is given and should be interpreted in accordance with the provisions of section 234ZA of the Companies Act 1985

### Auditors

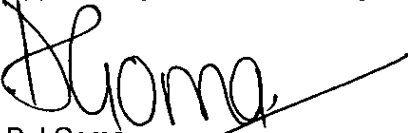
In accordance with section 386 of the Companies Act 1985, an elective resolution has been passed dispensing with the obligation to appoint auditors annually and KPMG Audit Plc will therefore continue in office

### Annual General Meetings

In accordance with section 366A of the Companies Act 1985, an elective resolution has been passed dispensing with the holding of Annual General Meetings

In accordance with section 252 of the Companies Act 1985, an elective resolution has been passed to dispense with the laying of the Annual Report before the Company in General Meetings

Approved by the Board and signed on its behalf by

A handwritten signature in black ink, appearing to read 'D J Goma', with a long horizontal line extending from the end of the signature.

D J Goma  
Secretary  
22 October 2007

## Statement of directors' responsibilities in respect of the annual report and financial statements

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

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



## Independent auditors' report to the members of Rolls-Royce Total Care Services Limited

We have audited the financial statements of Rolls-Royce Total Care Services Limited for the year ended 31 December 2006 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 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

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of directors' responsibilities on page number 6.

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 and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, 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.

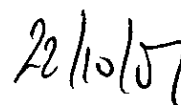
### Opinion

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 2006 and of its loss for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements.



KPMG Audit Plc  
Chartered Accountants  
Registered Auditor  
Nottingham



# Profit and loss account

For the year ended 31 December 2006

	Notes	2006 £'000	2005 £'000
<b>Turnover</b>	2	<u>298,730</u>	<u>201,148</u>
Cost of sales		<u>(277,627)</u>	<u>(180,842)</u>
<b>Gross profit</b>		21,103	20,306
Administrative expenses		<u>(4,781)</u>	<u>(3,251)</u>
<b>Operating profit</b>		16,322	17,055
<b>Profit on ordinary activities before finance charges</b>		<u>16,322</u>	<u>17,055</u>
Finance charges (net)	3	<u>(21,011)</u>	<u>4,125</u>
<b>(Loss) / Profit on ordinary activities before taxation</b>	4	<u>(4,689)</u>	<u>21,180</u>
Tax on (loss) / profit on ordinary activities	6	<u>1,326</u>	<u>(6,354)</u>
<b>(Loss) / Profit on ordinary activities after taxation and (loss) / profit for the financial year</b>		<u>(3,363)</u>	<u>14,826</u>

All results have been derived from continuing activities

There were no recognised gains or losses in either the current year or the previous year, other than the loss for the year as shown above


# Balance Sheet

31 December 2006

	Notes	2006 £'000	Restated* 2005 £'000
<b>Current assets</b>			
Debtors			
- due within one year	7	29,320	228,789
- due after one year	7	237,950	4,437
Cash at bank and in hand		78,375	-
		<u>345,645</u>	<u>233,226</u>
<b>Creditors</b> Amounts falling due within one year	8	(104,426)	(79,977)
<b>Net current assets</b>		<u>241,219</u>	<u>153,249</u>
<b>Total assets less current liabilities</b>		241,219	153,249
<b>Creditors:</b> Amounts falling due after more than one year	9	(240,967)	(140,892)
<b>Net assets</b>		<u>252</u>	<u>12,357</u>
<b>Capital and reserves</b>			
Called-up share capital	11	-	-
Profit and loss account	12	<u>252</u>	<u>12,357</u>
<b>Shareholders' funds</b>	13	<u>252</u>	<u>12,357</u>

\* See note 9

The financial statements on pages 8 to 15 were approved by the board of directors and signed on its behalf by



S J Hollingsworth  
Director  
22 October 2007

## Notes to the financial statements

31 December 2006

### 1 Significant accounting policies

The principal accounting policies are summarised below

#### Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards, on the historical cost basis except where FRS requires an alternative treatment

As permitted by Financial Reporting Standard 1 "Cash flow statements" (Revised 1996), no cash flow statement has been prepared, as a consolidated cash flow statement has been prepared by the ultimate parent company

#### Significant accounting policies and judgements applied

##### *(i) Changes in accounting policy*

The following new standards relating to financial instruments have been adopted in full in these financial statements

FRS 23 (IAS 21) The Effects of Changes in Foreign Exchange Rates

FRS 25 (IAS 32) Financial Instruments Disclosure and Presentation

FRS 26 (IAS 39) Financial Instruments Measurement

The effect of the adoption of these standards has been a net reduction in shareholders funds of £8,742,000 as at 1 January 2006. The adoption of these standards has had no impact on the prior year comparatives

FRS 28 'Corresponding Amounts' has been adopted and corresponding amounts have been shown in the primary financial statements and the notes to the accounts where applicable

##### *(ii) Revenue Recognition*

Revenue comprises charges to external customers in respect of aftermarket services (TotalCare® Packages) and excludes value added tax

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 for long term aftermarket services is dependent on the flying hours

##### *(iii) Assessment of Long-Term Contractual arrangements*

The company has long-term contracts that fall into different accounting periods. In assessing the allocation of revenues and costs to individual accounting periods, and the consequential assets and liabilities, the company estimates the total revenues and costs forecast to arise in respect of the contract and the stage of completion based on an appropriate measure of performance as described under revenue recognition above

##### *(iv) Interest*

Interest receivable is credited to the profit and loss account using the effective interest method

##### *(v) Taxation*

The tax charge on the profit or loss for the year comprises current and deferred tax

