ROLLS ROYCE PLC

1003142

Company profile

Rolls-Royce plc provides power systems for land, sea and air throughout the world. Its leading position in its key markets of aerospace, marine and energy has been achieved by focused attention on customers' requirements and a network of manufacturing and service facilities staffed by exceptional people.

Contents

Rolls-Royce plc
Registered office: 65 Buckingham Gate London SW1E 6AT
Telephone 020 7222 9020 Company number: 1003142

Corporate highlights

- **Trent 900 engine launched for Airbus A380 aircraft and Trent 500 gained certification. Trent 600 designed for Boeing 747 developments.**
- **Record order intake for commercial marine business and WR-21 marine gas turbine selected to power new Type 45 destroyer.**
- **Industrial RB211 engines to be used in the first gas turbine power station to be built by the company in Brazil.**
- **Rolls-Royce is a member of the consortium chosen to build the TP400 engine, selected by Airbus for its new military transport aircraft.**

Group financial highlights

for the year ended December 31, 2000

	2000	1999
Group turnover	**£5,864m**	£4,634m
Underlying profit before taxation	**£436m**	£368m
Order book	**£13.1bn**	£11.5bn
Return on capital employed	**17.8%**	17.0%
Equity shareholders' funds	**£2,063m**	£1,988m

Earnings per ordinary share:		
Underlying	**21.63p**	19.52p
Basic	**5.33p**	18.86p
Dividend per ordinary share	**8.00p**	7.25p

Chairman's statement

Sir Ralph Robins, Chairman

Rolls-Royce is building a strong portfolio of businesses which are winning an increasing share of world markets. Our success is demonstrated by our record order book and by our leading market positions.

Rolls-Royce made good progress in 2000. We continued to develop a strong portfolio of businesses, strengthening our market position whilst continuing to improve productivity.

We achieved a record order book of £13.1 billion with a further £1.4 billion of announced business, reflecting significant growth in the civil aerospace and marine markets.

We participate in many of the world's key defence aerospace programmes and we anticipate growing success in the energy sector, as a range of new products becomes available.

In each of these market sectors we are exploiting our large investment in core gas turbine technology, and developing a range of related products and services.

We are increasing our share of growing world markets as we introduce new competitive products and exploit the aftermarket from our successful range of established products and services.

During 1999 we made four significant acquisitions which enhanced our position in each market sector. The acquired businesses met our expectations in 2000.

We increased our share of the civil aerospace market to 31 per cent of all orders placed during the year and delivered a record number of engines. The Trent family had an excellent year. New orders for the Trent 700 and 800 engines for Airbus A330 and Boeing 777 respectively were gained from around the world. The Trent 500 for the Airbus A340-500/600 was certificated in December, ahead of schedule. The selection of the latest member of the Trent family, the Trent 900, by Singapore Airlines, Virgin

Atlantic and Qantas for the new Airbus A380, was particularly significant and a strong endorsement of our Trent engine family development philosophy.

Milestones in our defence business included the progression of the EJ200 engine programme from development to production. This engine, which powers the Eurofighter Typhoon aircraft, will form the backbone of a strong defence business over the coming years as it progresses towards full output.

The US Joint Strike Fighter prototypes made their first flights in 2000. Rolls-Royce continued its participation in each aircraft/engine configuration. In Europe we secured a leading position on the TP400 engine for the new military transport aircraft, the Airbus A400M.

We have developed a world-leading marine business. The acquisition of Vickers in 1999, added a range of complementary products and services and expanded the company's routes to market. We are now able to play an enlarged role as a full propulsion systems supplier to both the commercial and naval sectors, enabling us to raise our share of global growth markets.

In the energy sector, our successful oil and gas pumping business had a relatively quiet year, although orders improved in the last quarter.

Growth in the power generation market is largely dependent on the introduction of new gas turbines and diesel engines which are nearing completion of their development programmes.

Significant technical difficulty has been experienced in developing a combustion system for the industrial Trent to meet the extremely rigorous emission requirements.

A £120 million provision was made in 2000 in respect of this programme. Good progress has been made and the engine is expected to achieve significant market penetration.

Our financial services businesses are making an increasing contribution to our performance in their own right. They also enhance the company's ability to sell its products and services throughout the world.

We have continued our strategic pursuit of the aftermarket. In 2000 we expanded our network of repair and overhaul bases and invested in new predictive maintenance capabilities, exploiting the communication benefits offered by the internet.

Underpinning the success of the company is a continuous drive for greater efficiency. In 2000, we announced rationalisation proposals involving a fundamental review of our operations to ensure that we maintain world-class performance in all aspects of our business.

I extend my thanks to all our employees for their contribution and congratulate Mike Howse who received an OBE for service to the aerospace industry.

I have much pleasure in welcoming to the Board John Cheffins, our Chief Operating Officer and President – Civil Aerospace.

Prospects

The company's short-term outlook is consistent with the view given at the announcement of its half-year results in August 2000.

We expect underlying earnings to be unchanged in 2001 as a result of a combination of civil aerospace business mix, delays in sales of the industrial Trent and restructuring charges. We are confident that earnings growth will resume in 2002.

We are well positioned for growth in each of our markets.

The civil aerospace business will benefit as the growing installed base of engines matures.

We expect our defence business to grow as a result of increasing production of Eurofighter engines and our strong position on many of the world's new programmes.

Our marine business should benefit from recovery in the offshore support sector, new opportunities for gas turbines in the commercial sector and re-equipment in the naval market. Our ability to offer fully integrated power systems to customers will create new opportunities in these markets.

Our energy businesses are expected to grow as a result of increased investment in exploration in the oil and gas sector, which will stimulate demand for our products. This, coupled with the strong market prospects of the industrial Trent, should lead to significant benefits.

Returns from invested capital will improve as a result of the broad business portfolio, increasing maturity of products in service and more intensive asset utilisation.

Your Board has recommended a final dividend of 5.00p per share, making a total for the year of 8.00p, an increase of 10.3 per cent over 1999.

Ralph Robins

Sir Ralph Robins, Chairman
March 1, 2001

Chief Executive's review

Rolls-Royce has created a substantial and balanced business through organic growth and targeted acquisitions. We offer advanced technology products, systems and support to three main customer groups – aerospace, marine and energy.

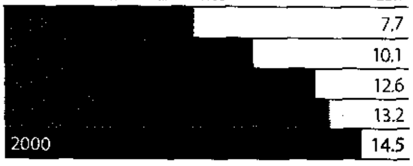
Our consistent strategy continues to deliver both growth in market share and sound financial performance. The strategy has been based on: identifying customer requirements in our core markets; satisfying these with a comprehensive range of products and services based on advanced technologies; adding value to the customer's business and providing appropriate through-life support.

Rolls-Royce is a technology leader and power systems integrator in global markets. Over recent years we have created a broader-based company by applying technologies and capabilities developed in the aerospace sector to the marine and energy markets. This will establish significant competitive advantage for the company and deliver financial benefit for shareholders.

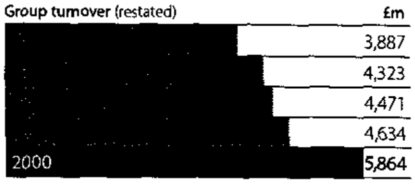
John E V Rose, Chief Executive

Rolls-Royce has anticipated customer needs in civil aerospace, defence, marine and energy markets and has successfully invested in new products and services to meet these. We are demonstrating innovation in many aspects of our business and have continued to increase efficiency.

Order book – firm and announced £bn



Group turnover (restated) £m



We continue to attract risk and revenue sharing partners to our programmes. They provide financial and engineering resource and we value their contribution, which endorses our strategy.

Rolls-Royce has significantly strengthened its position in civil aerospace and is a world leader in marine propulsion systems. We participate in many of the world's key defence aerospace programmes and we anticipate growing success in the energy sector, as a range of new products is introduced.

The integration of our newly acquired commercial marine businesses is progressing well and is achieving its targets. A complementary range of products and services strengthens our presence in both the commercial and naval marine markets.

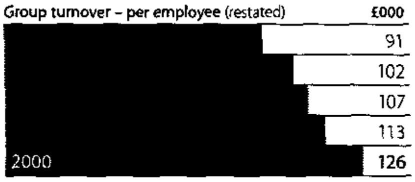
The common thread linking these separate markets is the application of Rolls-Royce high-technology engineering capability. This ranges from developing engines for the new generation of very large airliners, which will carry over 550 passengers on long-range flights, to using skills and experience from the same technology base to develop gas turbines to generate electricity.

The company now has an improved organisation with shorter lines of communication and a flatter management structure. This organisation enables our business teams to respond more quickly to customer requirements and offer outstanding levels of service.

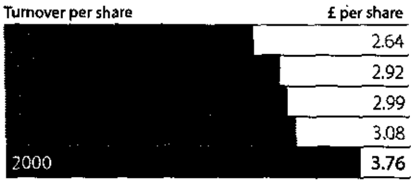
Our focus on raising efficiency, including the introduction of increasingly sophisticated development and manufacturing processes, has resulted in sales per employee increasing 50 per cent above the level of just five years ago, from a worldwide workforce currently at 43,700 people.

Underlying earnings per share have achieved a compound annual growth rate of 22 per cent over the last five years, while the company has invested more than £3 billion over the same period in new product development and technology acquisition to ensure future success.

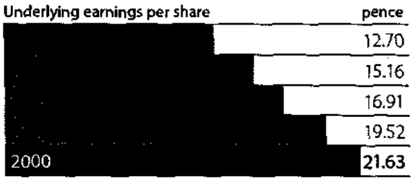
Group turnover – per employee (restated) **£000**



Turnover per share **£ per share**



Underlying earnings per share **pence**



Civil aerospace
Sales: £3,150 million
Underlying profit: £332 million

Our engines are in service with more than 500 airlines and 2,400 corporate users around the globe. In 2000 we secured a 31 per cent share of engine orders placed and a 27 per cent share of engines delivered. We now supply 38 of the world's top 50 airlines.

Over the next 20 years we believe annual air passenger demand will grow by five per cent per year and air freight by just over six per cent, compared with global economic growth expected to average some three per cent per year. The highest traffic growth will be associated with Asia-Pacific markets, both within the region and to North America and Europe. Of all widebody deliveries over the next 20 years, 41 per cent are expected to be to Asia-Pacific airlines. By contrast, North America dominates demand for narrow-bodied aircraft and is expected to order 4,000 such aircraft over the same period.

Rolls-Royce is well positioned to benefit from this market expansion through its broad product range and international presence.

The Trent family of aero engines is central to our growth over the coming years. This innovative, three-shaft, high-bypass ratio engine is lighter and provides better payload/range and revenue-earning potential than its competitors. The Trent is currently fitted to widebody Airbus Industrie and Boeing aircraft including the twin engined A330 and Boeing 777 and will fly in 2001 for the first time on the long range A340.

In December 2000, Airbus announced the launch of its new A380, which will enter service in 2006 and be powered by four Trent 900 engines. We have secured orders from leading airlines, including Singapore Airlines, Virgin Atlantic and Qantas which established our Trent 900 as the lead engine for the joint certification programme with Airbus. Since 1997, the Trent family has secured a market-leading 57 per cent share of all widebody engine orders.

We are a leading supplier to the fast growing regional and corporate jet markets. The BR700 engine family, developed in Germany, had a particularly successful year with over 200 engines delivered. The BR700 family meets the power requirements of large corporate jets and regional aircraft of 80-130 seats. The engine is fitted to the top of the range Gulfstream and Bombardier corporate jets and powers the Boeing 717 regional aircraft.

International Aero Engines, the multi-national consortium in which Rolls-Royce is a major shareholder, had an outstanding year, winning 59 per cent of the available market for its V2500 engine. Firm orders for a total of 382 V2500 engines were placed for A319, A320, A321 and Airbus Corporate Jetliner aircaft.

We anticipated the growth in potential for turbofans in the regional aircraft market when, in 1995, we purchased the Allison Engine Company and today the AE 3007 is the sole engine for Embraer's fast-selling twin jet RJ 145 series of regional passenger aircraft. In addition, the AE 3007 powers the successful Cessna Citation X. Altogether we delivered 400 of these powerplants during 2000. The successful Williams-Rolls joint venture delivered a total of 203 FJ44 engines in 2000, 160 of them to Cessna for its popular CitationJet range.

Civil aerospace
The Trent 500 is the sole powerplant for the new long-range Airbus A340-500/600, due to enter service in 2002. The aircraft will fly with Trent 500 power for the first time in 2001. (Computer visualisation shows a Trent 500 high-pressure rotor.)

Civil aerospace continued

Customer relations, reliability, service and support are at the heart of our success. Rolls-Royce has created a network of repair and overhaul joint ventures with key airline customers to ensure that our products are maintained to the highest standards. We provide global support to our operators. Last year we reached agreement with Zurich-based SR Technics to create a new maintenance and overhaul company to service Trent aero-engine customers in Europe and Africa. This 50:50 joint venture expands the Rolls-Royce global network for Trent support and complements our presence in Singapore, Hong Kong, the United States and the United Kingdom. In total we have repair and overhaul operations in 17 countries.

