**Rolls Laval Heat Exchangers Limited**

# Directors' report and financial statements

Registered number 2902683

31 December 1999

# Contents

# Directors' report

The directors present their annual report and the audited financial statements of the company for the year ended 31 December 1999.

**Principal activities**

The principal activity of the company is the design, development and manufacture of compact heat exchangers.

**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.

The company has continued the execution of a significant contract to supply 15 heat exchanger units. Technical and design difficulties have been investigated and are in the course of resolution. The contract is due for completion in March 2001.

Further opportunities to bring the product to market will be explored during the forthcoming year. It is the intention of the joint venture partners to continue to support the business.

**Directors and directors' interests**

The directors serving during the year were:

| | |
|---|---|
| RW Sunerton (Chairman) | |
| JW Cason | (resigned 3 February 2000) |
| G Gould | |
| U Granstrand | |
| HE Johnasson | |
| HG Mathiasson | |
| J Widung | |
| J King | (appointed 3 February 2000) |

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

**Statement of directors' responsibilities**

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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 which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the 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.

## Notes *(continued)*

**Year 2000**

An analysis of significant Year 2000 risks to the Company was performed in order to determine the impact of the Year 2000 issue on all activities. From this, prioritised action plans were developed which were designed to address the key risks in advance of critical dates and without disruption to the underlying business process.

The majority of the cost of implementing the action plans was subsumed into the recurring activities of the Company.

The activities of the company to date have not been significantly disrupted by Year 2000 problems, although it must be recognised that with a problem of this nature, it is not possible to give any guarantees that no unforeseen problems will arise.

**Auditors**

In accordance with Section 385 of the Companies Act 1985, a resolution for the re-appointment of KPMG as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board

**JE Warren**
*Secretary*

Spring Road
Ettingshall
Wolverhampton
WV4 6JX

20 April 2000

2 Cornwall Street
Birmingham
B3 2DL

# Auditors' report to the members of Rolls Laval Heat Exchangers Limited

We have audited the financial statements on pages 4 to 14.

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

The directors are responsible for preparing the directors' report and, as described on page 1, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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. 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 transactions with the company is not disclosed.

***Basis of audit opinion***

We conducted our audit in accordance with Auditing Standards 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 judgements 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 of the state of the company's affairs as at 31 December 1999 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG

**KPMG**
*Chartered Accountants*
*Registered Auditors*

20 April 2000

# Profit and loss account

***for the year ended 31 December 1999***

| | Note | Continuing operations 1999 £000 | 1998 £000 |
|---|---|---|---|
| **Turnover** | *1* | **296** | 3,429 |
| Cost of sales | | **(6,543)** | (5,502) |
| **Gross loss** | | **(6,247)** | (2,073) |
| Administrative expenses | | **(2,426)** | (981) |
| **Operating loss** | | **(8,673)** | (3,054) |
| Interest payable and similar charges | *2* | **(811)** | (806) |
| **Loss on ordinary activities before taxation** | *3* | **(9,484)** | (3,860) |
| Tax on loss on ordinary activities | *6* | **1,625** | 1,228 |
| **Loss for the financial year** | | **(7,859)** | (2,632) |
| Retained loss brought forward | | **(9,338)** | (6,706) |
| **Retained loss carried forward** | | **(17,197)** | (9,338) |

The notes on pages 6 to 14 form part of these financial statements.

The reconciliation of movements in shareholders' funds is shown in note 14 to the financial statements.

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.

There is no difference between the loss on ordinary activities before taxation as disclosed in the profit and loss account and the loss on an unmodified historical cost basis in either the current or preceding year.

# Balance sheet
*at 31 December 1999*

| | Note | 1999 £000 | 1999 £000 | 1998 £000 | 1998 £000 |
|---|---|---|---|---|---|
| **Fixed assets** | | | | | |
| Tangible assets | 7 | | **1,926** | | 1,927 |
| **Current assets** | | | | | |
| Stocks | 8 | **688** | | 371 | |
| Debtors | 9 | **1,953** | | 1,822 | |
| Cash at bank and in hand | | **3** | | 220 | |
| | | **2,644** | | 2,413 | |
| **Creditors:** amounts falling due within one year | 10 | **(6,161)** | | (2,553) | |
| **Net current liabilities** | | | **(3,517)** | | (140) |
| **Total assets less current liabilities** | | | **(1,591)** | | 1,787 |
| **Creditors:** amounts falling due after more than one year | 11 | | **(15,596)** | | (10,943) |
| **Provisions for liabilities and charges** | 12 | | **-** | | (172) |
| **Net liabilities** | | | **(17,187)** | | (9,328) |
| **Capital and reserves** | | | | | |
| Called up share capital | 13 | | **10** | | 10 |
| Profit and loss account | | | **(17,197)** | | (9,338) |
| **Deficit in total equity shareholders' funds** | 14 | | **(17,187)** | | (9,328) |

