

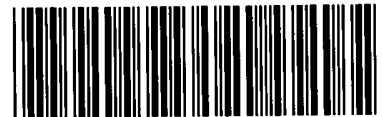
Registration number: 01975872

# Rolls-Royce Total Care Services Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2016

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**Rolls-Royce Total Care Services Limited**  
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**Rolls-Royce Total Care Services Limited**  
**Company Information**

**Company Secretary**    A Harvey-Wrate

**Registered office**    Moor Lane  
Derby  
DE24 8BJ

**Auditors**    KPMG LLP  
Chartered Accountants  
St Nicholas House  
Park Row  
Nottingham  
NG1 6FQ

**Rolls-Royce Total Care Services Limited**  
**Directors' Report for the Year Ended 31 December 2016**

The directors present their report and the financial statements for the year ended 31 December 2016.

**Directors of the company**

The directors who held office during the year were as follows:

A C Dickinson

N Gilliver (resigned 18 March 2017)

The following director was appointed after the year end:

G J Hopkinson (appointed 10 April 2017)

**Principal activity**

The principal activity of the company is the provision of aftermarket services to customers of Rolls-Royce plc.

**Results and dividends**

The profit for the year, after taxation, amounted to £128,758 thousand (2015 - £109,499 thousand).

During the year a dividend of £110,000 thousand was paid, (2015: £90,000 thousand). A dividend of £125,000 thousand is proposed (2015: £110,000 thousand).

**Directors liabilities**

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 the auditors**

Each director has taken steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information. The directors confirm that there is no relevant information that they know of and of which they know the auditor is unaware.

**Reappointment of auditors**

The auditor, KPMG LLP, will be proposed for reappointment in accordance with section 487 of the Companies Act 2006.

Approved by the Board on 27/6/17 and signed on its behalf by:



A C Dickinson  
Director

**Rolls-Royce Total Care Services Limited**  
**Strategic Report for the Year Ended 31 December 2016**

The directors present their strategic report for the year ended 31 December 2016.

**Fair review of the business**

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. A new service was launched during the previous year, SelectCare™, which fits between our TotalCare and general maintenance, repair and overhaul services, where customers contract for individual shop visit support and American Airlines was our launch customer. 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 17.2% compared to the previous period. Turnover growth is driven by an increasing fleet of Rolls-Royce powered aircraft covered by TotalCare packages. Operating profit is higher than 2015 in line with increasing turnover.

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 continues to be 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 company expects to deliver modest turnover growth in 2017.

**Principal risks and uncertainties**

From the perspective of the company, the principal risks and uncertainties are integral to the principal risks of the group and are not managed separately. Accordingly, the principal risks and uncertainties of Rolls-Royce Holdings plc, which include those of the company, are discussed in the group's annual report which does not form part of this report.

Approved by the Board on 27/6/17 and signed on its behalf by:

  
.....  
A C Dickinson  
Director

## **Rolls-Royce Total Care Services Limited**

### **Statement of Directors' Responsibilities**

The directors are responsible for preparing the Annual 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 the directors have elected to prepare the financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 'Reduced Disclosure Framework' ('FRS 101'). 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 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 apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether FRS 101 has 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 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 are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## **Rolls-Royce Total Care Services Limited**

### **Independent Auditor's Report**

We have audited the financial statements of Rolls-Royce Total Care Services Limited for the year ended 31 December 2016, set out on pages 7 to 15. 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), including FRS 101 'Reduced Disclosure Framework'.

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 Statement of Directors' Responsibilities set out on page 4 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 (APB's) Ethical Standards for Auditors to the financial statements.

#### **Scope of the audit of the financial statements**

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

#### **Opinion on the 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 2016 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 matters prescribed by the Companies Act 2006**

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

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic Report and the Directors' report:

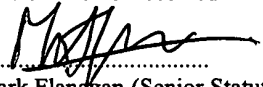
- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

**Rolls-Royce Total Care Services Limited**  
**Independent Auditor's Report (continued)**

**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

  
.....  
Mark Flanagan (Senior Statutory Auditor)  
For and on behalf of KPMG LLP, Statutory Auditor  
Chartered Accountants  
St Nicholas House  
Park Row  
Nottingham  
NG1 6FQ

Date: 28/6/17.....