Defence
Sales: £1,403 million
Underlying profit: £154 million
The defence market represents a broad area of opportunity, estimated to be worth some £130 billion over the next 20 years. Our extensive portfolio of engines powers aircraft in all of the major military aviation categories, ranging from helicopters to combat aircraft, and transport to trainer aircraft.

In the year, we passed an important milestone by completing the assembly and test of the first Rolls-Royce production EJ200 engine for Eurofighter. This engine is a collaborative programme in which we have a 36 per cent share. The EJ200 has now made the transition from development to production. Rolls-Royce has a contract to participate in the manufacture of 1,500 engines for 620 aircraft.

We announced our participation in a six-nation, European team to produce the TP400 engine for the new Airbus A400M military transport aircraft. Rolls-Royce will be responsible for the low-pressure compressor and overall integration. The programme calls for up to 225 of the four-engined aircraft. This consolidates our position as a world leader in the transport sector, where we also power the Lockheed Martin C-130 series and Bell Boeing V-22 aircraft.

International cooperation and shared development are features of the defence industry. Rolls-Royce is participating in important programmes with major international partners in a number of key markets. The company's defence operation has become a genuine transatlantic business with three of its four largest programmes sponsored by the US Department of Defense. Among these is the Joint Strike Fighter, a US/UK programme for a new combat aircraft. Rolls-Royce is applying its unique technology and expertise, including short take-off and vertical landing capability, to assist both the Boeing and Lockheed Martin teams working on this project.

Rolls-Royce Turbomeca RTM322 engines have been selected for the NH90 helicopters ordered by Germany, Holland and France. This requirement will be worth an estimated £600 million. We forecast worldwide demand for nearly 4,500 gas turbine powered defence helicopters over the next ten years.

Marine systems
Sales: £751 million
Underlying profit: £67 million
Rolls-Royce has developed a world-leading marine business, serving customers in global commercial and naval markets. Today more than 20,000 commercial and naval vessels use Rolls-Royce equipment and our engines power 400 ships in 30 navies. The marine market has similar characteristics to civil aerospace, where we provide high capital-value products, services and systems, and develop long-term relationships with customers.

Defence
RTM322 engines power the potent AH Mk1 Apache attack helicopter. The British Army Air Corps is to acquire 67 of these aircraft. (Computer visualisation shows an RTM322 high-pressure turbine assembly.)

Marine systems continued

The acquisition of Vickers in 1999 added a range of complementary products and services and expanded our routes to market. These products are market-leading brands in the commercial marine business and include Ulstein, Kamewa and Brown Brothers. These additions to our portfolio, coupled with our diesel and gas turbine propulsion technologies, enable us to offer a complete product and systems capability.

The integration of the commercial marine businesses into Rolls-Royce is proceeding well and is on target. We are now able to act as a full system supplier to both the commercial and naval sectors and this will enable us to grow our share of the global marine market, estimated to be worth some £60 billion over the next 20 years.

This growth will be driven by three factors: re-equipment by navies; a strong recovery in the commercial offshore vessel sector; and our ability to address the whole of the marine market with our comprehensive product range and systems integration capability.

In the naval market, the WR-21 intercooled and recuperated marine gas turbine, developed in partnership with Northrop Grumman Corporation of the US, has been selected for the first three ships of a new fleet of up to 12 Type 45 air defence destroyers for the Royal Navy. The WR-21 is the only advanced cycle marine gas turbine being developed in the world today. The engine can achieve fuel economies of 30 per cent compared with existing systems and has the advantages of smaller size and reduced maintenance.

In the commercial offshore service sector, Rolls-Royce equipment and designs were selected for 53 offshore vessels during 2000 – a record order intake. These vessels represent 70 per cent of all orders placed by the industry over this period. We are beginning to exploit new market opportunities in the cruise and cargo markets where gas turbines are increasingly becoming an attractive option. The Rolls-Royce marine Trent has been selected to power the first of a new generation of cargo vessels called FastShip. These will also employ our Kamewa water jets.

Energy
Sales: £476 million
Underlying loss: £48 million

Rolls-Royce adapts its established aero gas turbines and systems skills to the power generation and oil and gas sectors.

These markets are expected to continue to expand as a result of privatisation, deregulation and the trend towards higher oil and gas prices, which encourage exploration. The potential markets are forecast to be worth $165 billion over the next ten years. About three quarters of this lies in power generation with the remainder in the oil and gas sectors. The company expects to secure a growing share of this business over the next five years.

Our gas turbine and diesel systems are ideally suited to the generation of electrical power. The company has over 100 million hours of operating experience in the energy market with its industrial gas turbines. The industrial RB211, delivering around 30MW of output, and the industrial Trent in the 50MW range, meet a substantial market opportunity.

Marine

Today Rolls-Royce marine equipment is in service on more than 20,000 vessels. (Computer visualisation shows a water jet impeller. Our marine business is now making use of computational fluid dynamics tools initially developed for aerospace.)

Energy continued

The industrial Trent has been developed on a transatlantic basis with around 50 per cent of its components sourced in North America. It is designed to meet the most stringent international emission requirements. The development of environmental combustion systems for the industrial Trent led the company to create a provision of £120 million to meet the expected additional costs. We are confident that our emission control system, which we believe is a world leader, is able to deliver its design specification within this provision. The potential market for the industrial Trent is very significant and we believe the engine will establish itself as one of the most powerful and efficient aero-derived generating sets in the world. Demand for the product is strong with sales expected to reach 30 engines annually within five years.

Rolls-Royce products for the oil and gas market include gas turbines, diesel engines and compressors for oil and gas pumping, compression duties and pipeline applications. Orders in the first quarter of 2001 picked up following the sustained high oil price in 2000 and the resulting increase in exploration. A sustained recovery in oil prices will benefit our sales in 2001 and beyond.

Customer services

When a Rolls-Royce engine enters service, it marks the start of a customer relationship that may last 25 years or more. This creates the opportunity for provision of additional services to customers. Our ability to provide these in a timely and innovative way allows us to deliver value to both customers and shareholders.

Today we offer an extensive range of services, which accounts for 35 per cent of sales. These include financial and leasing activities, web-based predictive data management products, global repair and overhaul and the sale of parts.

Over the past five years, we have doubled our share of repair and overhaul on our own engines to more than 50 per cent. In the last two years alone we have won more than 200 repair and overhaul contracts in the civil aerospace, defence and energy sectors. An example of our success in the aftermarket was demonstrated by the recent $1 billion agreement with American Airlines to provide comprehensive maintenance support over the next ten years for the RB211 engines on its fleet of more than 100 Boeing 757 aircraft.

We were the first aero-engine company to anticipate the potential for engine leasing and today Rolls-Royce & Partners Finance, our joint venture with GATX Capital, the US-based finance and leasing company, is the world's largest specialist aero gas turbine leasing business. Rolls-Royce has become the market leader of packages such as 'Total Care', which we apply to our broad portfolio of civil engines and support with capabilities such as engine leasing. Rapid expansion of the regional jet market has enhanced the opportunities for this form of customer service.

Pembroke Group, our aircraft leasing joint venture had a successful year and saw its portfolio of owned and managed aircraft grow to 145, including those on order or option, compared to 93 in the previous year. GATX Capital recently became an equal partner with Rolls-Royce in this business, endorsing our approach to the market and strengthening our strategic relationship which dates back to their initial investment in Rolls-Royce & Partners Finance in 1998.

Energy
The industrial RB211 gas generator is highly successful in the oil and gas market producing efficient power on land and offshore. (Computer visualisation shows a sectional view of the rotor from an RT61 power turbine which combines with the RB211 to provide a compact power package set.)

Customer services continued

In the energy market our power development operation, Rolls-Royce Power Ventures, ended the year with 12 power generation projects in operation and four in the late stages of commissioning. Through these projects, we sell electricity to utilities and industries in nine countries on four continents. The projects use a mix of our equipment including the industrial Trent, RB211 and Allen diesel engines. The increase in deregulation of the power sector globally provides greater worldwide potential.

We are developing e-business services for customers, particularly in the area of predictive maintenance. By predicting the behaviour of components in service, we can minimise interruption to operations and maximise the availability of the asset to customers. Through Data Systems & Solutions, our joint venture with Science Applications International Corporation, we have launched a number of products, including: **enginedatacentre.com** supplying customers service data; **aeromanager.com** providing a complete range of facilities for fleet management and **powerplantmanager.com** giving similar information for owners of power generation facilities.

We continue to develop aftermarket activities and see these as fundamental to our overall relationship with customers.

Technology

Research and development is essential in order to acquire the necessary knowledge on which to build future success. We identify key technologies and processes which, while applied initially in just one area of our business, can then be utilised in other applications; we aim to 'create once, use many times'. The core modules of our three-shaft gas turbines and many of our automated design systems exemplify this principle and are in use across all our business sectors having been initially developed for aerospace applications.

We are investing further in advanced electrical systems and diagnostic technologies. These will enable us to offer enhanced reliability and greater flexibility of operation in electrical power – whether in the air, at sea or on land.

The marine business offers excellent opportunities to exploit the gas turbine technology originally developed for aerospace applications. Computational fluid dynamics tools and capabilities, developed for aerospace, are now being applied to marine propulsor design.

The advanced electrical engineering technologies we have developed through our marine systems activities will be applied in the demonstration of the first 'more electric' large civil aero engine in 2003. This technology will deliver increased reliability and efficiency to operators with associated reductions in operating costs.

Artificial intelligence fitted to the health monitoring systems on the Trent 500 is providing real-time information for engine management and maintenance planning, resulting in more reliable operation. This system, developed with Oxford University, is now being evaluated for the Trent industrial and marine powerplants.

We continue to attach a high priority to minimising the environmental impact of our products. Improvement programmes aimed at reducing noise and emissions are being applied across the businesses. A significant part of our long-term research and development programme is centred on sustainable energy technologies, including high-efficiency fuel cell/gas turbine hybrids and the evaluation of alternative fuels for land-based gas turbines.

Technology
The market-leading Trent family of large aero engines is based on an approach of proven technology. Each new member of the family has benefited from the technology developed for predecessors. (Computer visualisation shows turbine components from the Trent 600, designed for Boeing 747 developments.)

Technology continued

The effectiveness of our research and development is underpinned by the involvement of collaborators, partners and suppliers. Increasingly, our key partners are becoming involved in our long-term research programmes, as are universities around the world which work with us on new technologies.

People

Rolls-Royce is fortunate to have extremely talented and dedicated employees. In the UK, the average length of service is approaching 20 years. This is important in an industry where development and production programmes may have lives of more than 50 years and in which the customer relationship with an individual product may be 25 years or more.

We continue to invest in attracting and retaining the people who will ensure the success of the company. Last year we recruited 166 graduate trainees and 144 modern apprentices and there is a comprehensive training structure that allows people to continue to develop skills and capabilities throughout their careers.

Last year, the company invested £27 million in training. In parallel with management programmes, we are building a comprehensive framework for professional development. We currently have 440 employees studying under our Management Development Curriculum, established together with the Open University. We continued to support our customers by providing them with over 3,000 person days of training during last year. We completed construction of new Learning and Development Centres in both the UK and the US.

Within the community the company focuses its efforts in the areas of science and education. We are involved in a range of activities across the education sector including the Government's Education Action Zones. We provide support to specialist language and technology centres. As part of the National Skills Festival we participated in The Skills Show 2000 at the National Exhibition Centre and we played a major part in the 'Careers in Aerospace' initiative at the Farnborough International Airshow.

We create and sponsor University Technology Centres (UTCs) as centres of excellence in research. Working with these universities is an efficient way to progress our own research and development requirements. They also provide the opportunity to identify top quality recruits. There are 19 of these UTCs in the UK located close to our major sites. In addition, we fund a further 60 research projects across North America and Europe.

The company now has 43,700 people in 48 countries with 36 per cent of our employees located outside the UK.

The growing international nature of the company has also had the impact of increasing the number of nationalities employed by Rolls-Royce. This will become one of the strengths of the organisation as we benefit from diverse experience and adopt practices that make us more effective.

Summary

We are a global business supplying international markets which are substantial and offer significant growth prospects. Our international reach allows us to offer customers a comprehensive service wherever they operate.

We continue to invest to get the best results from our people and operations to deliver growth and value for our customers, shareholders and employees.

People
The company has a growing international presence. We now operate in 48 countries, providing comprehensive services for customers. (Computer visualisation shows airflow over a Trent 800 wide-chord fan set.)

Finance Director's review

Paul Heiden, Finance Director

We are focused on improving cash flow returns on invested capital. We expect returns to grow as a result of the management of margins and enhanced utilisation of assets.

Improving returns
Rolls-Royce achieved underlying double-digit earnings growth, while increasing investment in new product development. Order book, turnover and underlying profit were, again, at record levels. While a combination of factors is expected to result in unchanged underlying earnings in 2001, the company is confident that growth will resume in 2002.