These financial statements were approved by the board of directors on 20 April 2000 and were signed on its behalf by:

**G Gould**
*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.

The joint venture parties have together guaranteed bank loan facilities of £11,500,000 and bank overdraft facilities of £500,000, drawings under which amounted to £11,500,000 and £262,486 respectively at 31 December 1999. Loans from the shareholders at 31 December 1999 were at an approved level of £5,000,000 of which £4,000,000 had been drawn down. The shareholders have confirmed their willingness to continue to provide support to the company for a period of at least twelve months in order to enable the company to continue to trade and pay its debts as they fall due. On this basis the directors consider it appropriate to prepare the financial statements on a going concern basis.

***Cash flow statement***

The company is exempt from the requirement of Financial Reporting Standard No 1 (revised 1996) to prepare a cash flow statement as it is entitled to the filing exemptions as a small company under sections 246 of the Companies Act 1985 when filing accounts with the Registrar of Companies.

***Turnover***

Turnover represents the value of sales and services to European customers and is stated after deducting value added tax. Turnover is recognised only upon completion of a discrete segment of an individual contract, usually the completion of an entire heat exchanger.

***Pensions***

The company is part of the defined benefit pension scheme operated by the Rolls-Royce plc Group. The assets of the scheme are held separately from those of the Group in an independently administered fund. The pension cost represents contributions payable by the company to the scheme. Details of the scheme are set out in the Rolls-Royce plc group financial statements.

***Tangible fixed assets***

All tangible fixed assets are depreciated on a straight line basis so as to write off the original cost less the estimated residual value of each asset over its expected useful life, as follows:

| | |
|---|---|
| Leasehold improvement | 10 years |
| Fixtures and fittings | 10 years |
| Plant and machinery | 3-10 years |

***Stocks***

Stocks are stated at the lower of cost incurred in bringing each product to its present location and condition and net realisable value. Work in progress is valued based upon the cost of direct materials and labour plus attributable overheads on a normal level of activity.

# Notes *(continued)*

## 1 Accounting policies *(continued)*

***Long term contracts***

Profit on long term contracts is taken as the work is carried out if the final outcome can be assessed with reasonable certainty. The profit included is calculated on a prudent basis to reflect the proportion of the work carried out at the year end, by recording turnover and related costs (as defined in Stocks above) as contract activity progresses. Turnover recognition is detailed on page 6 of the financial statements. Revenues derived from variations on contracts are recognised only when they have been accepted by the customer. Full provision is made for losses on all contracts in the year in which they are first foreseen.

Payments on account in excess of work in progress net of foreseeable losses are included in creditors. Previously this amount was included as a provision, however the directors consider that the presentation better reflects the position and the comparative has been restated accordingly.

***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. Provision is made for deferred tax, at the projected rate of 30%, only to the extent that it is probable that an actual liability will crystallise.

***Foreign currencies***

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction or at the contracted rate if the transaction is covered by a forward exchange contract. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date or, if appropriate, at the forward contract rate, and the gains and losses on translation are included in the profit and loss account.

***Finance leases and hire purchase contracts***

Assets held under finance leases or similar hire purchase contracts which confer rights and obligations similar to those attaching to owned assets are capitalised as tangible fixed assets and the corresponding liability to pay rentals is shown net of interest in the financial statements as obligations under finance leases. The capitalised costs less residual values of the assets are written off on a straight line basis over the useful lives of the assets concerned. The interest element of the payments is allocated to produce a proportionate annual charge throughout the lease period.

***Operating leases***

Operating lease rentals are charged to the profit and loss account on a straight line basis over the life of the lease.

***Government grants***

Capital based government grants are included within accruals and deferred income in the balance sheet and credited to operating profit over the estimated useful economic lives of the assets to which they relate.

Revenue based government grants are credited to the profit and loss account so as to match them with the expenditure towards which they are intended to contribute.

Where a grant includes both capital and revenue components, the grant is credited to the profit and loss account over an appropriate period, to reflect the relative weightings of those components.

***Research and development***

Expenditure on research and development is written off in the year in which it is incurred.

