

Registered number: 1975872

ROLLS-ROYCE TOTAL CARE SERVICES LIMITED

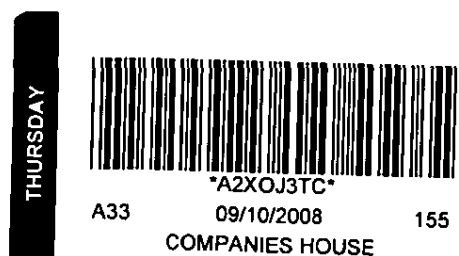
Annual report and financial statements
for the year ended 31 December 2007

**Directors on
20 August 2008:**

**D J Goma
S J Hollingsworth
M King
K Waldron**

Secretary :

D J Goma



Registered Office : Moor Lane, Derby DE24 8BJ

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

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 2007

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 42% compared to the previous period. Turnover growth is driven by an increasing fleet of Rolls-Royce powered aircraft covered by TotalCare® packages

Operating profit of £27m is 68% higher than 2006, reflecting the growth in turnover, and includes the effect of a weakening US dollar

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

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 group expects to deliver turnover growth in 2008

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

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	
M King	Appointed as a director 2 April 2007
J E Warren	Resigned as a director 30 June 2008
K Waldron	Appointed as a director 1 August 2008

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.

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

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

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and KPMG Audit Plc will therefore continue in office

Auditors

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and KPMG Audit Plc will therefore continue in office

Approved by the Board and signed on its behalf by

A handwritten signature in black ink, appearing to read 'D J Goma', is written over a long, thin diagonal line that extends from the signature area towards the bottom right of the page.

D J Goma
Secretary

20 August 2008

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 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 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 2007 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 4.

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 2007 and of its profit 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

Date 20/8/08

Profit and loss account

For the year ended 31 December 2007

	Notes	2007 £'000	2006 £'000
Turnover	2	423,779	298,730
Cost of sales		(390,974)	(277,627)
Gross profit		32,805	21,103
Administrative expenses		(5,347)	(4,781)
Operating profit		27,458	16,322
Profit on ordinary activities before finance charges		27,458	16,322
Finance charges (net)	3	5,185	(21,011)
Profit / (loss) on ordinary activities before taxation	4	32,643	(4,689)
Tax on profit / (loss) on ordinary activities	6	(9,794)	1,326
Profit / (loss) on ordinary activities after taxation and profit / (loss) for the financial year		22,849	(3,363)

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 profit for the year as shown above

Balance Sheet

31 December 2007

	Notes	2007 £'000	2006 £'000
Current assets			
Debtors			
- due within one year	7	28,944	29,320
- due after one year	7	243,639	237,950
Cash at bank and in hand		92,012	78,375
		<u>364,595</u>	<u>345,645</u>
Creditors. Amounts falling due within one year	8	<u>(48,133)</u>	<u>(104,426)</u>
Net current assets		316,462	241,219
Total assets less current liabilities		316,462	241,219
Creditors: Amounts falling due after more than one year	9	<u>(293,361)</u>	<u>(240,967)</u>
Net assets		<u>23,101</u>	<u>252</u>
Capital and reserves			
Called-up share capital	11	-	-
Profit and loss account	12	<u>23,101</u>	<u>252</u>
Shareholders' funds	13	<u>23,101</u>	<u>252</u>

The financial statements on pages 6 to 13 were approved by the board of directors and signed on its behalf by



S J Hollingsworth

Director

20 August 2008

Notes to the financial statements

31 December 2007

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) 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

(ii) 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

(iii) Interest

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

(iv) 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

(v) Foreign currency translation

Assets and liabilities denominated in foreign currencies are translated into sterling at the rate ruling at the year end. Transactions in overseas currencies are translated into local currency at the exchange rates ruling on the date of the transaction. 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 2007

2 Segment information

Turnover is analysed as follows

Geographical Market	2007 £'000	2006 £'000
United Kingdom	44,269	43,173
Rest of Europe	75,527	76,111
USA	45,605	53,084
Other	258,378	126,362
	<u>423,779</u>	<u>298,730</u>

