

Rolls Laval Heat Exchangers Limited

Directors' report and financial
statements

Registered number 2902683

31 December 2004



A10
COMPANIES HOUSE

A096184B

0179
22/09/05

Contents

Directors' report	1
Statement of directors' responsibilities	2
Independent auditors' report to the members of Rolls Laval Heat Exchangers Limited	3
Profit and loss account	4
Balance sheet	5
Notes	6

Directors' report

The directors present their annual report and the audited financial statements of the company for the year ended 31 December 2004.

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 2003, the company entered into a 10 year contract with its major customer under which it provides support services to heat exchangers previously delivered to the customer.

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 2004 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:

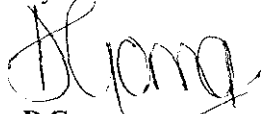
RD Buxton
SJ Garwood
UH Granstrand
HE Johansson
NM Patel
JD Widung
V Szewczyk

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

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: 22/8/05

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.



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 on pages 4 to 11.

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 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 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 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 2004 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP

Chartered Accountants
Registered Auditor

Dated:

15 September 2005

Profit and loss account
for the year ended 31 December 2004

	<i>Note</i>	2004 £000	2003 £000
Turnover			
- Continuing	2	253	359
- Discontinued		-	-
		<u>253</u>	<u>359</u>
Operating profit			
- Continuing	2	24	20
- Discontinued		-	(230)
		<u>24</u>	<u>(210)</u>
Profit on sale of fixed assets		-	5
Profit/(loss) on ordinary activities before taxation	3	24	(205)
Tax on profit/(loss) on ordinary activities	6	(7)	25
Profit/(loss) for the financial year	13	17	(180)
Retained loss brought forward		(20,199)	(20,019)
Retained loss carried forward		<u>(20,182)</u>	<u>(20,199)</u>

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.

Balance sheet
at 31 December 2004

	<i>Note</i>	2004 £000	£000	2003 £000	£000
Current assets					
Debtors	7	461		418	
Cash at bank and in hand		173		138	
		<u>634</u>		<u>556</u>	
Creditors: amounts falling due within one year	9	<u>(278)</u>		<u>(348)</u>	
Net current assets			356		208
Total assets less current liabilities			356		208
Creditors: amounts falling due after more than one year	10		(20,000)		(20,000)
Provisions for liabilities and charges	11		(528)		(397)
Net liabilities			(20,172)		(20,189)
Capital and reserves					
Called up share capital	12		10		10
Profit and loss account			(20,182)		(20,199)
Equity shareholders' deficit	13		(20,172)		(20,189)

These financial statements were approved by the board of directors on 22nd August 2005 and were signed on its behalf by:



RD Buxton
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 except as noted below.

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 2004 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 support to the company for it to be able to pay its debts as they fall due.

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 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.

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.

Notes (continued)

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

	Total 2004 £000	Total 2003 £000
Turnover	253	359
Cost of sales	(229)	(339)
Gross profit	24	20
Administrative expenses	-	(230)
Operating profit/(loss)	24	(210)

All turnover and profits in 2004 arose from continuing activities.

3 Profit/(loss) on ordinary activities before taxation

	2004 £000	2003 £000
<i>Profit/(loss) on ordinary activities before taxation is stated after charging</i>		
Auditors' remuneration - audit work	8	8

4 Staff numbers and costs

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

	2004 Number	2003 Number
Administration	-	1

The aggregate payroll costs of these persons were as follows:

	2004 £000	2003 £000
Wages and salaries	-	78
Social security costs	-	3
Other pension costs	-	2
	-	83

Amounts of £nil (2003: £55,000) paid to employees in respect of redundancy costs are included in the payroll costs above.

Notes (continued)

5 Directors' remuneration

	2004	2003
	£000	£000
Aggregate directors' emoluments	-	-

6 Tax on profit/(loss) on ordinary activities

Analysis of credit in period

	2004	2003
	£000	£000
Current tax:		
Consortium Relief receivable at 30%	(5)	(94)
Adjustments in respect of previous periods	-	27
Total current tax credit	(5)	(67)
Deferred tax – origination and reversal of timing differences	12	42
Total tax charge	7	(25)

Factors affecting the tax credit for the current period

The current tax charge for the period is lower (2003: lower) than the standard rate of corporation tax in the UK of 30% (2003: 30%). The differences are explained below:

	2004	2003
	£000	£000
<i>Current tax reconciliation</i>		
Profit/(loss) on ordinary activities before tax	23	(205)
Current tax at 30%	7	(62)
<i>Effects of</i>		
Capital allowances in excess of depreciation for the year	(12)	(32)
Adjustments in respect of prior years	-	27
Total current tax credit (see above)	(5)	(67)

Notes (continued)

7 Debtors

	2004 £000	2003 £000
Trade debtors	311	261
Consortium relief recoverable	112	107
Deferred taxation (note 9)	38	50
	<u>461</u>	<u>418</u>

8 Deferred taxation

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

	2004 £000	2003 £000
Accelerated capital allowances	38	50

The movement on the deferred taxation debtor is as follows:

	£000
At beginning of year	50
Amount charged to profit and loss account	(12)
At end of year	<u>38</u>

9 Creditors: amounts falling due within one year

	2004 £000	2003 £000
Amounts owed to joint venture parties	230	328
Other taxation and social security	48	20
	<u>278</u>	<u>348</u>

10 Creditors: amounts falling due after more than one year

	2004 £000	2003 £000
Amounts owed to joint venture parties	20,000	20,000

Notes (continued)

11 Provisions for liabilities and charges

	Closure provision £000	Warranty £000	Total £000
At beginning of year	18	379	397
Increase during the year	-	440	440
Utilised in the year	(7)	(302)	(309)
	<hr/>	<hr/>	<hr/>
At end of year	11	517	528
	<hr/>	<hr/>	<hr/>

12 Share capital

	2004 £000	2003 £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
	<hr/>	<hr/>
	10	10
	<hr/>	<hr/>

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

13 Reconciliation of movements in shareholders' deficit

	2004 £000	2003 £000
Profit/(loss) for the financial year	17	(180)
Shareholders' deficit at beginning of year	(20,189)	(20,009)
	<hr/>	<hr/>
Shareholders' deficit	20,172	(20,189)
	<hr/>	<hr/>

14 Commitments under operating leases

The company had no annual commitments under non-cancellable operating or finance leases (2003: nil).

15 Capital commitments

There are no amounts contracted for, but not provided.

16 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)

17 Related party transactions

Transactions with related parties during the year to 31 December 2004 and balances with related parties at that date are given below. All transactions are made at arm's length.

	Country	Purchases from/ charges to related party £000	Amounts owed to/ (from) related party £000	Group tax relief receivable from related party £000
Rolls-Royce plc	UK	256	238	56
Alfa Laval Limited	UK	-	(8)	56

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.

18 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 2004 were £nil (2003: £2,000) (contributions excluding SSAP 24 adjustment).

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