

**COMPANY NUMBER 2830526**

**ROLLS-ROYCE AIRCRAFT MANAGEMENT LIMITED**

**Annual Report**  
for the Year Ended 31 December 2005

**Directors on  
15<sup>th</sup> August 2006:**

**M R H Arundell  
N T Goldsworthy  
S M Walton**

**Secretaries:**

**D J Goma  
C H Jackson**



Registered Office: Moor Lane, Derby, DE24 8BJ

## REPORT OF THE DIRECTORS

The Directors present their Annual report and the audited Financial Statements for the year ended 31 December 2005.

### STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE DIRECTORS' REPORT AND THE 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 the directors have elected to prepare the financial statements in accordance with UK Accounting Standards.

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 a going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records 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.

Under applicable law the directors are also responsible for preparing a Directors' Report that complies with that law.

### REVIEW OF THE BUSINESS

The Company's principal business is as a holding company.

### FINANCIAL REVIEW

#### Results

The results for the year are set out on page 7. The Directors do not recommend payment of a dividend (2004: nil)

### DIRECTORATE

The Directors who held office throughout the year were as follows:

M R H Arundell  
N T Goldsworthy  
S M Walton

## DIRECTOR'S SHARE INTERESTS

None of the directors who held office at the end of the financial year had any beneficial interest in the shares of Rolls-Royce Aircraft Management Limited at the beginning or at the end of the financial year; neither did they have any beneficial interest in the shares of any subsidiary within the Rolls-Royce Group of companies.

The directors holding office at the end of the financial year who had beneficial interests, including options in the share capital of the ultimate holding company, Rolls-Royce Group plc, requiring disclosure in this report are detailed below:

	<b>Rolls-Royce Group plc Ordinary 20p shares</b>		<b>Options over Rolls-Royce Group plc Ordinary Shares</b>			<b>Total share options as at 31 December 2005</b>
	<b>Ordinary shares of 20p each as at 1 January 2005</b>	<b>Ordinary shares of 20p each as at 31 December 2005</b>	<b>as at 1 January 2005</b>	<b>Share options granted in 2005</b>	<b>Share options exercised/ lapsed/ cancelled in 2005</b>	
M R H Arundell	33,666	22,167	199,204	-	4,398	194,806
NT Goldsworthy	-	2,712	-	2,488	-	2,488
S M Walton	26,272	15,406	82,072	992	1,935	81,129

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

	<b>Annual Performance Related Award Plan<sup>1</sup></b>		<b>ShareBonus Scheme<sup>2</sup></b>	
	<b>1 January 2005</b>	<b>31 December 2005</b>	<b>1 January 2005</b>	<b>31 December 2005</b>
M R H Arundell	33,666	17,769	-	-
N T Goldsworthy	-	2,210	-	-
S M Walton	25,371	11,815	901	1,656

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

<sup>2</sup> Under the ShareBonus Scheme, shares vest after five years.

Conditional awards were granted under the Rolls-Royce Group plc Performance Share Plan whereby shares released are dependent upon certain performance criteria being achieved over a three-year performance period.

	<b>Performance Share Plan</b>	
	<b>1 January 2005</b>	<b>31 December 2005</b>
M R H Arundell	28,336	55,403
S M Walton	9,780	19,295

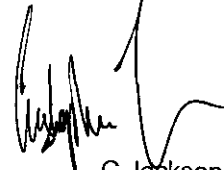
## PAYMENT TO SUPPLIERS

The Company seeks the best possible terms from suppliers and, in entering into binding purchasing contracts, gives consideration to quality, delivery, price and the terms of payment. The Company abides therewith whenever it is satisfied that suppliers have provided the goods or services in accordance with agreed terms and conditions. Trade creditors at 31 December 2005 represent 10 days of purchases (2004: 9 days).

