

**Rolls Laval Heat Exchangers Limited**

**Directors' report and financial  
statements**

**Registered number 02902683**

**31 December 2007**

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## **Directors' report**

The directors present their annual report and the audited financial statements of the company for the year ended 31 December 2007

### **Principal activities**

The principal activity of the company was the design, development and manufacture of compact heat exchangers. The final heat exchanger was despatched on 15 January 2002.

The company now provides support services to heat exchangers previously delivered to the customer.

### **Business review and future developments**

The results for the year are set out on page 4. The directors do not recommend the payment of a dividend.

In 2004, Rolls Laval Heat Exchangers Limited signed an agreement with its major customer. The customer has agreed to contribute towards certain warranty costs incurred and to be incurred in the year ending 31 December 2007 and in subsequent years.

The joint venture partners have agreed to continue to support the business.

### **Directors and directors' interests**

The directors serving during the year were

RD Buxton	- resigned 13 August 2007
SJ Garwood	
UH Granstrand	
JD Widung	
V Szezewyk	
N Gaul	
U Liljedahl	- resigned 21 May 2007
L Carlson	- appointed 21 May 2007

None of the directors had any beneficial interest in the share capital of the company.

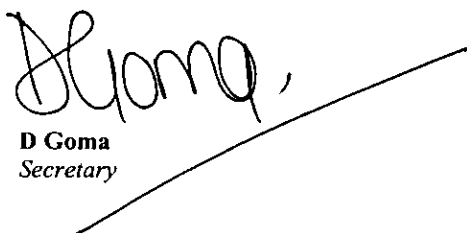
### **Disclosure of information to auditors**

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditors are unaware, and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

### **Auditors**

In accordance with Section 384 of the Companies Act 1985, a resolution for the reappointment of KPMG LLP as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board

  
**D Goma**  
Secretary

Moor Lane  
Derby  
Derbyshire  
DE24 8BJ

Dated 22 February 2008

## **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 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



**KPMG LLP**

St Nicholas House  
Park Row  
Nottingham NG1 6FQ

**Independent auditors' report to the members of Rolls Laval Heat Exchangers Limited**

We have audited the financial statements of Rolls Laval Heat Exchangers 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 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**

The directors' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the statement of directors' responsibilities on page 2.

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 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 LLP*

Chartered Accountants  
Registered Auditor

Dated 22 February 2008

**Profit and loss account**  
*for the year ended 31 December 2007*

	<i>Note</i>	<b>2007</b> <b>£000</b>	<b>2006</b> <b>£000</b>
<b>Turnover</b>	<b>2</b>	<b>430</b>	<b>357</b>
<b>Profit/(loss) on ordinary activities before taxation</b>	<b>2,3</b>	<b>355</b>	<b>(15)</b>
Tax on profit/(loss) on ordinary activities	6	(82)	5
<b>Profit/(loss) for the financial year</b>	<b>13</b>	<b>273</b>	<b>(10)</b>

The company has no recognised gains or losses in either the current or preceding year other than those disclosed in the profit and loss account

In both the current and the preceding year, the company made no material acquisitions and had no discontinued operations

There is no material difference between the results reported in the profit and loss account and the result on an unmodified historical cost basis

**Balance sheet**  
*as at 31 December 2007*

	<i>Note</i>	2007 £000	2006 £000
<b>Current assets</b>			
Debtors	7	107	89
Cash at bank and in hand		288	247
		<u>395</u>	<u>336</u>
<b>Creditors' amounts falling due within one year</b>	9	<u>(304)</u>	<u>(171)</u>
<b>Net current assets</b>		91	165
<b>Total assets less current liabilities</b>		91	165
<b>Creditors' amounts falling due after more than one year</b>	10	(20,000)	(20,000)
<b>Provisions for liabilities and charges</b>	11	-	(347)
<b>Net liabilities</b>		<u>(19,909)</u>	<u>(20,182)</u>
<b>Capital and reserves</b>			
Called up share capital	12	10	10
Profit and loss account	13	(19,919)	(20,192)
<b>Equity shareholders' deficit</b>	14	<u>(19,909)</u>	<u>(20,182)</u>

These financial statements were approved by the board of directors on 22 February 2008 and were signed on its behalf by



**SJ Garwood**  
*Director*

## Notes

*(forming part of the financial statements)*

### 1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements

#### *Basis of preparation*

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards on the basis of continuing support from the joint venture parties. The company is dependent on continuing finance being made available to enable it to continue operating and to meet its liabilities as they fall due.