Results for the year
Underlying profit before tax was £436 million, up 18 per cent over 1999. Underlying earnings per share grew by 10.8 per cent, to 21.63p.

Group turnover increased by 27 per cent to £5,864 million (1999 £4,634 million), largely as a result of the inclusion of a full year's turnover in respect of the businesses acquired towards the end of 1999.

Civil aerospace sales grew by 24 per cent. This included growth in aftermarket sales of 27 per cent.

Defence sales increased by 23 per cent as a result of the inclusion of a full year of Vickers Defence Systems.

Marine sales grew by 95 per cent, reflecting the enlarged business following the acquisition of Vickers.

Energy sales were unchanged, reflecting delays in sales of the industrial Trent and the depressed oil and gas markets, offset by the contribution from acquisitions.

Financial services sales increased by 8 per cent, reflecting the increasing maturity of these businesses.

The company maintained its position as a leading UK exporter, with 82 per cent of sales delivered to overseas customers.

Underlying trading margins, before restructuring and non-trading items, and after the net impact of risk and revenue sharing partners, reduced from 16.7 per cent to 15.4 per cent, as a result of the increased loss in the energy business and the lower defence profits.

The interest charge increased from £53 million to £123 million. This reflected the higher level of average debt which resulted from the acquisitions made in 1999 and the growth in the financial services businesses, the gross assets of which are primarily funded by debt.

Group interest was covered 5.7 times, based upon underlying profit before interest, excluding joint ventures.

An exceptional provision of £120 million was made to cover the costs associated with the introduction of new combustion technology on the industrial Trent. Of this, £55 million was utilised during the year. The balance is expected to be utilised in 2001.

The Group made an underlying profit before tax of £436 million (1999 £368 million). After including exceptional and non-trading items, profit before tax was £166 million (1999 £360 million).

A final dividend of 5.00p per share is proposed, making 8.00p per share for the year, an increase of 10.3 per cent over 1999. The dividend is covered 2.7 times by underlying earnings and 0.7 times after exceptional and non-trading items.

The number of Group employees reduced by 5,900 during the year.

The firm order book was £13.1 billion (1999 £11.5 billion). In addition a further £1.4 billion had been announced but not yet included in the order book (1999 £1.7 billion). Total care packages for aftermarket services represented almost ten per cent of the order book. These are long-term contracts where only the first seven years' revenue is included in the order book.

Investments

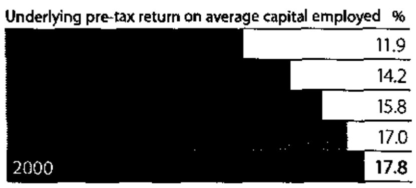
The company has continued to invest to create future value.

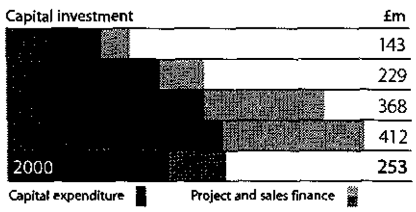
Gross research and development investment amounted to £604 million (1999 £626 million). In previous years, net research and development was stated after crediting certain receipts from risk and revenue sharing partnerships. All such receipts are now reported as other operating income. On the revised basis, net research and development was £371 million, an increase of £34 million, which was largely attributable to acquisitions.

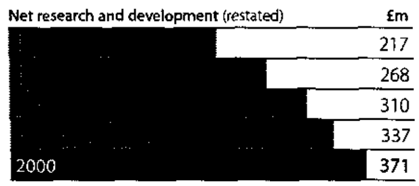
Investment in training amounted to £27 million.

Capital expenditure, excluding investments in financial services businesses was £186 million, including £35 million invested by the newly acquired businesses.

Investment in financial services businesses amounted to £67 million. These sums represent investments in businesses which are expected to produce increasing returns.







The company invested £74 million in restructuring and rationalisation programmes. Ongoing restructuring, of £49 million was charged against cost of sales and included within the calculation of underlying earnings. Excluded from underlying earnings was £16 million spent on restructuring acquired businesses crystalising the benefits of acquisition synergies, and £9 million of rationalisation costs, which represents the first charges against the £150 million the company has indicated it will spend as part of a fundamental reassessment of the business structure. The company is identifying opportunities to accelerate this programme, bringing forward returns. It is likely that half of these rationalisation costs will be incurred by the end of 2001.

The company invests only in projects which create value and expects the cash flow return on investment to improve. This will result from growing margins, as the business mix improves and cost reductions are secured; improved working capital efficiency, through the implementation of new enterprise resource planning systems; and stable expenditure on fixed assets, as output levels stabilise following a period of rapid growth.

Cash

The Group cash flow statement is shown on pages 40 and 41 of the financial statements.

Net debt for the year reduced by £4 million, following a significant cash inflow in the second half of the year, as net working capital reduced. Year end net debt was £690 million (1999 £694 million). The company attaches greater significance to the average net debt level, which reduced, as expected, on a comparable basis from £390 million to £335 million. After taking into account the impact of acquisitions, average net debt was £1,323 million (1999 £573 million).

The level of average net debt is expected to continue to reduce in the future.

Net cash flow from operating activities was £479 million (1999 £359 million). Major uses of funds were capital expenditure and investments in financial services businesses.

Provisions for liabilities and charges increased by £98 million, largely as a result of the £120 million industrial Trent provision.

Taxation

The overall tax charge on the profits before tax was £83 million (1999 £74 million), a rate of 50 per cent (1999 21 per cent). This relatively high overall Group tax rate is mainly due to the impact of goodwill charged against profits for which no tax relief is available. The rate is also affected by losses in certain overseas businesses for which tax relief will only be available against future profits in the same jurisdiction. No relief has been taken for such losses in the accounts.

The tax charge on underlying profits at 22.8 per cent reflects the benefit of timing differences where full deferred tax has not been provided, and the writeback of Advance Corporation Tax (ACT) of £18 million, written off in previous years. The remainder of the Group's previously unrecognised surplus ACT has been offset against UK corporation tax payable in the balance sheet.

Acquisitions and disposals
The fair value adjustments relating to newly acquired businesses, which were reported provisionally in the 1999 accounts, have been finalised. This has resulted in an overall increase to fair value adjustments of £33 million, with a corresponding increase in goodwill.

The company disposed of several businesses during 2000 to further enhance the focus on its core activities.

During the year the company sold or announced the closure of its materials handling businesses. This resulted in a loss of £73 million, including a charge of £40 million for goodwill previously written off against reserves.

The bulk of Vickers Turbine Components was sold in December for £77 million, representing net assets of £56 million, costs of £4 million and £17 million goodwill. Cash relating to this disposal was received in 2001.

Other disposals included: Cochran Boilers, which resulted in a loss of £1 million; and a £3 million final adjustment in respect of the sale of transmission and distribution businesses. The company reduced its effective holding in NEI Africa from 35 per cent to 24 per cent.

Accounting policies
FRS 15 tangible fixed assets was implemented in 2000.

The Accounting Standards Board has issued three new standards. FRS 17 retirement benefits has a phased implementation, beginning in 2001 for disclosure, with full implementation in 2002. FRS 18 accounting policies will be implemented in the 2001 financial statements. FRS 19 deferred tax becomes mandatory for 2002 financial statements.

The implementation of UITF 24, Accounting for Start-up Costs, has resulted in a change of accounting presentation for aero-engine certification costs. These were previously included in prepayments and are now treated as intangible fixed assets.

Risk and revenue sharing partners (RRSPs) are a standard form of cooperation within the civil aerospace industry. Partners share in the investment in new programmes and share the risks associated with such programmes in return for a reward based on future programme revenues.

The company has simplified its accounting presentation in respect of RRSPs. All receipts from RRSPs will be recorded as other operating income. In the past, receipts from partners have been treated as either credits to research and development or to turnover depending on the nature of the participation agreement. Payments to risk and revenue sharing partners continue to be recorded within cost of sales.

Aftermarket services
The company has responded to the market demand for a comprehensive range of aftermarket services. Increasingly, the company is selling Total Care packages, covering long-term support for customers' engines. This is leading to an increase in long-term contracts where the engine maintenance agreement may be linked to, and entered into at the same time as, the original equipment sale. In such cases, the original equipment sale and support activities, including the sale of spare parts, will form part of the same long-term contract. The pricing of such contracts differs from conventional engine sales and reflects the long-term nature of the contract. Profit will be taken progressively on a prudent basis and any amounts recoverable on these contracts are included in debtors.

Risk management

The Board has established a risk management committee with accountability for the system of risk management and reporting the key risks and associated mitigating actions. A Director of Risk Management, reporting to the Finance Director, has been appointed.

The risk management process complies with the Turnbull committee guidance on internal control, issued in September 1999. This brings together the various risk management and audit activities throughout the company, including Business Assurance, which carries out internal audit duties.

Treasury management

The Group uses various financial instruments in order to manage the exposures that arise in its business operations as a result of movements in financial markets. The Group does not trade in financial instruments for profit generation. All treasury activities are focused on the management of risk. There have been no significant changes in the Group's policies in the last year. The main risks continue to be movements in foreign currency exchange rates, interest rates and commodity prices. The Board regularly reviews the Group's exposures and risk management and a specialist committee also considers these in detail. All such exposures are managed by the Group Treasury function, which reports to the Finance Director and which operates within written policies approved by the Board and within the internal control framework described in the report of directors.

Foreign exchange

The Group is exposed to movements in exchange rates for both foreign currency transactions and the translation of net assets and profit and loss accounts of foreign subsidiaries.

The Group does not hedge the translation effect of exchange rate movements on the profit and loss account or balance sheet as it regards its interest in overseas subsidiary companies as long-term investments.

The Group is exposed to a number of foreign currencies. The most significant transactional currency exposure is the US dollar followed by the Euro. US dollar income, net of expenditure, represents 37 per cent of the UK turnover.

The Group seeks to hedge its transactional exposure using a variety of financial instruments with the objective of minimising the impact of fluctuations in exchange rates on future transactions and cash flows.

The permitted range of the amount of cover taken is determined by the written policies set by the Board, based on known and forecast income levels. The forward cover is managed within the parameters of these policies in order to achieve the Group's objectives, having regard to the Group's view of long-term exchange rates.

US dollar cover extends for periods up to eight years, while Euro cover extends for periods up to four years. The majority of cover is in the form of standard foreign exchange contracts, although some cover, primarily of longer duration, includes instruments on which the exchange rates achieved may be dependent on future interest rates. The Group also writes currency options against a portion of the unhedged dollar income at a rate which is consistent with the Group's long-term target rate. The premium received from the sale of the options is included in the Group's achieved rate. Total US dollar cover approximated to four years' net US dollar income at December 31, 2000 (1999 two and a half years).

The result of this policy has been to maintain a relatively stable long-term foreign exchange rate.

Credit risk management

The Group's policy is to monitor and manage its exposure to counterparties. Credit limits are set to cover all financial instruments for each counterparty. The Group policy is that it is exposed only to those counterparties that have a long-term credit rating of A3/A- or better.

Interest rate risk

The Group has historically managed its exposure to interest rates by using interest rate swaps to change fixed rate borrowings into floating rate borrowings in order to match rates achieved on short-term deposits and cash at bank. The Group has a net debt position as a result of acquisitions undertaken during late 1999. The acquisitions were originally financed by a £1 billion syndicated loan facility on a floating rate basis. In order to secure the longer-term financing of the Group, two fixed rate bonds of £200 million and €500 million were issued with maturities of 16 and seven years respectively. The balance of the Group's exposure to interest rates is managed via a combination of fixed rate borrowings, interest rate swaps and interest rate caps.

Commodity risk

The Group has an ongoing exposure to the price of jet fuel arising from business operations. The Group's objective is to minimise the impact of price fluctuations. The exposure is hedged in accordance with parameters contained in a written policy set by the Board. Hedging is conducted using commodity swaps that extend for periods up to four years.

Asset value guarantees

In civil aerospace markets, manufacturers will, from time to time, guarantee a portion of the future value of aircraft. This assists customers in financing the purchase of products. Rolls-Royce has a strong track record in managing the risks associated with asset value guarantees and has experienced no material losses from such obligations. As part of the management of these risks, the Group has taken the prudent step of insuring the gross exposure to asset value guarantees associated with a portfolio of Trent-powered Boeing and Airbus aircraft. Rolls-Royce has been able to develop this innovative arrangement as a result of recent developments in financial markets.

Contingent liabilities

Note 27 to the accounts describes the Group's contingent liabilities under sales financing arrangements. These have increased to £184 million (1999 £118 million), reflecting the growth of the Group's civil aerospace business and the mix of products sold. The directors regard the possibility that there will be any significant loss arising from these contingencies as remote.

Shareholder value

The Group continues to subject all investments to rigorous examination of risks and future cash flows to ensure that they create shareholder value. All major investments require Board approval.

The Group has a portfolio of projects at different stages of their lifecycles. Discounted cash flow analysis of the remaining life of projects is performed on a regular basis to compute the value which underlies the Group's market capitalisation.