# Notes *(continued)*

## 2 Interest payable and similar charges

| | 1999 £000 | 1998 £000 |
|---|---|---|
| Amounts payable on bank loans and overdrafts | **690** | 806 |
| Amounts payable on other loans | **121** | - |
| | **811** | 806 |

## 3 Loss on ordinary activities before taxation

The loss on ordinary activities before taxation is stated after charging/(crediting) the following:

| | 1999 £000 | 1998 £000 |
|---|---|---|
| Development costs (current year expenditure) | **116** | 207 |
| Depreciation of owned tangible assets | **299** | 298 |
| Depreciation of assets held under finance leases | **2** | 2 |
| Directors' emoluments | **131** | 79 |
| Auditors' remuneration - audit work | **15** | 10 |
| - non audit work | **-** | 1 |
| Payments under operating leases: | | |
| Plant and machinery | **2** | 2 |
| Other assets | **26** | 26 |
| Government grants | **(96)** | (96) |

## 4 Staff numbers and costs

The average number of persons (including directors) employed by the company during the year, analysed by category, was as follows:

| | 1999 Number | 1998 Number |
|---|---|---|
| Technical/production | **32** | 31 |
| Administration | **17** | 18 |
| | **49** | 49 |

The aggregate payroll costs of these persons were as follows:

| | 1999 £000 | 1998 £000 |
|---|---|---|
| Wages and salaries | **1,028** | 1,105 |
| Social security costs | **93** | 96 |
| Other pension costs | **65** | 67 |
| | **1,186** | 1,268 |

# Notes *(continued)*

## 5 Directors' remuneration

| | 1999 £000 | 1998 £000 |
|---|---|---|
| Aggregate directors' emoluments | **131** | 79 |

## 6 Tax on loss on ordinary activities

| | 1999 £000 | 1998 £000 |
|---|---|---|
| Consortium Relief receivable at 30.25% *(1998: 31%)* | **1,454** | 1,375 |
| Transferred from/(to) deferred taxation | **171** | (171) |
| | **1,625** | 1,204 |
| Adjustment in respect of prior years | **-** | 24 |
| | **1,625** | 1,228 |

## 7 Tangible fixed assets

| | Computers £000 | Leasehold improvements £000 | Fixtures and fittings £000 | Plant and machinery £000 | Total £000 |
|---|---|---|---|---|---|
| ***Cost*** | | | | | |
| At 1 January 1999 | 12 | 343 | 189 | 2,298 | 2,842 |
| Additions | 18 | - | - | 282 | 300 |
| At 31 December 1999 | 30 | 343 | 189 | 2,580 | 3,142 |
| ***Depreciation*** | | | | | |
| At 1 January 1999 | 4 | 121 | 76 | 714 | 915 |
| Charge for the year | 3 | 36 | 21 | 241 | 301 |
| At 31 December 1999 | 7 | 157 | 97 | 955 | 1,216 |
| ***Net book value*** | | | | | |
| **At 31 December 1999** | **23** | **186** | **92** | **1,625** | **1,926** |
| At 31 December 1998 | 8 | 222 | 113 | 1,584 | 1,927 |
| Net book value of assets held under finance leases | - | - | - | 3 | 3 |

# Notes *(continued)*

## 8 Stocks and long term contracts

| | 1999 £000 | 1998 £000 |
|---|---|---|
| Raw materials and consumables | **688** | 371 |

Long term contract balances comprise:

| | 1999 £000 | 1998 £000 |
|---|---|---|
| Costs incurred to date | **7,647** | 6,860 |
| Foreseeable losses | **(7,633)** | (2,529) |
| Applicable payments on account | **(14)** | (4,331) |
| | **-** | - |

## 9 Debtors

| | 1999 £000 | 1998 £000 |
|---|---|---|
| Trade debtors | **-** | 390 |
| Amounts recoverable on contracts | **75** | 56 |
| Amounts owed by joint venture parties - consortium relief | **1,654** | 1,376 |
| Other debtors | **224** | - |
| | **1,953** | 1,822 |

## 10 Creditors: amounts falling due within one year

| | 1999 £000 | 1998 £000 |
|---|---|---|
| Bank loans and overdrafts | **262** | - |
| Payments received on account | **4,520** | 464 |
| Trade creditors | **492** | 405 |
| Amounts owed to joint venture parties | **290** | 427 |
| Obligations under finance leases | **1** | 5 |
| Accruals and deferred income | **542** | 936 |
| Other taxation and social security creditors | **54** | 316 |
| | **6,161** | 2,553 |

The bank overdraft is secured jointly by guarantees from Rolls Royce plc and Alfa Laval Limited.

# Notes *(continued)*

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

| | 1999 £000 | 1998 £000 |
|---|---|---|
| Bank loans | **11,500** | 10,750 |
| Amounts owed to joint venture parties | **4,000** | - |
| Obligations under finance leases | **-** | 1 |
| Accruals and deferred income | **96** | 192 |
| | **15,596** | 10,943 |

The bank loan is secured jointly by guarantees from Rolls Royce plc and Alfa Laval Limited and is repayable in August 2001.