Loan facilities from the shareholders at 31 December 2007 were approved up to a level of £20,000,000 and were fully drawn down. The shareholders have confirmed their willingness to continue to provide sufficient support for the company to be able to pay its debts as they fall due.

#### *Cash flow statement*

The company is exempt from the requirement of FRS 1 (revised 1996) to prepare a cash flow statement as it is entitled to the filing exemptions as a small company under section 246 of the Companies Act 1985 when filing financial statements with the Registrar of Companies.

#### *Turnover*

Turnover arises solely within the United Kingdom and represents the value of services delivered to customers and is stated after deducting value added tax.

#### *Pensions*

The company is part of two defined benefit pension schemes operated by the Rolls-Royce plc group. The assets of the schemes are held separately from those of the group in independently administered funds. The company is unable to identify its share of the schemes' assets and liabilities. The pension cost represents contributions payable by the company to the schemes. Details of the schemes are set out in the Rolls-Royce plc group financial statements.

#### *Taxation*

The charge for taxation is based on the profit or loss for the period and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

### 2 Turnover, cost of sales, administrative expenses and operating profit/(loss)

	2007 £000	2006 £000
Turnover	430	357
Cost of sales	(406)	(325)
	<hr/>	<hr/>
Gross profit	24	32
Administrative expenses	331	(47)
	<hr/>	<hr/>
Operating profit/(loss)	355	(15)
	<hr/>	<hr/>



## Notes (continued)

### 3 Profit/(loss) on ordinary activities before taxation

	2007 £000	2006 £000
<i>Profit/(loss) on ordinary activities before taxation is stated after charging</i>		
Auditors' remuneration - audit of these financial statements	8	8
	<u>8</u>	<u>8</u>

### 4 Staff numbers and costs

In both the current and prior year the company had no employees and had no payroll costs

### 5 Directors' remuneration

	2007 £000	2006 £000
Aggregate directors' emoluments	-	-
	<u>-</u>	<u>-</u>

### 6 Tax on profit/(loss) on ordinary activities

#### *Analysis of credit in period*

	2007 £000	2006 £000
<i>Current tax</i>		
Consortium relief receivable at 30%	-	11
Corporation tax payable at 20%	(72)	-
	<u>(72)</u>	<u>11</u>
Total current tax (charge)/credit	(72)	11
<i>Deferred tax</i>		
- origination and reversal of timing differences	(9)	(6)
- effect of reduction in tax rate on opening liability	(1)	-
	<u>(10)</u>	<u>(6)</u>
Total tax (charge)/credit	<u>(82)</u>	<u>5</u>

#### *Factors affecting the tax credit for the current period*

The current tax charge for the period is lower (2006 lower) than the standard rate of corporation tax in the UK of 30% (2006 30%). The differences are explained below

	2007 £000	2006 £000
<i>Current tax reconciliation</i>		
Profit/(loss) on ordinary activities before tax	355	(15)
	<u>355</u>	<u>(15)</u>
Current tax at 30%	107	(5)
<i>Effects of</i>		
Capital allowances in excess of depreciation for the period	(5)	(6)
Marginal relief for small companies	(30)	-
	<u>(35)</u>	<u>(6)</u>
Total current tax credit (see above)	<u>72</u>	<u>(11)</u>

## Notes (continued)

### 7 Debtors

	2007 £000	2006 £000
Trade debtors	4	4
Consortium relief recoverable	-	11
Accrued income	90	51
Deferred taxation (note 8)	13	23
	<u>107</u>	<u>89</u>

### 8 Deferred taxation

The full potential asset for deferred taxation (recorded in debtors) represents

	2007 £000	2006 £000
Accelerated capital allowances	<u>13</u>	<u>23</u>

The movement on the deferred taxation debtor is as follows

	£000
At beginning of year	23
Amount charged to profit and loss account	(10)
At end of year	<u>13</u>

### 9 Creditors: amounts falling due within one year

	2007 £000	2006 £000
Amounts owed to joint venture parties	100	134
Accruals	125	36
Corporation tax	72	-
Value added tax	7	1
	<u>304</u>	<u>171</u>