**Rolls-Royce Total Care Services Limited**  
**Income Statement for the Year Ended 31 December 2016**

	Note	2016 £ 000	2015 £ 000
Revenue	2	2,299,252	1,961,663
Cost of sales		<u>(2,111,859)</u>	<u>(1,799,256)</u>
Gross profit		187,393	162,407
Administrative expenses		<u>(26,445)</u>	<u>(25,091)</u>
Operating profit		<u>160,948</u>	<u>137,316</u>
Profit before tax		160,948	137,316
Tax on profit on ordinary activities	5	<u>(32,190)</u>	<u>(27,817)</u>
Profit for the year		<u><u>128,758</u></u>	<u><u>109,499</u></u>

The above results were derived from continuing operations.

There were no recognised gains and losses for 2016 and 2015 other than those included in the income statement.

**Rolls-Royce Total Care Services Limited**

**(Registration number: 01975872)**

**Balance Sheet as at 31 December 2016**

	Note	2016 £ 000	2015 £ 000
<b>Assets</b>			
Trade and other receivables	6	2,273,482	1,729,287
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	7	(1,010,217)	(629,108)
Total assets less current liabilities		1,263,265	1,100,179
<b>Non-current liabilities</b>			
Accruals and deferred income	8	(1,129,219)	(984,891)
<b>Net assets</b>		<u>134,046</u>	<u>115,288</u>
<b>Equity</b>			
Retained Earnings		<u>134,046</u>	<u>115,288</u>
Total Equity		<u>134,046</u>	<u>115,288</u>

Approved by the Board on 27/6/17 and signed on its behalf by:



A C Dickinson

Director

The notes on pages 10 to 15 form an integral part of these financial statements.

**Rolls-Royce Total Care Services Limited**  
**Statement of Changes in Equity for the Year Ended 31 December 2016**

	<b>Retained Earnings £ 000</b>	<b>Total £ 000</b>
At 1 January 2016	115,288	115,288
Profit for the year	128,758	128,758
Dividends	<u>(110,000)</u>	<u>(110,000)</u>
At 31 December 2016	<u>134,046</u>	<u>134,046</u>
	<b>Retained Earnings £ 000</b>	<b>Total £ 000</b>
At 1 January 2015	95,789	95,789
Profit for the year	109,499	109,499
Dividends	<u>(90,000)</u>	<u>(90,000)</u>
At 31 December 2015	<u>115,288</u>	<u>115,288</u>

Movements in share capital are disclosed in note 9.

**Rolls-Royce Total Care Services Limited**  
**Notes to the Financial Statements for the Year Ended 31 December 2016**

**1 Accounting policies**

**Basis of preparation**

These financial statements have been prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101").

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ('Adopted IFRSs'), but makes amendments where necessary in order to comply with Companies Act 2006.

In these financial statements the company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- A Cash Flow Statement and related notes
- The requirements of IAS 24 Related Party Transactions and has, therefore, not disclosed transactions between the Company and its wholly owned subsidiaries
- IFRS 2 Share Based Payments in respect of group settled share based payments
- Disclosures in respect of the compensation of Key Management Personnel
- The effects of new but not yet effective IFRSs.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

**Measure of performance on long-term aftermarket contracts**

A large proportion of the Company's activities relate to long-term aftermarket contracts. Under these contracts, the Company's primary obligation is to maintain customers' equipment in an operational condition and it achieves this by undertaking various activities, such as engine monitoring, line maintenance and repair and overhaul, over the period of the contract. In general, the Directors consider that the stage of performance of the contract should be by reference to the obligation to maintain an operational fleet and that this is best measured by the operation of the fleet. Accordingly, stage of performance is measured by reference to flying hours of each fleet under contract.

**Going concern**

The financial statements have been prepared on a going concern basis, under the historical cost convention. Based on the directors' assessment of the Company's future financial commitments and the ability of Rolls-Royce plc to support the Company if necessary the directors consider that the Company will have sufficient financial resources to meet its obligations for the foreseeable future, that is for at least 12 months from the date of approval of these financial statements.

**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.

**Foreign currency transactions and balances**

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 income statement.

## **Rolls-Royce Total Care Services Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)**

#### **Taxation**

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax balances are not discounted.

#### **Basic financial instruments**

##### *Trade and other receivables / payables*

Trade and other receivables are recognised initially at transaction price less attributable transaction costs. Trade and other payables are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses in the case of trade receivables. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of instrument for a similar debt instrument.