3 Finance charges (net)

	2007 £'000	2006 £'000
Interest receivable and similar income	5,062	9,744
Foreign exchange gains / (losses)	123	(30,755)
Finance charges (net)	<u>5,185</u>	<u>(21,011)</u>

4 Profit / (Loss) on ordinary activities before taxation

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

	2007 £'000	2006 £'000
Foreign exchange (gains) / losses	123	(30,755)
Management charge	(5,340)	(4,774)
Audit fee	<u>(7)</u>	<u>(7)</u>

5 Staff costs and directors' remuneration

The company had no employees during the year ended 31 December 2007 (2006 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 (2006 £nil)

Notes to the financial statements

31 December 2007

6 Tax on profit / (loss) on ordinary activities

The tax charge comprises

	2007 £'000	2006 £'000
Current tax		
UK corporation tax on profits of the period	9,723	(788)
Adjustments in respect of prior periods	(4,215)	-
Total current tax	<u>5,508</u>	<u>(788)</u>
Deferred tax		
Origination and reversal of timing differences	4,286	(538)
Total deferred tax (see note 10)	<u>4,286</u>	<u>(538)</u>
Total tax on profit / (loss) on ordinary activities	<u>9,794</u>	<u>(1,326)</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 profit / (loss) before tax is as follows

	2007 £'000	2006 £'000
Profit / (loss) on ordinary activities before tax	<u>32,643</u>	<u>(4,689)</u>
Tax on profit / (loss) on ordinary activities at standard UK corporation tax rate of 30% (2006 30%)	9,793	(1,407)
Effects of		
Other timing differences for the period	(70)	619
Adjustments to tax charge in respect of previous periods	(4,215)	-
Current tax charge for period	<u>5,508</u>	<u>(788)</u>

Notes to the financial statements

31 December 2007

7 Debtors

	2007 £'000	2006 £'000
Amounts falling due within one year		
Trade debtors	5,993	27,376
Amounts owed by group undertakings	22,628	1,711
Other debtors	323	233
	<u>28,944</u>	<u>29,320</u>
Amounts falling due after more than one year		
Trade debtors	9,740	11,891
Amounts owed by group undertakings	200,000	200,000
Amounts recoverable on contracts	33,899	21,773
Deferred tax asset (see note 10)	-	4,286
	<u>243,639</u>	<u>237,950</u>
	<u>272,583</u>	<u>267,270</u>

8 Creditors Amounts falling due within one year

	2007 £'000	2006 £'000
Amounts owed to group undertakings	28,386	95,095
Other creditors	15,371	9,331
Accruals and deferred income	4,376	-
	<u>48,133</u>	<u>104,426</u>

Notes to the financial statements

31 December 2007

9 Creditors. Amounts falling due after more than one year

	2007 £,000	2006 £,000
Accruals and deferred income	293,361	240,967
	<u>293,361</u>	<u>240,967</u>

10 Deferred Tax Asset

	£'000
At 1 January 2007	4,286
Debited to the profit and loss account	<u>(4,286)</u>
At 31 December 2007	<u>-</u>

Deferred tax

Deferred tax is provided as follows

	2007 £'000	2006 £'000
Other timing differences	<u>-</u>	<u>(4,286)</u>

Notes to the financial statements

31 December 2007

11 Share capital

	2007 £	2006 £
<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 2007	252
Profit for the financial year	<u>22,849</u>
At 31 December 2007	<u>23,101</u>

13 Reconciliation of movements in shareholders' funds

	2007 £'000	2006 £'000
Opening shareholders' funds as previously stated	252	12,357
Adjustment on adoption of FRS 25 & 26	-	(8,742)
Opening shareholders' funds as restated	<u>252</u>	<u>3,615</u>
(Loss)/Profit for the financial year	<u>22,849</u>	<u>(3,363)</u>
Closing shareholders' funds	<u>23,101</u>	<u>252</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.