## ANNUAL GENERAL MEETINGS & AUDITORS

Elective Resolutions are in force to dispense with the obligation of laying the Annual Report before the Company in general meeting, appointing auditors annually, and holding Annual General Meetings.

By Order of the Board

A handwritten signature in black ink, appearing to be 'C Jackson', written over a horizontal line.

C Jackson  
Secretary

15<sup>th</sup> August 2006

## **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ROLLS-ROYCE AIRCRAFT MANAGEMENT LIMITED**

We have audited the financial statements of Rolls-Royce Aircraft Management Limited for the year ended 31 December 2005, 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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of directors and auditors**

As described in the Statement of Directors' Responsibilities on page 2, the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant 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 if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and 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 2005 and of its loss for the year then ended; and
- have been properly prepared in accordance with the Companies Act 1985.



**KPMG Audit Plc**  
*Chartered Accountants*  
*Registered Auditor*  
8 Salisbury Square  
London, EC4Y 8BB

16 August 2006

**PROFIT AND LOSS ACCOUNT  
FOR THE YEAR ENDED 31 DECEMBER 2005**

	Notes	2005 US\$000	2004 US\$000
<b>Turnover</b>	2	72,458	53,694
Cost of sales		(66,241)	(49,142)
<b>Gross profit</b>		<u>6,217</u>	<u>4,552</u>
General and administrative costs		(979)	(1,580)
<b>Operating profit before exceptional items</b>		<u>5,238</u>	<u>2,972</u>
Exceptional items	5	(45,000)	-
<b>Operating Profit</b>		<u>(39,762)</u>	<u>2,972</u>
Net Interest payable	4	(6,651)	(3,245)
<b>Loss on ordinary activities before taxation</b>	3	<u>(46,413)</u>	<u>(273)</u>
Taxation	6	58	21
<b>Loss on ordinary activities after taxation</b>		<u>(46,355)</u>	<u>(252)</u>

The notes on pages 9 to 14 form part of these Financial Statements.

The company had no recognised gains and losses during the year other than those recorded in the profit and loss account in either 2004 or 2005.

All the results have been derived from continuing activities.

# **BALANCE SHEET** **AT 31 DECEMBER 2005**

	Notes	2005 US\$000	2004 US\$000
<b>Fixed assets</b>			
Tangible assets	9	49,748	119,683
Investments - subsidiary undertakings	10, 18	19,450	64,450
		<u>69,198</u>	<u>184,133</u>
<b>Current assets</b>			
Debtors - amounts falling due within one year	11	26,936	52,179
Debtors - amounts falling due after more than one year	12	-	1,017
		<u>26,936</u>	<u>53,196</u>
<b>Creditors - amounts falling due within one year</b>	13	<u>(7,085)</u>	<u>(9,434)</u>
<b>Net current assets</b>		19,851	43,762
<b>Total assets less current liabilities</b>		89,049	227,895
<b>Creditors - amounts falling due after more than one year</b>	14	(75,472)	(167,963)
<b>Net Assets</b>		<u><u>13,577</u></u>	<u><u>59,932</u></u>
<b>Capital and reserves</b>			
Called up share capital	15	61,636	61,636
Profit and loss account	16	(48,059)	(1,704)
Equity shareholders' funds		<u>13,577</u>	<u>59,932</u>

The Financial Statements were approved by the Board of Directors on 15<sup>th</sup> August 2006 and were signed on its behalf by:



..... M R H Arundell  
Director

The notes on pages 9 to 14 form part of these Financial Statements.



**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2005**

**1. Accounting Policies**

**Basis of Accounting**

The Financial Statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules.

The Company is exempt from the requirement of FRS 1 to prepare a cash flow statement as it is a wholly-owned subsidiary undertaking of Rolls-Royce Group plc and its cash flows are included within the consolidated cash flow statement of that company.