Interest on each bank advance consists of the aggregate of:

- the bank's margin at a rate of 0.45% per annum; and
- the cost of sterling deposits to the bank which is the rate per cent per annum at which sterling deposits are offered to the bank in the London Inter-Bank Market on the first day of an interest period in an amount equal or substantially similar to the amount being drawn down for a period equal or similar to such Interest Period; and
- other associated costs.

## 12 Provisions for liabilities and charges

| | Deferred taxation £000 |
|---|---|
| At 1 January 1999 | 172 |
| Amounts provided/(released) during the year | (172) |
| **At 31 December 1999** | - |

The full potential liability for deferred taxation which represents the provision made is:

| | 1999 £000 | 1998 £000 |
|---|---|---|
| Accelerated capital allowances | **265** | 261 |
| Short term timing differences | **(58)** | (89) |
| Losses | **(207)** | - |
| Full potential liability and provision (at 30%) | **-** | 172 |

In addition, the company has unutilised corporation tax losses available for offset against future profits of approximately £4,800,000 (1998: £Nil).

# Notes *(continued)*

## 13 Share capital

| | **1999** | 1998 |
|---|---|---|
| | **£000** | £000 |
| ***Authorised, allotted, called up and fully paid:*** | | |
| 5,000 "A" ordinary shares of £1 each | **5** | 5 |
| 5,000 "B" ordinary shares of £1 each | **5** | 5 |
| | **10** | 10 |

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

## 14 Reconciliation of movements in shareholders' funds

| | **1999** | 1998 |
|---|---|---|
| | **£000** | £000 |
| Loss for the financial year | **(7,859)** | (2,632) |
| Deficit of shareholders' funds at beginning of year | **(9,328)** | (6,696) |
| Deficit of shareholders' funds at end of year | **(17,187)** | (9,328) |

## 15 Commitments under operating leases

At 31 December 1999 the company had annual commitments under non-cancellable operating leases as follows:

| | **Land and buildings** | |
|---|---|---|
| | **1999** | 1998 |
| | **£000** | £000 |
| Expiring within 2 - 5 years | **26** | 26 |

## 16 Capital commitments

| | **1999** | 1998 |
|---|---|---|
| | **£000** | £000 |
| Amounts contracted for, but not provided | **23** | - |

## 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 joint venture financial statements can be obtained from Rolls Royce plc, 65 Buckingham Gate, London, SW1E 6AT and Alfa Laval Limited, 7 Doman Road, Camberley, Surrey, GU15 3DN.

# Notes *(continued)*

## 18 Related party transactions

Transactions with related parties during the year to 31 December 1999 and balances with related parties at that date are given below. All transactions are made at arm's length.

| | Country | Sales to related party | Payment on account from related party | Purchases from related party | Amounts owed from related party | Amounts owed to related party | Group tax relief received from related party |
|---|---|---|---|---|---|---|---|
| | | £000 | £000 | £000 | £000 | £000 | £000 |
| **Rolls-Royce plc** | UK | | | 218 | 1,454 | 29 | 687 |
| **Rolls-Royce International Support Services** | UK | | | 45 | | | |
| **Rolls-Royce Power Engineering** | UK | | | 269 | | 122 | |
| **Rolls-Royce Nuclear Engineering Services Limited** | UK | | | 1,675 | | 55 | |
| **Alfa Laval Limited** | UK | | 295 | 18 | 275 | 46 | 488 |
| **Alfa Laval Thermal AB** | Sweden | | | 85 | | 8 | |
| **Alfa Laval Thermal Limited** | USA | | | | | 6 | |
| **Alfa Laval** | Norway | | | 2 | | | |
| **Tetra Pak Data Systems** | Sweden | | | 25 | | 25 | |

**Rolls-Royce plc**

The company has a 50% interest in the share capital of Rolls Laval Heat Exchangers Limited and provides an interest bearing loan.

**Rolls-Royce International Support Services**
**Rolls-Royce Power Engineering Ltd**
**Rolls-Royce Nuclear Engineering Services Limited**

Members of Rolls-Royce Group, providing technical and personnel support services to Rolls Laval Heat Exchangers Limited.

**Alfa Laval Limited**

The company has a 50% interest in the share capital of Rolls Laval Heat Exchangers Limited and provides an interest bearing loan.

**Alfa Laval Thermal AB**

Member of the Alfa Laval Group providing thermal designs and other technical and marketing support to Rolls Laval Heat Exchangers Limited.

# Notes *(continued)*

## 18 Related party transactions *(continued)*

**Alfa Laval Thermal Limited**
**Alfa Laval A/S**
**Alfa Laval Norway**

Market companies within the Alfa Laval Group - all sales of Rolls Laval Heat Exchangers Limited are through an Alfa Laval Market Company.

**Tetra Pak Data Systems**

Member of the Tetra Laval group providing IT services to Rolls Laval Heat Exchangers.