During the year Rolls-Royce shares fell by 7.4 per cent from 214p to 198.25p per share, compared to a 5.4 per cent fall for the aerospace and defence sector and a ten per cent fall for the FTSE 100.

The company's shares ranged in price from 161p in September to 261p in May. In September the company fell out of the FTSE 100 index but regained its place in December.

The number of shares in issue at the end of the year was 1,569 million, an increase of 24 million of which 6.6 million related to share options and 17.6 million related to scrip dividends.

The average number of shares in issue was 1,558 million (1999 1,506 million). Underlying earnings per share were 21.63p, an increase of 10.8 per cent over 1999. The proposed final dividend per share will result in a total payment of 8.00p per share, an increase of 10.3 per cent over 1999.

Board of directors

at March 1, 2001

Sir Ralph Robins BSc, FREng
Chairman
Appointed to the Board in 1982. He joined Rolls-Royce in 1955, became Managing Director in 1984, Chief Executive in 1991, and was appointed Chairman in 1992. He is non-executive Chairman of Cable & Wireless plc and a non-executive director of Marks and Spencer plc, Schroders plc and Standard Chartered plc. He is a Fellow of the Royal Academy of Engineering and Chairman of the Defence Industries Council. Age 68.

John E V Rose MA
Chief Executive
Appointed to the Board in 1992. He joined Rolls-Royce in 1984 and was Managing Director – Aerospace Group from 1995 to 1996 when he was appointed Chief Executive. He is a non-executive director of Reckitt Benckiser plc and of Riggs National Corporation in the USA. He is a Fellow of the Royal Aeronautical Society and a Council Member of The Prince's Trust. Age 48.

Lord Moore of Lower Marsh PC, BSc
Non-executive Deputy Chairman and Senior Independent non-executive director
Appointed to the Board in 1994 and appointed Deputy Chairman in 1996. He is a non-executive director of Blue Circle Industries Plc, Monitor Inc., Marvin & Palmer Inc., G TECH Corp. and Private Client Bank AG and he is President of the Energy Saving Trust. Age 63.

Peter J Byrom BSc, FCA
Non-executive director
Appointed to the Board in 1997. He was a director of N M Rothschild & Sons Limited from 1977 to 1996. He is Chairman of Domino Printing Sciences plc and of Molins PLC, and a non-executive director of Peter Black Holdings plc and Wilson Bowden plc. He is a Fellow of the Royal Aeronautical Society. Age 56.

John P Cheffins BSc, Ing
Chief Operating Officer and President – Civil Aerospace
Appointed to the Board in 2001. He joined Rolls-Royce in 1967, became President, Rolls-Royce (Canada) Limited in 1989, President and Chief Executive Officer of Rolls-Royce Industries Canada Inc. in 1991, Director, Civil Engine Business in 1993, President – Civil Aerospace in 1998 and Chief Operating Officer in 2001. He is a Fellow of the Royal Aeronautical Society and a member of the Quebec Order of Engineers and of the Institute of Electrical Engineers. Age 53.

Colin H Green BSc, FREng
President – Defence Aerospace
Appointed to the Board in 1996. He joined Rolls-Royce in 1968, became Director – Military Engines in 1989, Executive Vice President – Business Operations Allison Engine Company, Inc. in 1995, Managing Director – Aerospace Group in 1996, Director – Operations in 1998 and was appointed President – Defence Aerospace in 2001. He is a Fellow of the Royal Academy of Engineering, a Fellow of the Royal Aeronautical Society, a Fellow of the Institution of Mechanical Engineers, Council Member of the Society of British Aerospace Companies and Chairman of the UK Council for Electronic Business. Age 52.

James M Guyette BSc
President and Chief Executive Officer of Rolls-Royce North America Inc.
Appointed to the Board in 1998. He became President and Chief Executive Officer of Rolls-Royce North America Inc., in October 1997. Until 1994 he was Executive Vice President, Marketing and Planning of United Airlines. He serves on the United States National Research Council Aeronautics and Space Engineering Board and he is a director of the Private Bank and Trust Company of Chicago, Illinois. Age 55.

Paul Heiden BSc, ARCS, ACA
Finance Director
Appointed to the Board in 1997. He joined Rolls-Royce in 1992 and became Finance Director – Aerospace Group later that year and Director – Industrial Businesses in 1997. He was appointed Finance Director in October 1999. He is a non-executive director of Bunzl plc. Age 44.

Sir Robin Nicholson FREng, FRS
Non-executive director
Appointed to the Board in 1986. Until 1996 he was an executive director of Pilkington plc. He is a Fellow of the Royal Academy of Engineering, a Fellow of the Royal Society and a non-executive director of B.P. plc. He was a member of the UK Government's Council for Science and Technology from its inception in 1993 until 2000. Age 66.

Philip C Ruffles BSc, RDI, FREng, FRS
Director – Engineering and Technology
Appointed to the Board in 1997. He joined Rolls-Royce in 1961, became Director – Engineering, Aerospace Group in 1991 and Director – Engineering and Technology in 1997. He is a Fellow of the Royal Academy of Engineering, a Fellow of the Royal Society and a Fellow of the Institution of Mechanical Engineers. He is a Council Member of the Royal Aeronautical Society and the Central Laboratory of the Research Councils and is Royal Designer for Industry. Age 61.

Carl G Symon BSc, MSc
Non-executive director
Appointed to the Board in 1999. He is Vice President of Alliances, IBM EMEA and formerly Chairman and Chief Executive Officer of IBM UK Ltd. He has held a number of senior executive positions with IBM in Latin America, Canada, Asia and the USA. Age 54.

Richard T Turner OBE, BA
Group Marketing Director
Appointed to the Board in 1992. He joined Rolls-Royce in 1991 having previously been with the Company from 1965 to 1988. He is a Fellow of the Royal Aeronautical Society, a member of the Board of British Trade International and several other government advisory committees. He is a non-executive director of Corus Group plc and Senior plc. Age 58.

Sir John Weston KCMG
Non-executive director
Appointed to the Board in 1998. During his Diplomatic Service career he has lived and worked in Europe, the USA and Asia. In London he was Deputy Secretary to the Cabinet and Political Director in the Foreign Office. He served as British Ambassador to NATO (1992-5), and subsequently as British Ambassador to the United Nations in New York until July 1998. He is a non-executive director of British Telecommunications plc and also President of the UK-wide Community Foundation Network. Age 63.

Charles Blundell MA
Company Secretary
He joined Rolls-Royce in 1993 and was appointed Company Secretary in 1995. Age 49.

Membership of principal Board committees:
Audit committee – P J Byrom (Chairman), Lord Moore of Lower Marsh and Sir Robin Nicholson.
Remuneration committee – All non-executive directors (Sir Robin Nicholson, Chairman).
Nominations committee – Sir Ralph Robins (Chairman), J E V Rose and all non-executive directors.

Report of the directors

The directors present their report and the financial statements of the Group for the year ended December 31, 2000.

Principal activities
The Group's principal activities are described in the Company profile on the inside front cover.

Results for the year
The Chairman's statement, the Chief Executive's review and the Finance Director's review describe the year's operations, research and development activities and future prospects.

The directors recommend a final dividend of 5.00p a share. With the interim dividend of 3.00p a share, paid on January 8, 2001, this will make a total dividend of 8.00p a share for the year. Subject to approval of the recommended final dividend by shareholders, the total cost of dividends for 2000 is £126million. If approved, the Company will pay the final dividend on July 2, 2001 to shareholders registered on April 27, 2001.

Employment
The Group's employment policies and practices support its overall business objectives by motivating and developing employees to be responsive to the needs of the business and its customers.

The number of Group employees at the end of the year was 43,700 (1999 49,600). In 2000, 166 graduate trainees and 144 modern apprentices were recruited. In addition, there have been 341 undergraduate students in the Company for training periods of between two and 12 months.

The Group operates an equal opportunities policy. The Group's policy is to provide, wherever possible, employment opportunities and training for disabled people, to care for employees who become disabled and to make the best possible use of their skills and potential.

A particularly strong emphasis has been placed on effective employee communications and there are various forms of employee communication programmes across the Group, each adapted to the particular needs of individual businesses.

The Group consults with employees and their elected representatives on a wide range of topics relating to its overall business objectives. Management and employee representatives hold regular meetings at every location to discuss opportunities and issues of common interest.

Health, safety and environment
The effective management of health, safety and the environment (HS&E) is an integral part of how Rolls-Royce conducts its business and is consistent with its core values of reliability, integrity and innovation. This approach is reflected in the Group HS&E policy and in the role of the HS&E committee, which operates as a sub-committee of the Board, in line with corporate governance principles.

The scope of the environmental steering group was extended in 2000 to cover health, safety and the environment. The role of the steering group is to share best practice and facilitate the implementation of key HS&E initiatives throughout the business.

The Rolls-Royce HS&E management system was developed and disseminated to all Group companies in the course of the year. It builds on the systems already in place and is based on effective risk management. It requires the visible leadership and commitment of management at all levels and the active participation of all employees and contractors in its implementation.

The Group continued to maintain a low level of lost-time injuries over the year, well below the average for the manufacturing sector. The directors regret, however, that an employee died whilst working on a third-party site as a result of being struck by a vehicle driven by a third-party contractor. All such serious incidents are subject to a detailed accident investigation and review by the major incident board. The lessons learnt are then shared across the Group.

Rolls-Royce continues to develop the environmental management systems of its businesses worldwide to meet the requirements of the international standard ISO 14001. By the end of 2000, all the core businesses, which were part of the original programme, had achieved ISO 14001 certification. New businesses joining the Group through acquisition have a target of gaining certification within two years of operation under Rolls-Royce control.

In North America, Rolls-Royce Corporation received a '2000 Governor's Award for Excellence in Pollution Prevention' in recognition of its move from the use of coal to landfill/natural gas in three industrial boilers. This has resulted in a significant reduction in air pollutants and greenhouse gas emissions. In the UK, Compressor Systems received the award 'Vision in Business for the Environment of Scotland', in recognition of the successful integration of environmental objectives into the everyday management of the business.

The Group's nuclear facilities continue to operate under strict control and are overseen by either the Nuclear Installations Inspectorate or the Ministry of Defence. These facilities were also subject to a rigorous health, safety and environmental audit as part of the Group's corporate audit programme. A sub-committee of the Board, details of which are set out on page 27, is responsible for the monitoring of HS&E issues at these facilities.

The environmental performance of Rolls-Royce products has improved significantly. Tools such as 'life cycle analysis' and 'design for the environment' are being developed to evaluate and minimise the environmental impact of our products. As part of a wider programme, materials and processes with potentially undesirable health, safety or environmental consequences have been identified and this information is used in the design of future products.

A valuable initiative during 2000 was the formation of an Environmental Advisory Board (EAB) under the Chairmanship of Sir Robin Nicholson. The role of the EAB is to review and make recommendations on the environmental aspects of the Group's activities, including business, product and operational strategies. The Board includes third-party members, who are respected authorities in their field.

Rolls-Royce has set challenging targets for improving the key environmental impacts of its products and operations. These targets and the progress towards them will be published in our external reports on the environment. The Group aims to produce its second external report on the environment in 2001. It is intended to publish the full report on the Rolls-Royce web site. Copies of a paper report will also be available on written request to the Company Secretary.

Directors

Directors who held office during 2000 are listed on page 24. Mr J P Cheffins was appointed a director of the Company on January 1, 2001.

Under the Company's Articles of Association, one-third of the directors are subject to re-election every year, with each director also being subject to re-election at intervals of not more than three years. Any director appointed during the year is required to retire and seek re-election by the shareholders at the next Annual General Meeting. The directors retiring at this year's Annual General Meeting are Sir Ralph Robins, Sir Robin Nicholson, Mr C H Green and Mr P C Ruffles. As a newly appointed director, Mr J P Cheffins will also retire at the Annual General Meeting. They all offer themselves for re-election.

Corporate governance

The Group is committed to the highest standards of corporate governance. This report (and where appropriate, the Remuneration report) describes how it applies the principles and complies with the provisions of the Combined Code.

Compliance

The Board confirms that in 2000, the Company complied with all the provisions of the Combined Code.

The Board

The Board comprises a chairman, a chief executive, six other executive directors and five non-executive directors. Biographies of the directors appear on page 24.

Lord Moore of Lower Marsh has held the position of non-executive Deputy Chairman since 1996 and is the Company's Senior Independent director. All the non-executive directors are considered by the Board to be independent of management and free of any relationship which could materially interfere with the exercise of their independent judgement. They are appointed by the Board for specified terms on the basis of recommendations put to the Board by the nominations committee.

The Board meets regularly throughout the year. It considers all issues relating to the strategy, direction and future development of the Group. It has a schedule of matters reserved to it for decision, which is regularly updated. The requirement for Board approval on these matters is understood and communicated widely throughout the Group.

To enable the Board to function effectively and the directors to discharge their responsibilities, full and timely access is provided to all relevant information.

There is an agreed procedure for directors to take independent professional advice at the Company's expense. This is in addition to the access every director has to the Company Secretary and to the General Counsel.