The Company is similarly exempt, on the grounds that it is a wholly-owned subsidiary undertaking of Rolls-Royce Group plc, from the requirements under FRS 2 to prepare consolidated financial statements for its Group and under FRS 8 to disclose related party transactions with the Rolls-Royce Group and its joint venture undertakings.

**Foreign Currencies**

Assets and liabilities denominated in foreign currencies are translated into US dollars at the rate ruling at the year end. The trading results of overseas undertakings are translated at the average exchange rates for the year. Other exchange differences, including those arising from currency conversions in the usual course of trading, are taken into account in determining loss on ordinary activities before taxation.

**Income from Operating Leases**

Net income from operating leases, after charging depreciation and interest, is credited to the profit and loss account on a straight-line basis.

**Depreciation**

Fixed assets are depreciated from the time that they are first brought into use so as to write off their cost, less estimated residual value, over the remaining expected useful life at the time of acquisition. Estimated lives are an average of 11 years.

**Interest**

Interest payable is charged to the profit and loss account as incurred.

**Taxation**

Provision for taxation is made at the current rate and for deferred taxation, at the projected rate, on all timing differences, which have originated, but not reversed at the Balance Sheet date.

## NOTES (continued)

## 2. Analysis of turnover

	Fees and other income US\$000	Operating lease rentals US\$000	Total US\$000
<b>2005</b>			
United Kingdom	24,390	3,846	28,236
Asia	35,990	4,488	40,478
Australasia and Pacific	-	3,744	3,744
	<u>60,380</u>	<u>12,078</u>	<u>72,458</u>

	Fees and other income US\$000	Operating lease rentals US\$000	Total US\$000
<b>2004</b>			
United Kingdom	47,179	2,487	49,666
Asia	-	2,244	2,244
Australasia and Pacific	-	1,784	1,784
	<u>47,179</u>	<u>6,515</u>	<u>53,694</u>

## 3. Loss on ordinary activities before taxation

	2005 US\$000	2004 US\$000
<b>After Charging</b>		
Depreciation of tangible fixed assets	30,595	39,659

Auditors' remuneration for 2005 will be paid by the holding company.

## 4. Net interest payable

	2005 US\$000	2004 US\$000
Interest payable on:		
Loans from parent company	4,449	2,162
Bank loans and overdrafts	109	911
Other charges	2,182	203
	<u>6,740</u>	<u>3,276</u>
Interest receivable:		
From parent	-	(25)
Other	(89)	(6)
	<u>(89)</u>	<u>(31)</u>
Net interest payable	<u>6,651</u>	<u>3,245</u>

## NOTES (continued)

## 5. Exceptional Items

	2005 US\$000	2004 US\$000
Impairment of investment in subsidiary	45,000	-

The revised carrying value of the investment in Rolls-Royce & Partners Finance (Netherlands) B.V. was determined by reference to the net assets of that company and its subsidiaries. The net assets of that company and its subsidiaries have been determined with reference to aircraft values provided by independent aircraft appraisers.

## 6. Tax on loss on ordinary activities

	2005 US\$000	2004 US\$000
In respect of the loss for the year:		
Group relief receivable	58	21
Reconciliation of tax charge:		
Loss on ordinary activities before tax	(46,413)	(273)
Nominal credit at UK corporation tax rate of 30%	13,924	82
Expenses not deductible for tax purposes	(13,866)	(61)
Current tax	58	21

## 7. Emoluments of directors

The Directors did not receive any emoluments during the year.

## 8. Employee information

The Company did not have any employees during the year.

**NOTES (continued)****9. Tangible fixed assets**

	<b>Assets held for use in operating leases US\$000</b>
Cost at 1 January 2005	193,653
Disposals	(74,727)
Cost at 31 December 2005	<u>118,926</u>
Depreciation at 1 January 2005	73,970
Provided during the year	30,595
Released on disposals	(35,387)
Depreciation at 31 December 2005	<u>69,178</u>
<b>Net book value</b>	
at 31 December 2005	<u>49,748</u>
at 31 December 2004	<u>119,683</u>

Depreciation provided during the year includes a charge for impairment of US\$19,101,000 (2004: US\$26,392,000). The impairment relates to the write down of certain aircraft to values provided by independent aircraft appraisers.