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

##### *(vi) Foreign currency translation*

Assets and liabilities denominated in foreign currencies are translated into sterling at the rate ruling at the year end. Exchange differences arising on foreign exchange transactions and the retranslation of assets and liabilities into sterling at the rate ruling at the year end are taken into account in determining profit before taxation

## Notes to the financial statements

31 December 2006

### 2 Segment information

Turnover is analysed as follows

Geographical Market	2006 £'000	2005 £'000
United Kingdom	43,173	31,974
Rest of Europe	76,111	60,917
USA	53,084	30,237
Other	126,362	78,020
	<u>298,730</u>	<u>201,148</u>

### 3 Finance charges (net)

	2006 £'000	2005 £'000
Interest receivable and similar income	9,744	4,125
Net other finance charges	(30,755)	-
Finance charges (net)	<u>(21,011)</u>	<u>4,125</u>

### 4 (Loss) / Profit on ordinary activities before taxation

(Loss) / Profit on ordinary activities before taxation is stated after charging (crediting)

	2006 £'000	2005 £'000
Foreign exchange losses	30,755	-
Management charge	<u>4,781</u>	<u>3,251</u>

The Company's audit fee is paid by its parent

### 5 Staff costs and directors' remuneration

The company had no employees during the year ended 31 December 2006 (2005 Nil)

All necessary services were provided by Rolls-Royce plc

No remuneration has been received by the directors in respect of their services to the Company (2005 £Nil)

# Notes to the financial statements

31 December 2006

## 6 Tax on profit on ordinary activities

The tax charge comprises

	2006 £'000	2005 £'000
<b>Current tax</b>		
UK corporation tax	(788)	6,354
<b>Total current tax</b>	<u>(788)</u>	<u>6,354</u>
<b>Deferred tax</b>		
Origination and reversal of timing differences	(538)	-
<b>Total deferred tax (see note 10)</b>	<u>(538)</u>	<u>-</u>
<b>Total tax on (loss) / profit on ordinary activities</b>	<u>(1,326)</u>	<u>6,354</u>

The differences between the total current tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the (loss) / profit before tax is as follows

	2006 £'000	2005 £'000
<b>(Loss) / Profit on ordinary activities before tax</b>	<u>(4,689)</u>	<u>21,180</u>
Tax on (loss) / profit on ordinary activities at standard UK corporation tax rate of 30% (2005 30%)	(1,407)	6,354
Effects of Other timing differences for the period	619	-
<b>Current tax charge for period</b>	<u>(788)</u>	<u>6,354</u>

# Notes to the financial statements

31 December 2006

## 7 Debtors

	2006 £'000	2005 £'000
Amounts falling due within one year		
Trade debtors	27,376	13,531
Amounts owed by group undertakings	1,711	214,637
Other debtors	233	621
	<u>29,320</u>	<u>228,789</u>
Amounts falling due after more than one year		
Trade debtors	11,891	-
Amounts owed by group undertakings	200,000	-
Amounts recoverable on contracts	21,773	4,437
Deferred tax asset (see note 10)	4,286	-
	<u>237,950</u>	<u>4,437</u>
	<u>267,270</u>	<u>233,226</u>

## 8 Creditors. Amounts falling due within one year

	2006 £'000	Restated* 2005 £'000
Amounts owed to group undertakings	95,095	73,623
Corporation tax	-	6,354
Other creditors	9,331	-
	<u>104,426</u>	<u>79,977</u>

\*See note 9

# Notes to the financial statements

31 December 2006

## 9 Creditors Amounts falling due after more than one year

	2006 £,000	Restated* 2005 £'000
Accruals and deferred income	240,967	140,892
	<u>240,967</u>	<u>140,892</u>

### \* Prior year adjustment

The prior year comparatives for creditors falling due within one year (accruals of £140,892,000) have been amended and reclassified as creditors amounts falling due after one year (accruals). This balance is considered to be all due after one year as it relates to contracts expiring later than 2007

## 10 Deferred Tax Asset

	£'000
At 1 January 2006	-
Adjustment on adoption of FRS 25 & 26	(3,748)
Credited to profit and loss account	<u>(538)</u>
At 31 December 2006	<u>(4,286)</u>

### Deferred tax

Deferred tax is provided as follows

	2006 £'000	2005 £'000
Other timing differences	<u>(4,286)</u>	<u>-</u>



# Notes to the financial statements

31 December 2006

## 11 Share capital

	2006 £	2005 £
<i>Authorised</i>		
100 ordinary shares of £1 each	<u>100</u>	<u>100</u>
<i>Allotted, called-up and fully-paid</i>		
100 ordinary shares of £1 each	<u>100</u>	<u>100</u>

## 12 Profit and loss account

	£'000
At 1 January 2006	12,357
Adjustment on adoption of FRS 25 & 26	<u>(8,742)</u>
At 1 January 2006 (as restated)	3,615
Loss for the financial year	<u>(3,363)</u>
At 31 December 2006	<u>252</u>

## 13 Reconciliation of movements in shareholders' funds

	2006 £'000	2005 £'000
Opening shareholders' funds as previously stated	12,357	(2,469)
Adjustment on adoption of FRS 25 & 26	<u>(8,742)</u>	-
Opening shareholders' funds as restated	<u>3,615</u>	<u>(2,469)</u>
(Loss)/Profit for the financial year	<u>(3,363)</u>	<u>14,826</u>
Closing shareholders' funds	<u>252</u>	<u>12,357</u>

## 14 Related party transactions

The Company has taken advantage of the exemption in Financial Reporting Standard 8 not to disclose related party transactions with other group companies

## 15 Ultimate Parent Company

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