The Group Executive

The Group Executive is responsible for the running of the Company within the strategy determined by the Board.

The Group Executive is chaired by Mr J E V Rose – Chief Executive. Its other members are:
Mr J P Cheffins, Chief Operating Officer and President – Civil Aerospace
Mr J Gaskell, President – Energy Business
Mr C H Green, President – Defence Aerospace

Mr J M Guyette, President and Chief Executive Officer of Rolls-Royce North America Inc.
Mr P Heiden, Finance Director
Mr C J Hole, Director of Procurement
Dr S Lanyado, President – Marine Business
Mr J R Rivers, Director – Human Resources
Mr P C Ruffles, Director – Engineering and Technology
Mr R T Turner, Group Marketing Director.

Board committees

The Board has delegated certain powers and duties to Board committees, all of which operate within defined terms of reference.

The *nominations committee* makes recommendations to the Board on the appointment of executive and non-executive directors. The committee is chaired by Sir Ralph Robins and its other members are Mr P J Byrom, Lord Moore of Lower Marsh, Sir Robin Nicholson, Mr J E V Rose, Mr C G Symon and Sir John Weston.

The *remuneration committee's* membership and principal terms of reference are set out in the Remuneration report on pages 30 to 36.

The *audit committee* meets regularly with the external auditors, reviews the Group's annual and interim financial statements and also ensures that appropriate accounting policies and compliance procedures are in place. The committee is chaired by Mr P J Byrom and its other members are Lord Moore of Lower Marsh and Sir Robin Nicholson.

The *risk committee* is accountable for the Company's risk management and for reporting key risks and the associated mitigating actions to the Board. The committee is chaired by Mr J E V Rose and its other members are Mr J P Cheffins, Mr C H Green, Mr J M Guyette, Mr P Heiden and Mr P C Ruffles.

The *health, safety and environment committee* is chaired by Mr J E V Rose and its other members are Mr P J Byrom, Mr C H Green, Mr J M Guyette and Mr P C Ruffles. It is responsible for setting HS&E policy and objectives. Further information on the committee's work in this important area is set out in the Group's environmental report.

The *nuclear propulsion assurance committee* is responsible for the HS&E aspects of the Company's nuclear facilities. It is chaired by Sir Ralph Robins and the other members are Mr P Heiden, Sir Robin Nicholson, Mr J E V Rose and Mr P C Ruffles.

The *community investment committee* is responsible for administering the Company's policy on charitable donations. The committee is chaired by Sir John Weston and its other members are Sir Robin Nicholson and Mr R T Turner.

The Company's annual charitable donations budget is administered by the committee and by regional site committees. The policy the committee follows when considering charitable appeals is set out below:

'As a forward-looking, innovative and global company, Rolls-Royce plc is committed to being a good corporate citizen in its operations throughout the world. The Group's policy on donations is to direct its support primarily to causes with educational, engineering and scientific objectives, as well as to social objectives connected with the Company's business and place in the wider community.'

During 2000, the Company made charitable donations amounting to £371,000. A list of the principal donations made in 2000 is available on written request to the Company Secretary.

The Group made no political contributions in 2000.

Communication with shareholders

The Company attaches considerable importance to the effectiveness of its communication with shareholders. It publishes a concise summary financial statement as well as its full report and accounts and there is a separate environmental report.

There is regular dialogue with individual institutional shareholders as well as general presentations after the interim and preliminary results. All shareholders can gain access to these presentations, as well as to the annual report and other information about the Group, through the Group's web site at http://www.rolls-royce.com. They may also attend the Company's Annual General Meeting at which the key business developments during the financial year are highlighted and at which they have an opportunity to ask questions.

Internal controls and risk management

Directors' responsibilities

The directors are responsible for the Group's system of internal control and for reviewing its effectiveness from both a financial and operational perspective. The system of internal control is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and to provide reasonable but not absolute assurance against material misstatement or loss.

In reviewing the effectiveness of the system of internal control, the Board has taken account of the results of all the work carried out to audit and review the activities of the Group.

There is an on-going process to identify, assess and manage risk. This process is subject to continuous improvement and has been in place throughout the financial year to which these statements apply and up to the date of their approval.

The Board has reviewed the process and has confirmed that it complies with the Turnbull Committee Guidance on Internal Control issued in September 1999. The Board has established a risk committee chaired by the Chief Executive with specific accountability for the system of risk management and for reporting key risks and their associated mitigating actions to the Board. Details of the membership of the committee are set out on page 27.

Organisation

The Group has a clearly defined organisation structure within which operational management have detailed responsibilities and levels of authorisation, supported by written job descriptions and operating manuals. The Group also has a code of business conduct.

The risk management system

Management are responsible for the on-going identification and evaluation of significant risks within their areas of responsibility and the design and operation of suitable controls or mitigation actions. Risks may arise from a variety of internal and external sources. They may be associated with regulation, customer requirements, competitor actions or could result from the capability of the processes we use to execute our business. All risks, irrespective of source, are actioned through the processes operated by our project and functional teams. Management report regularly on their review of risks, and how they are managed, to the risk committee so that the Board can then consider and review these risks in terms of their potential impact.

During 2000, management have carried out a comprehensive risk review at individual business and sector levels and have developed action plans to enhance the business process performance.

Systems of internal control

The general managers of individual businesses are aware of their responsibility to operate systems of internal control which provide reasonable assurance of effective and efficient operations, reliable financial information and reporting and compliance with law and regulation. In addition financial managers are required to acknowledge in writing that their routine financial reporting is based on reliable data and that their results are properly stated in accordance with Group requirements.

The Group has a comprehensive budgeting system with an annual budget approved by the directors. Revised forecasts for the year are reported at least quarterly. Actual results are reported monthly against budget and variances reviewed. In view of the long-term nature of the business, the Group also prepares, annually, a detailed five-year plan which is reviewed by the directors.

The activities of the Group are subject to review by the risk management organisation and the audit functions of health, safety and environment, the quality management system, engineering and business assurance. These functions operate to work programmes agreed by the appropriate Board member.

In particular, the business assurance function, which works closely with the external auditors, undertakes a financial and operational audit programme agreed by the audit committee and covering all Group activities. The programme includes independent reviews of the systems of internal control and risk management. Findings are reported to the audit committee three times a year.

Going concern

After making enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

Payment to suppliers

The Company is guided by the Supply Chain Relationships in Aerospace (SCRIA) initiative. It seeks the best possible terms from suppliers and when entering into binding purchasing contracts, gives consideration to quality, delivery, price and the terms of payment. In the event of disputes, efforts are made to resolve them quickly.

The Company had the equivalent of 56 days purchases outstanding at December 31, 2000, based on the average daily amount invoiced by suppliers during the year.

Share capital
The following have a notifiable interest in the Company's ordinary shares at March 1, 2001:

	% of issued share capital
BMW AG	**10.0**

Auditors
A resolution to reappoint the auditors, KPMG Audit Plc, and to authorise the directors to determine their remuneration, will be proposed at the Annual General Meeting.

By order of the Board

Charles Blundell, Company Secretary
March 1, 2001

Remuneration report

Rolls-Royce operates in a highly competitive, international market. Its business is complex, technologically advanced and has long time horizons. The improvement in performance to which the Group is committed depends crucially on the individual contributions made by the executive team and by employees at all levels. It is for this reason that the Board strongly believes that an effective remuneration strategy will continue to play a crucial part in the future success of the Group by providing keen incentives and creating a close identity of interest with shareholders. This report also describes how the principles identified by the Combined Code in relation to executive directors' remuneration are applied by the Company.

The remuneration committee
In line with the requirements of the Combined Code, the remuneration committee (the committee), which operates within agreed terms of reference, has responsibility for making recommendations to the Board on the Group's general policy towards executive remuneration. The committee determines, on the Board's behalf, the specific remuneration packages of the executive directors and a number of senior executives.

The membership of the committee consists exclusively of independent non-executive directors. The members are Sir Robin Nicholson (Chairman), Mr P J Byrom, Lord Moore of Lower Marsh, Mr C G Symon and Sir John Weston.

The committee meets regularly and has access to professional advice from inside and outside the Company. The Chairman of the Company, Sir Ralph Robins, and the Chief Executive, Mr J E V Rose, generally attend meetings by invitation but are not present during any discussion of their own emoluments.

Compliance
The Board confirms that the Company has complied throughout the year with the provisions of the Combined Code relating to directors' remuneration.

The framework of remuneration
The Board has adopted, on the recommendation of the committee, a remuneration policy reflecting the following broad principles:

i) The remuneration of executive directors and other senior executives should directly reflect their responsibilities and contain incentives to deliver the Group's performance objectives;
ii) A significant proportion of total remuneration should be based on Group and individual performance, both in the short and long term; and
iii) The system of remuneration should encourage a close identity of interest between senior management and shareholders.

Within this framework of remuneration, the committee keeps under regular review the competitiveness of the Group's remuneration structure.

The main components of remuneration
The emoluments of executive directors and senior executives currently comprise the following elements: a base salary, an annual performance related award, long-term incentive arrangements, pension contributions and other benefits. The policy takes into account pay levels elsewhere in the Group.

Base salary
The committee believes that in order to attract and retain executive directors of the right calibre and to provide them with adequate incentives to deliver the Group's objectives, the Group should pursue a policy of offering median-level base salaries for its executive directors and senior executives, and through the performance-related schemes, the opportunity of upper quartile earnings for upper quartile performance.

Annual performance related award scheme
Executive directors and senior executives participate in an annual performance related award scheme. The scheme enables a maximum performance award of up to 60 per cent of salary to be paid to executive directors and a small number of senior executives for exceptional performance against pre-determined targets based upon return on capital employed, with a tapered and reducing scale of maximum percentages for other senior executives. The targets are set by the committee based upon the Group's annual operating plans. Such payments do not form part of pensionable earnings.

One third of any awards made are paid in Rolls-Royce shares which are held in trust for two years, with release normally being conditional on the individual remaining in the Group's employment until the end of the period. The required shares are purchased on the open market. This arrangement provides a strong link between performance and remuneration and helps to promote a culture of share ownership amongst the Group's senior management. The first Rolls-Royce shares delivered under the deferred share arrangements were purchased in the market on behalf of participants and put into trust in March 2000.

Long-term incentives

The Company has operated a long-term incentive plan (LTIP) since January 1, 1997. Following a review by the committee of long-term incentive arrangements, it introduced with shareholder approval a new executive share option plan in 1999. The committee made clear at the time that no director or senior executive would receive a grant under both schemes in the same year.

The committee is aware that the nature of long-term incentives offered is subject to change. It will therefore continue to review market practice and develop plans which provide competitive rewards for performance, align executive and shareholder interests and reflect the nature and requirements of the business.

Executive share option plan

Depending on performance, executives are eligible to receive options on an annual basis. Options are granted at the mid-market price on the day before the day of issue and normally have to be held for a minimum of three years before they are capable of exercise. They expire after ten years. In line with the committee's view that an increasing proportion of remuneration should be performance related, the exercise of options is subject to a performance condition that the Group's growth in earnings per share (EPS) must exceed the UK retail price index by three per cent per annum, over a three-year period. The committee wishes to retain flexibility in the use of existing or new issue shares to fund the scheme, but has a general preference in favour of existing shares.

The first grants of options to UK executives under the new executive share option plan were made in March 2000. A further grant was made to a small number of newly recruited executives in September 2000. (See note 24 on page 60).

Long-term incentive plan

The LTIP involves the grant of awards which can be realised in the form of shares in the Company and cash if demanding performance targets are met. The maximum value of an award is 60 per cent of salary at the time of grant.

The percentage of the award which is realisable depends upon the Company's total shareholder return (TSR) over a three-year period, compared to that of a group of comparator companies comprising other leading engineering and industrial companies. In addition, no award can be realised unless the average growth in the Group's EPS over the three-year period is at least two per cent per annum greater than the average increase in the UK retail price index over the same period.

If a company drops out of the comparator group (eg as a result of a take-over), it is not replaced. An adjustment is then made to the rankings which determine the extent to which any awards can be realised.

There are currently 15 companies in the group. 100 per cent of the award is realisable for a first or second ranking, within the comparator group. 40 per cent of an award is realisable for a seventh place ranking. The percentage of an award realisable for rankings between second and seventh place is calculated on a sliding scale. No award is payable if the company's TSR ranking is eighth or below.

The performance period for the 1998 LTIP grant ended on December 31, 2000 and no awards were realised.

In line with the committee's stated policy, no grants under the LTIP were made in 2000.

All employee incentives

The committee believes that share based schemes, described in more detail on page 60, make a significant contribution to the close involvement and interest of all employees in the Group's performance. The Company introduced an approved profit sharing share scheme for UK employees in 1999. The first shares delivered under this scheme were purchased in the market and put into trust in April 2000, with 22 per cent of UK employees electing to participate.

The Finance Act 2000 enabled companies to introduce more tax effective All Employee Share Ownership Plans (AESOP). In common with many other companies, Rolls-Royce is seeking a general authority from shareholders at the 2001 Annual General Meeting to enable it to introduce an AESOP. At the same time, approved profit sharing share schemes, such as the current scheme operated by the Company, are to be discontinued.