**10. Investments - subsidiary undertakings**

	<b>2005 US\$000</b>	<b>2004 US\$000</b>
Shares at valuation	<u>19,450</u>	<u>64,450</u>

**11. Debtors - amounts falling due within one year**

	<b>2005 US\$000</b>	<b>2004 US\$000</b>
Trade debtors	24	101
Other debtors	2	4
Prepayments and accrued income	13	482
Amounts owed by parent company	26,839	51,571
Group relief receivable	58	21
	<u>26,936</u>	<u>52,179</u>

## NOTES (continued)

## 12. Debtors - amounts falling due after more than one year

	2005 US\$000	2004 US\$000
Prepayments and accrued income	-	1,017

## 13. Creditors - amounts falling due within one year

	2005 US\$000	2004 US\$000
Trade creditors	177	276
Accruals and deferred income	1,707	3,598
Other creditors	202	4,722
Maintenance reserves	4,383	-
Amounts owed to:		
- parent company	616	836
- related parties	-	2
	7,085	9,434

## 14. Creditors - amounts falling due after more than one year

	2005 US\$000	2004 US\$000
Maintenance reserves	1,772	2,748
Deposits from lessees	-	1,024
Amounts owed to parent company	73,500	163,791
Other creditors	200	400
	75,472	167,963

## 15. Share capital

## Authorised

	2005	2004
Ordinary shares of £1 each	£100	£100
Ordinary shares of US\$1 each	\$65,000,000	\$65,000,000

## Issued and fully paid

	2005	2004
Ordinary shares of £1 each	£1	£1
Ordinary shares of US\$1 each	\$61,636,342	\$61,636,342

**NOTES (continued)****16. Profit and loss account**

	<u>US\$000</u>
Balance at 1 January 2005	(1,704)
Result for the year	(46,355)
Balance at 31 December 2005	<u>(48,059)</u>

**17. Ultimate holding company**

Rolls-Royce Group plc, a company registered in England and Wales, is the ultimate holding company and heads the largest group in which the results of the Company are consolidated. Rolls-Royce plc, a company registered in England and Wales, is the immediate holding company and heads the smallest group in which the results of the Company are consolidated. Copies of both companies consolidated financial statements can be obtained from 65 Buckingham Gate, London, SW1E 6AT.

**18. Investments as at 31 December 2005**

Name	Country of incorporation	Business	Interest in ordinary shares %
Rolls-Royce & Partners Finance (Netherlands) B.V.	Netherlands	Holding Company	100
Rolls-Royce & Partners Finance (Ireland) <sup>1</sup>	Ireland	Holding Company	100
Larten Limited <sup>1</sup>	Ireland	Holding Company	100
Pembroke Group Limited <sup>2,3</sup>	Isle of Man	Aircraft Leasing	50
Sama Leasing Company Limited	Cayman Islands	Dormant	100

<sup>1</sup> The shareholdings in Rolls-Royce & Partners Finance (Ireland) and Larten Limited are held by Rolls-Royce & Partners Finance (Netherlands) B.V.

<sup>2</sup> The shareholding in Pembroke Group Limited is held by Larten Limited.

<sup>3</sup> Pembroke Group Limited has two significant subsidiary undertakings which are engaged in aircraft leasing and financial services.

**19. Post Balance Sheet Event**

On 12 July 2006, Larten Limited sold its 50% shareholding in Pembroke Group Limited as part of a management buyout. Total proceeds received on the sale of the 50% shareholding were \$2m. As part of the sale agreement, Larten acquired a 1/6 interest in GMR Aviation Partners Ltd, a company incorporated in the Cayman Islands, for \$0.45m.