### 10 Creditors: amounts falling due after more than one year

	2007 £000	2006 £000
Amounts owed to joint venture parties	<u>20,000</u>	<u>20,000</u>

**Notes (continued)**

**11 Provisions for liabilities and charges**

	<b>Warranty £000</b>
At beginning of year	347
Released in the year	(347)
	<hr/>
At end of year	-
	<hr/>

**12 Share capital**

	<b>2007 £000</b>	<b>2006 £000</b>
<i>Authorised, allotted, called up and fully paid</i>		
5,000 'A' ordinary shares of £1 each	5	5
5,000 'B' ordinary shares of £1 each	5	5
	<hr/>	<hr/>
	<b>10</b>	<b>10</b>
	<hr/>	<hr/>

The voting and other rights of the 'A' and 'B' ordinary shares are the same

**13 Profit and loss account**

	<b>2007 £000</b>	<b>2006 £000</b>
At beginning of the year	(20,192)	(20,182)
Profit/(loss) for the financial year	273	(10)
	<hr/>	<hr/>
At end of the year	(19,919)	(20,192)
	<hr/>	<hr/>

**14 Reconciliation of movements in shareholders' deficit**

	<b>2007 £000</b>	<b>2006 £000</b>
Profit/(loss) for the financial year	273	(10)
Shareholders' deficit at beginning of year	(20,182)	(20,172)
	<hr/>	<hr/>
Shareholders' deficit	(19,909)	(20,182)
	<hr/>	<hr/>

**15 Commitments under operating leases**

The company had no annual commitments under non-cancellable operating or finance leases (2006 nil)

**16 Capital commitments**

There are no amounts contracted for, but not provided

## Notes (continued)

### 17 Joint venture parties

The company is a joint venture undertaking between Rolls-Royce plc and Alfa Laval Limited, each shareholder holding 50% of the issued share capital. Neither party to the joint venture has overall control. Both of the joint venture parties are registered in England and Wales. Copies of the financial statements of each shareholder can be obtained from Rolls-Royce plc, 65 Buckingham Gate, London, SW1E 6AT and Alfa Laval Limited, 7 Doman Road, Camberley, Surrey, GU15 3DN respectively.

### 18 Related party transactions

Transactions with related parties during the year to 31 December 2007 and balances with related parties at that date, along with comparatives for 2006, are given below. All transactions are made at arm's length.

	Country	Purchases from/ (charges to) related party		Amounts owed to/(from) related party		Group tax relief receivable from related party	
		2007 £000	2006 £000	2007 £000	2006 £000	2007 £000	2006 £000
<b>Rolls-Royce plc</b>	<b>UK</b>	<b>361</b>	<b>364</b>	<b>151</b>	<b>151</b>	<b>-</b>	<b>6</b>
<b>Alfa Laval Limited</b>	<b>UK</b>	<b>34</b>	<b>31</b>	<b>34</b>	<b>15</b>	<b>-</b>	<b>6</b>

#### Rolls-Royce plc

The company has a 50% interest in the share capital of Rolls Laval Heat Exchangers Limited and provides a loan, which was non-interest bearing from 31 May 2002.

#### Alfa Laval Limited

The company has a 50% interest in the share capital of Rolls Laval Heat Exchangers Limited and provides a loan, which was non-interest bearing from 31 May 2002.

### 19 Pension funding

The company is a participating employer of The Rolls-Royce Pension Fund and Rolls-Royce Group Pension Scheme, which are multi-employer defined benefit schemes. The assets of the schemes are held in separate funds administered by trustees and invested in them independently of the finances of the company and the Rolls-Royce group. The schemes are funded by annual contributions from:

- a) Rolls-Royce plc, its subsidiary undertakings and other participating employers, and
- b) scheme members.

The company is unable to identify its share of the underlying assets and liabilities of the schemes and in accordance with FRS 17 Retirement Benefits, has accounted for contributions as if the schemes were defined contribution schemes.

On this basis, the amount of employer contributions for 2007 were £nil (2006: £nil).

The FRS 17 disclosure relating to the schemes is given in the financial statements of Rolls-Royce plc.

The latest full actuarial valuations for the Rolls-Royce Pension Fund and Rolls-Royce Group Pension Scheme were carried out at 31 March 2003 and 5 April 2004 respectively. These have been updated for FRS 17 purposes to 31 December 2007 by a qualified independent actuary.