Pensions

Mr J M Guyette participates in pension plans sponsored by Rolls-Royce North America Inc.

All other executive directors under their normal retirement age are members of the Group's UK pension schemes. These schemes are funded and approved final salary pension schemes providing, at retirement, a pension of up to two thirds of final remuneration, subject to Inland Revenue limits.

The Company also operates the Rolls-Royce 1994 Senior Executive Retirement Scheme (SERS). The purpose of the SERS is to fund pension provision above the pensionable earnings cap which was imposed on approved pension schemes under the 1989 Finance Act. Membership of the scheme is restricted to executive directors and to a limited number of senior executives. The scheme is administered by three trustees, under the Chairmanship of Lord Moore of Lower Marsh, none of whom has a beneficial interest in the scheme. The members of the scheme include Mr P Heiden and Mr R T Turner. They joined the Group after the introduction of the earnings cap and their terms and conditions on joining the Group included a commitment to provide pension and life cover based on total salary, in line with other directors and senior executives. The committee believes that for these executive directors, a funded arrangement is in the best interests of shareholders and avoids the build up of unfunded liabilities for the future.

During the year, special bonus payments were made to Mr P Heiden and Mr R T Turner to cover the income tax liability incurred by them on the contribution payments made by the Company into the SERS. These payments amounted to £29,415 (1999 £11,500) in the case of Mr P Heiden and £41,018 (1999 £37,000) in the case of Mr R T Turner.

The Company does not make any pension contributions in respect of Sir Ralph Robins, who reached normal retirement age in June 1994.

Details of the pension benefits, which accrued over the year in the Group's approved UK pension schemes are given below[1,4].

	Additional pension earned in excess of inflation during year ended Dec 31, 2000 £000 per annum	Transfer value[2] of additional pension earned in excess of inflation during year ended Dec 31, 2000 £000	Total accrued pension entitlement at the year ended Dec 31, 2000 £000 per annum
Mr J E V Rose	41	821	214
Mr C H Green	22	490	210
Mr P Heiden	2	17	16
Mr P C Ruffles	34	588	216
Mr R T Turner	2	19	14

Details of the retirement benefits, which accrued over the year in the SERS and the plans sponsored by Rolls-Royce North America Inc., are given below[5].

	Additional retirement lump sum earned in excess of inflation during year ended Dec 31, 2000 £000	Transfer value[6] of additional retirement lump sum earned in excess of inflation during year ended Dec 31, 2000 £000	Total accrued retirement lump sum entitlement at the year ended Dec 31, 2000 £000
Mr J M Guyette[3,7]	194	110	876
Mr P Heiden	160	78	453
Mr R T Turner	101	77	484

Notes

[1] The pension entitlement shown is that which would be paid annually on retirement, based on service to the end of the year.

[2] The transfer value stated represents liabilities of the Rolls-Royce sponsored pension schemes and not sums paid to the individuals. The transfer value has been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11, less the director's contributions. Actuarial Guidance Note GN11 covers individual transfer calculations and the above figures have been calculated using assumptions certified by the Actuaries as being consistent with GN11.

[3] Benefits are translated at US$1.52 = £1.00.

[4] Members of the schemes have the option to pay Additional Voluntary Contributions. Neither the contributions nor the resulting benefits are included in the above table.

[5] The lump sum entitlement shown is that which would be paid on retirement based on service to the end of the year.

[6] The transfer values have been calculated on the basis of actuarial advice.

[7] Mr J M Guyette is a member of two defined benefit plans in the USA, one qualified and one non-qualified. Mr J M Guyette is also a member of an unfunded non-qualified plan in the USA. He accrues a retirement lump sum benefit in all three plans. The aggregate value of the three plans is shown in the second table. In addition, Mr Guyette is a member of two 401(K) Savings Plans in the USA, one qualified and one non-qualified, to which his employer, Rolls-Royce North America Inc., contributes. During 2000 the employer's contributions amounted to £19,136.

Terms and conditions

Service contracts

Sir Ralph Robins has a one-year rolling contract, which provides for 12 months' notice in event of termination by the Company. He works for the Company at the equivalent rate of three days a week.

Mr J M Guyette has a contract with Rolls-Royce North America Inc., drawn up under the laws of the State of Virginia. It is for an indefinite term and provides that on termination without cause he is entitled to one year's severance pay without mitigation.

In the light of the Combined Code, the committee has reviewed its previous policy of offering UK executive directors two-year rolling contracts. It has concluded that new appointees to the Board will be offered notice periods of one year. The committee recognises that in the case of appointments to the Board from outside the Company, it may be necessary to offer a longer initial notice period, which would subsequently reduce to twelve months after that initial period.

Mr J E V Rose, Mr C H Green, Mr P Heiden, Mr P C Ruffles and Mr R T Turner have two-year rolling contracts which provide for 24 months notice in the event of termination of employment by the Company. These contracts were entered into before the change in the policy described above.

The non-executive directors do not have service contracts.

Compensation and mitigation

The committee has a defined policy on compensation and mitigation to be applied in the event of a UK director's contract being prematurely terminated. In these circumstances, steps are taken to ensure that poor performance is not rewarded. When calculating termination payments, the committee takes into account a range of factors such as age, years of service and the director's obligation to mitigate his own loss.

Non-executive directors

The fees paid to non-executive directors are determined by the executive directors who are informed by independent market surveys. Each non-executive director receives an annual fee of £25,000. In addition, fees of £5,000 per annum are paid in respect of membership of the audit and remuneration committees and £7,500 per annum to the chairmen of these committees. (Membership of the committees is reported on pages 27 and 30).

Lord Moore of Lower Marsh is Chairman of the Trustees of the Rolls-Royce Pension Fund and receives an annual fee of £10,000 for performing this role.

Sir Robin Nicholson was appointed Chairman of the Company's Environmental Advisory Board in February 2000. During the year he received £1,250 for performing this role.

Non-executive directors do not participate in any of the Company's share schemes, performance pay arrangements or pension schemes.

Individual directors' emoluments

The individual directors' emoluments are analysed as follows:

	2000					1999
	Basic salaries £000	**Board and committee fees £000**	**Taxable benefits £000**	**Rolls-Royce plc Annual performance related award scheme[1] £000**	**Aggregate emoluments excluding pensions contributions[2] £000**	Aggregate emoluments excluding pensions contributions £000
Sir Ralph Robins[3]	**345**	—	**23**	**89**	**457**	430
Mr J E V Rose	**539**	—	**18**	**132**	**689**	604
Mr C H Green	**314**	—	**23**	**76**	**413**	408
Mr J M Guyette[4]	**355**	—	**37**	**89**	**481**	453
Mr P Heiden	**322**	—	**15**	**82**	**419**	354
Mr P C Ruffles	**299**	—	**16**	**76**	**391**	330
Mr R T Turner	**247**	—	**17**	**62**	**326**	310
Mr P J Byrom	—	**37**	—	—	**37**	37
Lord Moore of Lower Marsh	—	**45**	—	—	**45**	45
Sir Robin Nicholson	—	**39**	—	—	**39**	37
Mr C G Symon	—	**30**	—	—	**30**	18
Sir John Weston	—	**30**	—	—	**30**	30
Sir Gordon Higginson[5]	—	—	—	—	—	12
Mr M Townsend[6]	—	—	—	—	—	907
	2,421	**181**	**149**	**606**	**3,357**	3,975

[1] One-third of the award was paid in Rolls-Royce shares (see page 30).
[2] Details of the directors' pensions are set out on pages 31 and 32.
[3] 40% of Sir Ralph Robins' taxable benefits for 2000 was reimbursed by Cable & Wireless plc, in respect of his position as non-executive Chairman of that Company.
[4] Mr J M Guyette was paid in US dollars translated at $1.52 = £1.
[5] Sir Gordon Higginson retired as a director with effect from May 27, 1999.
[6] Mr M Townsend retired as a director with effect from December 31, 1999.

Directors' share interests

The directors, including their immediate family, at December 31, 2000, had the following beneficial interests in the ordinary shares of the Company, including any shares held in trust under the annual performance related award scheme, the profit sharing share scheme, options and LTIP awards:

	Holdings	
	January 1, 2000	December 31, 2000
Sir Ralph Robins	43,103	99,611
Mr J E V Rose	21,100	117,290
Mr C H Green	88,432	100,267
Mr J M Guyette	5,194	29,826
Mr P Heiden	17,179	31,739
Mr P C Ruffles	14,821	24,821
Mr R T Turner	12,349	22,349
Mr P J Byrom	21,094	31,129
Lord Moore of Lower Marsh	17,164	22,672
Sir Robin Nicholson	17,036	17,036
Mr C G Symon	2,500	2,500
Sir John Weston	2,050	2,120

Sir Ralph Robins, Mr C H Green, Mr J M Guyette, Mr P J Byrom, Lord Moore of Lower Marsh, and Sir John Weston took 1,454; 1,815; 527; 20; 400 and 37 shares respectively instead of cash dividends in January 2001. Otherwise there has been no change in the directors' interests between December 31, 2000 and March 1, 2001.

Directors' share interests continued

	Shares held in trust under the annual performance related award scheme[1]		Shares held in trust under the profit sharing share scheme[2]	
	Shares held in trust			
	January 1, 2000	December 31, 2000	January 1, 2000	December 31, 2000
Sir Ralph Robins	—	17,113	—	2,743
Mr J E V Rose	—	25,402	—	3,576
Mr C H Green	—	16,043	—	2,572
Mr J M Guyette	—	17,431	—	—
Mr P Heiden	—	15,241	—	2,443
Mr P C Ruffles	—	13,369	—	2,144
Mr R T Turner	—	12,567	—	2,015

[1] Under the annual performance related award scheme, shares vest after two years (see page 30).
[2] Under the profit sharing share scheme, shares vest after three years (see page 31).

Conditional awards granted under the LTIP to executive directors (and which were granted in 1999) are set out below. There were no awards granted under the LTIP in 2000. The extent to which the maximum number of shares comprised in an award (as stated below) is realised will depend on the satisfaction of demanding performance conditions (see page 31).

	LTIP Aggregate conditional share awards 1999
Sir Ralph Robins	69,880
Mr J E V Rose	101,205
Mr C H Green	67,470
Mr P Heiden	57,831
Mr P C Ruffles	55,422
Mr R T Turner	53,012

In addition to the individual interests in shares awarded under the LTIP shown above, each of the executive directors is, for Companies Act purposes, regarded as interested in all the 3,368,794 shares held by the discretionary trust linked to the share based incentive schemes, the 2,321,587 shares held by the qualifying employee share trust and the 1,449,652 shares held by the trust linked to the Inland Revenue Approved Profit Sharing Share Scheme. These shares are held for the purpose of satisfying awards granted under the LTIP, executive share option scheme, annual performance related award scheme, sharesave schemes and the profit sharing share scheme.

Directors' share interests continued

Options

	January 1, 2000	Granted in 2000	Exercised in 2000	December 31, 2000	Exercise price	Market price at date exercised	Aggregate gains 2000 £000	Exercisable dates
Sir Ralph Robins	126,407		126,407	—	172p	250p	99	—
	125,890		125,890	—	139p	250p	140	—
	7,438			7,438[1]	205p			2003
	499			499[1]	194p			2003
		164,737		164,737	194p			2003-2010
	260,234	164,737	252,297	172,674	194p[2]		239	
Mr J E V Rose	116,750			116,750	176p			2001-2005
	7,438			7,438[1]	205p			2003
	947			947[1]	194p			2007
		283,141		283,141	194p			2003-2010
	125,135	283,141		408,276	189p[2]			
Mr C H Green	67,250			67,250	176p			2001-2005
	8,633		8,633[1]	—	106p	194p	8	—
	4,756			4,756[1]	205p			2003
	4,053			4,053[1]	194p			2007
		154,441		154,441	194p			2003-2010
	84,692	154,441	8,633	230,500	189p[2]		8	
Mr J M Guyette	114,581			114,581	269p			2002-2009
	2,721			2,721[1]	194p			2002
		167,799		167,799	194p			2003-2010
	117,302	167,799		285,101	224p[2]			
Mr P Heiden	66,750			66,750	176p			2001-2005
	7,438			7,438[1]	205p			2003
	499			499[1]	194p			2003
		162,163		162,163	194p			2003-2010
	74,687	162,163		236,850	189p[2]			
Mr P C Ruffles	58,652			58,652	139p			2001
	80,685			80,685	125p			2001-2002
	66,750			66,750	176p			2001-2005
	4,600			4,600[1]	150p			2001
	2,894			2,894[1]	205p			2003
	1,098			1,098[1]	194p			2003
		154,441		154,441	194p			2003-2010
	214,679	154,441		369,120	166p[2]			
Mr R T Turner	105,750			105,750	176p			2001-2005
	6,900			6,900[1]	150p			2001
	1,697			1,697[1]	194p			2003
		120,979		120,979	194p			2003-2010
	114,347	120,979		235,326	185p[2]			

[1] Sharesave schemes.
[2] Weighted average exercise price of December 31, 2000 balance.