**Rolls-Royce Total Care Services Limited**  
**Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)**

**2 Revenue**

A geographical analysis of revenue is as follows:

	<b>2016</b> <b>£ 000</b>	<b>2015</b> <b>£ 000</b>
United Kingdom	225,347	173,351
Rest of Europe	418,689	300,446
United States of America	248,956	243,104
Asia	1,155,806	1,025,553
Africa	93,837	73,966
Australasia	97,434	105,639
South and Central America	59,183	39,604
	<u>2,299,252</u>	<u>1,961,663</u>

**3 Auditors' remuneration**

	<b>2016</b> <b>£ 000</b>	<b>2015</b> <b>£ 000</b>
Audit of the financial statements	<u>7</u>	<u>7</u>

**4 Staff costs**

The company has no employees. The directors of the company did not receive any remuneration (2015 - £Nil).

All services were provided by Rolls-Royce plc.

**Rolls-Royce Total Care Services Limited**  
**Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)**

**5 Taxation**

Tax charged to the income statement

	2016 £ 000	2015 £ 000
<b>Current taxation</b>		
UK corporation tax charge on profit for the year	662	13,427
Group relief payable	31,528	14,379
Adjustments in respect of prior periods	-	11
Tax expense in the income statement	<u>32,190</u>	<u>27,817</u>

The tax on profit before tax for the year is the same as the standard rate of corporation tax in the UK (2015 - higher than the standard rate of corporation tax in the UK) of 20% (2015 - 20.25%).

The differences are reconciled below:

	2016 £ 000	2015 £ 000
Profit on ordinary activities before tax	<u>160,948</u>	<u>137,316</u>
Corporation tax at standard rate	32,190	27,806
Increase in current tax from adjustment for prior periods	-	11
Total tax charge	<u>32,190</u>	<u>27,817</u>

**Factors that may affect future tax charges**

A reduction in the UK corporation tax rate from 21% to 20% (effective from 1 April 2015) was substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the company's future current tax charge accordingly.

**6 Trade and other receivables**

	2016 £ 000	2015 £ 000
<b>Due within one year</b>		
Trade receivables	179,322	169,944
Amount owed by group undertakings	1,195,523	816,525
Amounts recoverable on long term contracts	<u>304,242</u>	<u>138,279</u>
	<u>1,679,087</u>	<u>1,124,748</u>
<b>Due after more than one year</b>		
Amounts recoverable on long term contracts	<u>594,395</u>	<u>604,539</u>

# Rolls-Royce Total Care Services Limited

## Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

### 7 Trade and other payables: Amounts falling due within one year

	2016 £ 000	2015 £ 000
Accruals and deferred income	793,531	517,455
Group relief payable	32,190	27,913
Other creditors	184,496	83,740
	<u>1,010,217</u>	<u>629,108</u>

The Company has a UK corporation tax liability of £662 thousand, which will be settled on its behalf by Rolls-Royce plc (the company's immediate parent). This amount is presented within group relief payable.

### 8 Trade and other payables: Amounts falling due after more than one year

	2016 £ 000	2015 £ 000
Accruals and deferred income	<u>1,129,219</u>	<u>984,891</u>

### 9 Share capital

#### Allotted, called up and fully paid shares

	2016		2015	
	No.	£	No.	£
Ordinary Shares of £1 each	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>

### 10 Dividends

	2016 £ 000	2015 £ 000
Dividends paid on equity capital	110,000	90,000

The aggregate amount of dividends proposed and not recognised as liabilities in 2016 was £125,000 thousand (2015 - £110,000 thousand).



## **Rolls-Royce Total Care Services Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)**

#### **11 Contingent liabilities**

On 6 December 2012, Rolls-Royce Holdings plc (the ultimate parent company of the company) announced that it had passed information to the Serious Fraud Office (SFO), an independent United Kingdom government department, following a request from the SFO for information about allegations of malpractice in overseas markets. On 23 December 2013, Rolls-Royce Holdings plc (RRH) announced that it had been informed by the SFO that it had commenced a formal investigation. Since the initial announcement, RRH continued its investigations and engaged with the SFO and other authorities in the UK, the US and elsewhere in relation to the matters of concern.

In January 2017, after full cooperation, RRH concluded deferred prosecution agreements with the SFO and the US Department of Justice and a leniency agreement with the MPF, the Brazilian federal prosecutors. Prosecutions of individuals may follow and investigations may be commenced in other jurisdictions. In addition, we could still be affected by actions from customers and customers' financiers. The Directors of RRH are not currently aware of any matters that are likely to lead to a financial loss, but cannot anticipate all the possible actions that may be taken or their potential consequences. There are no financial consequences of these agreements on this company.

#### **12 Parent and ultimate parent undertaking**

The company's immediate parent is Rolls-Royce plc.

The ultimate parent is Rolls-Royce Holdings plc. These financial statements are available upon request from 62 Buckingham Gate, London, SW1E 6AT

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.