

Rolls Laval Heat Exchangers Limited

Directors' report and financial statements

Registered number 2902683

31 December 2000



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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 2000.

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 18 heat exchanger units, which is forecast for completion in June 2001.

Further opportunities to bring the product to market are currently under discussion and an order has now been received confirming the future requirement for the next twelve months.

The joint venture partners have agreed to continue to support the business for a period of at least twelve months.

Directors and directors' interests

The directors serving during the year were:

RW Sunerton (Chairman)

J King

G Gould

U Granstrand

HE Johansson

HG Mathiasson

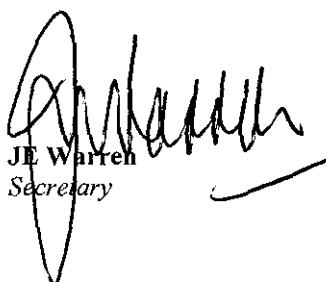
J Widung

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

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

21 March 2001

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.



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 13.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 2, 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 2000 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

A handwritten signature in dark ink, appearing to be 'KPMG' with a stylized flourish.

KPMG
Chartered Accountants
Registered Auditors

21 March 2001

Profit and loss account
for the year ended 31 December 2000

	<i>Note</i>	Continuing operations	
		2000	1999
		£000	£000
Turnover	<i>1</i>	4,821	296
Cost of sales		(4,371)	(6,543)
		<hr/>	<hr/>
Gross profit/(loss)		450	(6,247)
Administrative expenses		(2,071)	(2,426)
		<hr/>	<hr/>
Operating loss		(1,621)	(8,673)
Interest payable and similar charges	<i>2</i>	(1,293)	(811)
		<hr/>	<hr/>
Loss on ordinary activities before taxation	<i>3</i>	(2,914)	(9,484)
Tax on loss on ordinary activities	<i>6</i>	438	1,625
		<hr/>	<hr/>
Loss for the financial year		(2,476)	(7,859)
Retained loss brought forward		(17,197)	(9,338)
		<hr/>	<hr/>
Retained loss carried forward		(19,673)	(17,197)
		<hr/>	<hr/>

The notes on pages 6 to 13 form part of these financial statements.

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

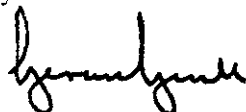
The company has no recognised gains or losses in either the current or preceding year other than those disclosed in the profit and loss account.

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 2000

	<i>Note</i>	£000	2000 £000	£000	1999 £000
Fixed assets					
Tangible assets	7		1,628		1,926
Current assets					
Stocks	8	853		688	
Debtors	9	793		1,953	
Cash at bank and in hand		-		3	
		<u>1,646</u>		<u>2,644</u>	
Creditors: amounts falling due within one year	10	<u>(13,937)</u>		<u>(6,161)</u>	
Net current liabilities			<u>(12,291)</u>		<u>(3,517)</u>
Total assets less current liabilities			<u>(10,663)</u>		<u>(1,591)</u>
Creditors: amounts falling due after more than one year	11		<u>(9,000)</u>		<u>(15,596)</u>
Net liabilities			<u>(19,663)</u>		<u>(17,187)</u>
Capital and reserves					
Called up share capital	13		10		10
Profit and loss account			<u>(19,673)</u>		<u>(17,197)</u>
Deficit in total equity shareholders' funds	14		<u>(19,663)</u>		<u>(17,187)</u>

These financial statements were approved by the board of directors on 21 March 2001 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 £450,000 respectively at 31 December 2000. Loan facilities from the shareholders at 31 December 2000 were approved up to a level of £10,000,000 of which £9,000,000 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 section 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.

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

	2000 £000	1999 £000
Amounts payable on bank loans and overdrafts	797	690
Amounts payable on other loans	496	121
	<u>1,293</u>	<u>811</u>

3 Loss on ordinary activities before taxation

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

	2000 £000	1999 £000
Development costs (current year expenditure)	7	116
Depreciation of owned tangible assets	333	299
Depreciation of assets held under finance leases	1	2
Auditors' remuneration - audit work	17	15
- non audit work	3	-
Payments under operating leases:		
Plant and machinery	-	2
Other assets	93	26
Government grants	(96)	(96)
	<u></u>	<u></u>

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:

	2000 Number	1999 Number
Technical/production	31	32
Administration	19	17
	<u>50</u>	<u>49</u>

The aggregate payroll costs of these persons were as follows:

	£000	£000
Wages and salaries	1,392	1,237
Social security costs	114	93
Other pension costs	70	65
	<u>1,576</u>	<u>1,395</u>

Notes (continued)

5 Directors' remuneration

	2000 £000	1999 £000
Aggregate directors' emoluments	144	131

6 Tax on loss on ordinary activities

	2000 £000	1999 £000
Consortium relief receivable at 30% (1999: 30.25%)	439	1,454
Transferred from/(to) deferred taxation	-	171
	439	1,625
Adjustment in respect of prior years	(1)	-
	438	1,625

The credit for taxation has been reduced by approximately £439,000 (1999: £1,454,000) as a result of consortium relief not being claimed in respect of one of the joint venture partners.

7 Tangible fixed assets

	Computers £000	Leasehold improvements £000	Fixtures and fittings £000	Plant and machinery £000	Total £000
Cost					
At beginning of year	30	343	189	2,580	3,142
Additions	-	-	-	36	36
At end of year	30	343	189	2,616	3,178
Depreciation					
At beginning of year	7	157	97	955	1,216
Charge for the year	10	36	16	272	333
At end of year	17	193	113	1,227	1,550
Net book value					
At 31 December 2000	13	150	76	1,389	1,628
At 31 December 1999	23	186	92	1,625	1,926

Notes *(continued)*

8 Stocks and long term contracts

	2000 £000	1999 £000
Raw materials and consumables	848	688
Long term contracts	5	-
	<u>853</u>	<u>688</u>

Long term contract balances comprise:

Costs incurred to date	5,699	7,647
Foreseeable losses	(3,632)	(7,633)
Applicable payments on account	(2,062)	(14)
	<u>5</u>	<u>-</u>

9 Debtors

	2000 £000	1999 £000
Amounts recoverable on contracts	-	75
Amounts owed by joint venture parties	158	-
Consortium relief recoverable	439	1,654
Other debtors and prepayments	196	224
	<u>793</u>	<u>1,953</u>

10 Creditors: amounts falling due within one year

	2000 £000	1999 £000
Bank loans and overdrafts	11,950	262
Obligations under finance leases	-	1
Payments received on account	-	4,520
Trade creditors	951	492
Amounts owed to joint venture parties	330	290
Other taxation and social security	79	54
Accruals and deferred income	627	542
	<u>13,937</u>	<u>6,161</u>

The bank loan and overdraft facilities are secured jointly by guarantees from Rolls-Royce plc and Alfa Laval Limited.

Notes (continued)

11 Creditors: amounts falling due after more than one year

	2000 £000	1999 £000
Bank loans	-	11,500
Amounts owed to joint venture parties	9,000	4,000
Accruals and deferred income	-	96
	<u>9,000</u>	<u>15,596</u>

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

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

	2000 £000	1999 £000
Accelerated capital allowances	243	265
Short term timing differences	(29)	(58)
Losses	(214)	(207)
	<u>-</u>	<u>-</u>
Full potential liability and provision (at 30%)	-	-

In addition, the company has unutilised corporation tax losses available for offset against future profits of approximately £6,300,000 (1999: £4,800,000).

Notes (continued)

13 Share capital

	2000 £000	1999 £000
<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
	<u>10</u>	<u>10</u>

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

14 Reconciliation of movements in shareholders' funds

	2000 £000	1999 £000
Loss for the financial year	(2,476)	(7,859)
Deficit of shareholders' funds at beginning of year	(17,187)	(9,328)
	<u>(19,663)</u>	<u>(17,187)</u>

15 Commitments under operating leases

At 31 December 2000 the company had annual commitments under non-cancellable operating leases as follows:

	Land and buildings	
	2000 £000	1999 £000
Expiring within 2 – 5 years	84	26

16 Capital commitments

	2000 £000	1999 £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 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.

Notes (continued)

18 Related party transactions

Transactions with related parties during the year to 31 December 2000 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 / Interest to 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			295			1,451
Rolls-Royce Marine Power Operations	UK			291			
Rolls-Royce Power Engineering	UK			1,046		81	
Rolls-Royce Nuclear Engineering Services Limited	UK			2,036		206	
Alfa Laval Limited	UK	4,821	2,008	290	158	40	201
Alfa Laval Thermal AB	Sweden			29			
Tetra Pak Data Systems	Sweden					3	

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 Marine Power Operations Ltd

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.

Tetra Pak Data Systems

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