No director exercised any share options in 1999 and accordingly no gains were made.

All of the outstanding options awarded under the executive share option scheme were granted at the market value on the date of issue and no discount was applied.
The closing market price of the Company's ordinary shares ranged between 161p and 261p during 2000 and was 198.25p on December 31, 2000.

Directors' responsibilities
for the financial statements

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 Group and of the profit or loss for that period.

In preparing those financial statements, the directors are required to:
i) select suitable accounting policies and then apply them consistently;
ii) make judgements and estimates that are reasonable and prudent;
iii) state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
iv) prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company and the Group 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 Group and to prevent and detect fraud and other irregularities.

Report of the auditors
to the members of Rolls-Royce plc

We have audited the financial statements on pages 38 to 69. We have also examined the amounts disclosed relating to emoluments, share options, long-term incentive plan interests and directors' pension entitlements which form part of the remuneration report on pages 30 to 36.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the annual report. As described on this page, this includes responsibility for preparing 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, the Listing Rules of the Financial Services Authority, 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 or the Listing Rules regarding directors' remuneration and transactions with the Group is not disclosed.

We review whether the statement on page 26 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the annual report, including the corporate governance statement, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

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 Group'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 affairs of the Company and the Group as at December 31, 2000 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants, Registered Auditor
London
March 1, 2001

Group profit and loss account

for the year ended December 31, 2000

	Notes	Continuing operations before exceptional items £m	Exceptional items[1] £m	Total 2000 £m	Restated Total 1999 £m
Turnover: Group and share of joint ventures		**5,955**	**—**	**5,955**	4,697
Sales to joint ventures		**893**	**—**	**893**	799
Less share of joint ventures' turnover		**(984)**	**—**	**(984)**	(862)
Group turnover	2	**5,864**	**—**	**5,864**	4,634
Cost of sales		**(4,860)**	**(145)**	**(5,005)**	(3,787)
Gross profit		**1,004**	**(145)**	**859**	847
Other operating income	3	**341**	**—**	**341**	232
Commercial, marketing and product support costs		**(268)**	**—**	**(268)**	(195)
General and administrative costs		**(271)**	**—**	**(271)**	(171)
Research and development (net)*		**(371)**	**—**	**(371)**	(337)
Group operating profit		**435**	**(145)**	**290**	376
Share of operating profit of joint ventures		**76**	**—**	**76**	31
Loss on sale or termination of businesses	31	**(5)**	**(73)**	**(78)**	(14)
Profit on sale of fixed assets	7	**1**	**—**	**1**	20
Profit on ordinary activities before interest	2	**507**	**(218)**	**289**	413
Net interest payable – Group	4	**(85)**	**—**	**(85)**	(35)
– joint ventures		**(38)**	**—**	**(38)**	(18)
Profit on ordinary activities before taxation	3	**384**	**(218)**	**166**	360
Taxation	5	**(99)**	**16**	**(83)**	(74)
Profit on ordinary activities after taxation		**285**	**(202)**	**83**	286
Equity minority interests in subsidiary undertakings				**—**	(2)
Profit attributable to ordinary shareholders				**83**	284
Dividends	6			**(126)**	(112)
Transferred (from)/to reserves	25			**(43)**	172
*Research and development (gross)				**(604)**	(626)
Earnings per ordinary share:	7				
Underlying				**21.63p**	19.52p
Basic				**5.33p**	18.86p
Diluted basic				**5.30p**	18.62p

[1] Exceptional items are analysed in note 3.

As permitted by the Companies Act 1985, a separate profit and loss account for the Company has not been included in these financial statements. Of the Group profit attributable to ordinary shareholders, a profit of **£194m** (1999 £326m) has been dealt with in the profit and loss account of the Company.

There have been no material acquisitions in 2000 and no discontinued operations in 2000 or 1999.

Throughout these financial statements the 1999 comparatives have been restated to reflect UITF 24 'Accounting for Start-up Costs' (see note 9) and the change in the presentation of risk and revenue sharing partnership receipts (see note 3).

Balance sheets

at December 31, 2000

	Notes	Group 2000 £m	Group Restated 1999 £m	Company 2000 £m	Company Restated 1999 £m
Fixed assets					
Intangible assets	9	**889**	918	**41**	45
Tangible assets	10	**1,772**	1,753	**875**	857
Investments – subsidiary undertakings	11	**—**	—	**1,887**	1,679
– joint ventures	12	**174**	151	**51**	48
share of gross assets		**1,117**	958		
share of gross liabilities		**(943)**	(807)		
– other	13	**33**	31	**10**	10
		2,868	2,853	**2,864**	2,639
Current assets					
Stocks	14	**1,179**	1,274	**561**	626
Debtors – amounts falling due within one year	15	**1,591**	1,292	**1,334**	1,057
– amounts falling due after one year	16	**482**	355	**273**	208
Short-term deposits and investments	17	**142**	464	**—**	355
Cash at bank and in hand		**498**	521	**337**	339
		3,892	3,906	**2,505**	2,585
Creditors – amounts falling due within one year					
Borrowings	18	**(272)**	(408)	**(26)**	(151)
Other creditors	19	**(2,559)**	(2,467)	**(2,111)**	(1,841)
Net current assets		**1,061**	1,031	**368**	593
Total assets less current liabilities		**3,929**	3,884	**3,232**	3,232
Creditors – amounts falling due after one year					
Borrowings	20	**(1,058)**	(1,271)	**(707)**	(894)
Other creditors	21	**(206)**	(109)	**(329)**	(259)
Provisions for liabilities and charges	22	**(601)**	(503)	**(67)**	(65)
		2,064	2,001	**2,129**	2,014
Capital and reserves					
Called-up share capital	24	**314**	309	**314**	309
Share premium account	25	**623**	615	**623**	615
Revaluation reserve	25	**108**	112	**101**	104
Other reserves	25	**182**	140	**167**	167
Profit and loss account	25	**836**	812	**924**	819
Equity shareholders' funds		**2,063**	1,988	**2,129**	2,014
Equity minority interests in subsidiary undertakings		**1**	13	**—**	—
		2,064	2,001	**2,129**	2,014

The financial statements on pages 38 to 69 were approved by the Board on March 1, 2001 and signed on its behalf by:
Sir Ralph Robins Chairman, **P Heiden** Finance Director

Group cash flow statement

for the year ended December 31, 2000

		2000 £m	Restated 1999 £m
Net cash inflow from operating activities	A	**479**	359
Dividends received from joint ventures		**13**	6
Returns on investments and servicing of finance	B	**(76)**	(32)
Taxation paid		**(25)**	(38)
Capital expenditure and financial investment	C	**(253)**	(199)
Acquisitions and disposals	D	**(53)**	(666)
Equity dividends paid		**(74)**	(88)
Cash inflow/(outflow) before use of liquid resources and financing		**11**	(658)
Management of liquid resources	E	**324**	261
Financing	F	**(360)**	622
(Decrease)/increase in cash		**(25)**	225

Reconciliation of net cash flow to movement in net funds		
(Decrease)/increase in cash	**(25)**	225
Cash (inflow) from (decrease) in liquid resources	**(324)**	(261)
Cash outflow/(inflow) from decrease/(increase) in borrowings	**370**	(618)
Change in net funds resulting from cash flows	**21**	(654)
Borrowings of businesses acquired	**—**	(332)
Zero-coupon bonds 2005/2007 (9.0% interest accretion)	**(3)**	(3)
Exchange adjustments	**(14)**	(7)
Movement in net funds	**4**	(996)
Net (debt)/funds at January 1	**(694)**	302
Net debt at December 31	**(690)**	(694)

Analysis of net debt	At January 1, 2000 £m	Cash flow £m	Exchange adjustments £m	Other non-cash changes £m	At December 31, 2000 £m
Cash at bank and in hand	**521**	**(24)**	**1**	**—**	**498**
Overdrafts	**(100)**	**(1)**	**(2)**	**—**	**(103)**
Short-term deposits and investments	**464**	**(324)**	**2**	**—**	**142**
Other borrowings due within one year	**(301)**	**147**	**(6)**	**—**	**(160)**
Borrowings due after one year	**(1,174)**	**215**	**(3)**	**(3)**	**(965)**
Finance leases	**(104)**	**8**	**(6)**	**—**	**(102)**
	(694)	**21**	**(14)**	**(3)**	**(690)**

Reconciliation of operating profit to operating cash flows	2000 £m	Restated 1999 £m
Operating profit	**290**	376
Amortisation of intangible assets (note 9)	**60**	19
Depreciation of tangible fixed assets (note 3)	**178**	105
(Profit)/loss on disposals of tangible fixed assets and investments	**(3)**	4
Increase/(decrease) in provisions for liabilities and charges	**49**	(34)
Decrease in stocks	**62**	39
Increase in debtors	**(374)**	(127)
Increase/(decrease) in creditors	**217**	(23)
A **Net cash inflow from operating activities**	**479**	359
Returns on investments and servicing of finance		
Interest received	**26**	26
Interest paid	**(96)**	(51)
Interest element of finance lease payments	**(6)**	(7)
B **Net cash outflow for returns on investments and servicing of finance**	**(76)**	(32)
Capital expenditure and financial investment		
Additions to unlisted investments	**(2)**	—
Additions to certification costs	**(10)**	—
Purchases of tangible fixed assets	**(292)**	(381)
Disposals of tangible fixed assets	**51**	187
Acquisition of own shares by trust	**—**	(5)
C **Net cash outflow for capital expenditure and financial investment**	**(253)**	(199)
Acquisitions and disposals		
Acquisitions of businesses (note 30)	**(45)**	(653)
Disposals of businesses (note 31)	**(5)**	14
Investments in joint ventures	**(13)**	(27)
Loan repayments from joint ventures	**10**	—
D **Net cash outflow for acquisitions and disposals**	**(53)**	(666)
Management of liquid resources		
Decrease in short-term deposits	**327**	262
Increase in government securities and corporate bonds	**(3)**	(1)
E **Net cash inflow from management of liquid resources**	**324**	261
Financing		
Borrowings due within one year – repayment of loans	**(147)**	—
– increase in loans	**—**	88
Borrowings due after one year – repayment of loans	**(725)**	(196)
– increase in loans	**510**	734
Capital element of finance lease payments	**(8)**	(8)
Net cash (outflow)/inflow from (decrease)/increase in borrowings	**(370)**	618
Issue of ordinary shares	**10**	4
F **Net cash (outflow)/inflow from financing**	**(360)**	622

Group statement of total recognised gains and losses

for the year ended December 31, 2000

	2000 £m	1999 £m
Profit attributable to the shareholders of Rolls-Royce plc	**83**	284
Exchange adjustments on foreign currency net investments	**30**	17
Total recognised gains for the year	**113**	301

Group historical cost profits and losses

for the year ended December 31, 2000

	2000 £m	1999 £m
Profit on ordinary activities before taxation	**166**	360
Difference between the historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	**4**	2
Historical cost profit on ordinary activities before taxation	**170**	362
Historical cost transfer (from)/to reserves	**(39)**	174

Reconciliations of movements in shareholders' funds

for the year ended December 31, 2000

	Group		Company	
	2000 £m	1999 £m	2000 £m	1999 £m
At January 1	**1,988**	1,705	**2,014**	1,714
Total recognised gains for the year	**113**	301	**194**	326
Ordinary dividends (net of scrip dividend adjustments)	**(89)**	(101)	**(89)**	(101)
New ordinary share capital issued (net of expenses)	**10**	75	**10**	75
Goodwill transferred to the profit and loss account in respect of disposals of businesses	**41**	8	**—**	—
At December 31	**2,063**	1,988	**2,129**	2,014

Notes to the financial statements

1 Accounting policies

Basis of accounting
The financial statements have been prepared in accordance with applicable accounting standards on the historical cost basis, modified to include the revaluation of land and buildings.

Basis of consolidation
The Group financial statements include the financial statements of the Company and all of its subsidiary undertakings made up to December 31, together with the Group's share of the results up to December 31 of:

i) joint ventures
A joint venture is an entity in which the Group holds a long-term interest and which is jointly controlled by the Group and one or more other venturers under a contractual arrangement. The results of joint ventures are accounted for using the gross equity method of accounting.

ii) joint arrangements that are not entities
The Group has certain contractual arrangements with other participants to engage in joint activities that do not create an entity carrying on a trade or business of its own. The Group includes its share of assets, liabilities and cash flows in such joint arrangements, measured in accordance with the terms of each arrangement, which is usually pro-rata to the Group's risk interest in the joint arrangement.

Any subsidiary undertakings, joint ventures and joint arrangements that are not entities sold or acquired during the year are included up to, or from, the dates of change of control.

Some small adjustments have been made to comparative figures to put them on a consistent basis with the current year.

Purchased goodwill
Goodwill represents the excess of the fair value of the purchase consideration for shares in subsidiary undertakings and joint ventures over the fair value to the Group of the net assets acquired.

i) To December 31, 1997: Goodwill was written off to reserves in the year of acquisition. The profit or loss on the disposal of a business acquired before December 31, 1997 takes into account the attributable value of purchased goodwill relating to that business.

ii) From January 1, 1998: Goodwill has been recognised within fixed assets in the year in which it arises and amortised on a straight line basis over its useful economic life, up to a maximum of 20 years.

Turnover
Turnover, excluding value added tax and discounts, comprises sales to outside customers, and the Group's percentage interest in sales of joint ventures. Long-term contracts are included in turnover on the basis of the sales value of work performed during the year by reference to the total sales value and stage of completion of these contracts.

Risk and revenue sharing partnerships
From time to time the Group enters into arrangements with partners who, in return for a share in future programme turnover or profits, make cash or other payments in kind which are not expected to be refundable. Sums received are credited to other operating income and payments to partners are charged to cost of sales.

Research and development
The charge to the profit and loss account consists of total research and development expenditure incurred in the year, less known recoverable costs on contracts and contributions to shared engineering programmes.

Foreign currencies
Assets and liabilities denominated in foreign currencies are translated into sterling at the rate ruling at the year end or, where applicable, at the estimated sterling equivalent, taking account of future foreign exchange and similar contracts. The trading results of overseas undertakings are translated at the average exchange rates for the year or, where applicable, at the estimated sterling equivalent, taking account of future foreign exchange and similar contracts. Exchange adjustments arising from the retranslation of the opening net investment, and from the translation of the profits or losses at average rate, are taken to reserves. Other exchange differences, including those arising from currency conversions in the usual course of trading, are taken into account in determining profit on ordinary activities before taxation.

Treasury instruments
The accounting treatment of the key instruments used by the Group is as follows:

i) Gains or losses arising on forward exchange contracts are taken to the profit and loss account in the same period as the underlying transaction.

ii) Net interest arising on interest rate agreements is taken to the profit and loss account.

iii) Premiums paid or received on currency options are taken to the profit and loss account when the option expires or matures.

iv) Gains or losses arising on jet fuel swaps are taken to the profit and loss account in the same period as the underlying transaction.

If the underlying transaction to a hedge ceases to exist, the hedge is terminated and the profits and losses on termination are recognised in the profit and loss account immediately. If the hedge transaction is terminated, the profits and losses on termination are held in the balance sheet and amortised over the life of the original underlying transactions.

Post-retirement benefits
Contributions to Group pension schemes are charged to the profit and loss account so as to spread the cost of pensions at a substantially level percentage of payroll costs over employees' service lives.

The cost of providing post-retirement benefits other than pensions is charged to the profit and loss account over the service lives of the relevant employees.

Certification costs
Costs incurred in respect of meeting regulatory certification requirements for new civil engine/aircraft combinations, including those paid to airframe manufacturers, are carried forward in intangible assets to the extent that they can be recovered out of future sales and are charged to profit and loss account over the programme life, up to a maximum of ten years.

1 Accounting policies continued

Interest

Interest payable is charged to the profit and loss account as incurred except where the borrowing finances tangible fixed assets in the course of construction relating to power development projects. Such interest is capitalised until the asset is complete and income producing and is then written off by way of depreciation of the relevant asset.

Interest receivable is credited to the profit and loss account as earned.

Taxation

Provision for taxation is made at the current rate and for deferred taxation at the projected rate on all timing differences where a liability is expected to crystallise in the foreseeable future.

Scrip dividends

The amounts of dividends taken as shares instead of in cash under the scrip dividend scheme have been added back to reserves. The nominal value of shares issued under the scheme has been funded out of the share premium account.

Stock, contract provisions and long-term contracts

Stock and work in progress are valued at the lower of cost and net realisable value. Full provision is made for any estimated losses to completion of contracts having regard to the overall substance of the arrangements including, if appropriate, related commitments and undertakings given by customers. Provided that the outcome of long-term contracts can be assessed with reasonable certainty, such contracts are valued at cost plus attributable profit earned to date.

Progress payments received, when greater than recorded turnover, are deducted from the value of work in progress except to the extent that payments on account exceed the value of work in progress on any contract where the excess is included in creditors. The amount by which recorded turnover of long-term contracts is in excess of payments on account is classified as 'amounts recoverable on contracts' and is separately disclosed within debtors.

Accounting for leases

i) As Lessee

Assets financed by leasing agreements which give rights approximating to ownership (finance leases) have been capitalised at amounts equal to the original cost of the assets to the lessors and depreciation provided on the basis of the Group depreciation policy. The capital elements of future obligations under finance leases are included as liabilities in the balance sheet and the current year's interest element, having been allocated to accounting periods to give a constant periodic rate of charge on the outstanding balance, is charged to the profit and loss account.

The annual payments under all other lease arrangements, known as operating leases, are charged to the profit and loss account on an accruals basis.

ii) As Lessor

Amounts receivable under finance leases are included under debtors and represent the total amount outstanding under lease agreements less unearned income. Finance lease income, having been allocated to accounting periods to give a constant periodic rate of return on the net cash investment, is included in turnover.

Rentals receivable under operating leases are included in turnover on an accruals basis.

Depreciation

i) Land and buildings

Depreciation is provided on the original cost of purchases since 1996 and on the valuation of properties adopted at December 31, 1996 and is calculated on the straight line basis at rates sufficient to reduce them to their estimated residual value. Estimated lives, as advised by the Group's professional valuers, are:

a) Freehold buildings – five to 45 years (average 24 years).
b) Leasehold land and buildings – lower of valuers' estimates or period of lease.

No depreciation is provided in respect of freehold land.

ii) Plant and equipment

Depreciation is provided on the original cost of plant and equipment and is calculated on a straight line basis at rates sufficient to reduce them to their estimated residual value. Estimated lives are in the range five to 25 years (average 17 years).

iii) Aircraft and engines

Depreciation is provided on the original cost of aircraft and engines and is calculated on a straight line basis at rates sufficient to reduce them to their estimated residual value. Estimated lives are in the range five to 20 years (average 18 years).

iv) In course of construction

No depreciation is provided on assets in the course of construction.

2 Segmental analysis

	Group turnover		Profit before interest		Net assets[1]	
	2000 £m	Restated 1999 £m	2000 £m	1999 £m	2000 £m	1999 £m
Analysis by business:						
Civil aerospace	**3,150**	2,544	**312**	232	**1,152**	1,074
Defence	**1,403**	1,138	**151**	181	**286**	312
Marine systems	**751**	385	**38**	37	**600**	595
Energy	**476**	482	**(191)**	(39)	**444**	468
Financial services*	**40**	37	**55**	24	**295**	243
Materials handling[2]	**44**	48	**(76)**	(22)	**(23)**	3
	5,864	4,634	**289**	413	**2,754**	2,695
Geographical analysis by origin:						
United Kingdom	**3,730**	3,553	**201**	334	**1,505**	1,506
Other	**2,134**	1,081	**88**	79	**1,249**	1,189
	5,864	4,634	**289**	413	**2,754**	2,695
Geographical analysis by destination:						
United Kingdom	**1,056**	846				
Rest of Europe	**855**	658				
USA	**2,148**	1,625				
Canada	**259**	104				
Asia	**953**	796				
Africa	**67**	106				
Australasia	**149**	228				
Other	**377**	271				
	5,864	4,634				
Exports from United Kingdom	**2,692**	2,737				
Sales to overseas subsidiaries	**(262)**	(213)				
Sales by overseas subsidiaries	**2,365**	1,260				
Sales by overseas joint arrangements	**13**	4				
Total overseas	**4,808**	3,788				

[1] Net assets exclude net debt of **£690m** (1999 net debt of £694m).
[2] Classified in 1999 as 'Businesses to be disposed'.

The Group has expanded its segmental analysis to reflect the new management structure, which is focused on customers by market sector.

*The turnover of financial services businesses including share of joint ventures is **£115m** (1999 £82m).

The analysis of underlying profit before interest and the profit and loss account exceptional items are as follows:

	Underlying profit before interest £m	Exceptional items £m	Other non-underlying items £m	Profit before interest £m
Civil aerospace	332	(9)	(11)	312
Defence	154	—	(3)	151
Marine systems	67	(3)	(26)	38
Energy	(48)	(133)	(10)	(191)
Financial services	56	—	(1)	55
Materials handling	(2)	(73)	(1)	(76)
	559	(218)[1]	(52)[2]	289

[1] See note 3.
[2] Comprising amortisation of goodwill £46m and loss on sale of businesses/fixed assets £6m.

3 Profit on ordinary activities before taxation

	2000 £m	1999 £m
After crediting		
Risk and revenue sharing partnerships – receipts (credited to other operating income) [1]	**341**	232
– payments (charged to cost of sales)	**(129)**	(99)
Net impact of risk and revenue sharing partnerships	**212**	133
Operating lease rentals receivable	**14**	15
After charging		
Exceptional items – industrial Trent provision [2]	**120**	—
– restructuring costs in respect of acquired businesses	**16**	6
– rationalisation costs to simplify business structures	**9**	—
– closure/termination of materials handling	**73**	—
	218	6
Amortisation of goodwill	**46**	5
Depreciation of owned tangible fixed assets [3]	**172**	98
Depreciation of tangible fixed assets held under finance leases [3]	**6**	7
Operating lease rentals payable – hire of plant and equipment	**39**	27
– hire of other assets	**8**	7

Auditors' fees were as follows during the year:

Audit 2000 – Group **£2.9m** (1999 £2.0m) including Company **£0.6m** (1999 £0.6m)

Other 2000 – United Kingdom **£1.1m** (1999 £0.7m)

– Rest of World **£0.9m** (1999 £0.7m)

[1] Previously these receipts were credited either to turnover or to research and development depending on the terms of the arrangement. In order to simplify the accounting presentation, all such receipts are credited to other operating income. The 1999 comparitives have been amended by: turnover £110m and net research and development £122m to reflect this change in presentation.

[2] Provision in respect of the industrial Trent covering both contractual obligations and write-down of assets.

[3] Including appropriate amounts charged to stocks.

4 Net interest payable – Group

	2000 £m	1999 £m
Interest payable on:		
Bank loans and overdrafts	**(52)**	(31)
Other borrowings	**(55)**	(26)
Finance leases	**(6)**	(7)
Interest capitalised	**1**	1
	(112)	(63)
Interest receivable	**27**	28
	(85)	(35)

5 Taxation

	2000 £m	1999 £m
United Kingdom – corporation tax at **30.0%** (1999 30.25%)	**58**	93
– advance corporation tax written back	**(14)**	(37)
– deferred tax	**(7)**	5
	37	61
Overseas – current tax	**36**	5
– deferred tax	**2**	5
Joint ventures	**8**	3
	83	74

Analysis of taxation charge:		
Underlying profits	**99**	72
Other profits (note 7)	**(16)**	2
	83	74

6 Dividends – ordinary shares

	2000 £m	1999 £m
Interim **3.00p** (1999 2.70p) per share	**47**	41
Final proposed **5.00p** (1999 4.55p) per share	**79**	71
	126	112

7 Earnings per ordinary share

Basic earnings per ordinary share are calculated by dividing the profit attributable to ordinary shareholders of **£83m** (1999 £284m) by **1,558 million** (1999 1,506 million) ordinary shares, being the average number of ordinary shares in issue during the year, excluding own shares held under trust (note 13) which have been treated as if they had been cancelled.

Underlying earnings per ordinary share have been calculated as follows.

	2000		1999	
	Pence	£m	Pence	£m
Profit attributable to ordinary shareholders	**5.33**	**83**	18.86	284
Exclude:				
Net loss on sale of businesses – materials handling	**4.69**	**73**	—	—
– other	**0.32**	**5**	0.93	14
Loss/(profit) on sale of fixed assets (excluding lease engines and aircraft sold by financial services companies)	**0.06**	**1**	(1.13)	(17)
Amortisation of goodwill	**2.95**	**46**	0.33	5
Restructuring of acquired businesses	**1.03**	**16**	0.40	6
Exceptional rationalisation	**0.58**	**9**	—	—
Energy – exceptional charge	**7.70**	**120**	—	—
Related tax effect	**(1.03)**	**(16)**	0.13	2
Underlying earnings per ordinary share	**21.63**	**337**	19.52	294

Diluted basic earnings per ordinary share are calculated by dividing the profit attributable to ordinary shareholders of **£83m** (1999 £284m) by **1,566 million** (1999 1,525 million) ordinary shares, being **1,558 million** (1999 1,506 million) as above adjusted by the bonus element of existing share options of **8 million** (1999 19 million).

8 Employee information

Average weekly number of Group employees during the year	2000 Number	1999 Number
United Kingdom	**30,200**	30,000
Overseas	**16,400**	10,900
	46,600	40,900
Civil aerospace	**26,100**	23,900
Defence	**7,700**	6,500
Marine systems	**6,500**	3,500
Energy	**5,600**	6,100
Financial services	**100**	100
Materials handling [1]	**600**	800
	46,600	40,900

Group employment costs	£m	£m
Wages and salaries	**1,388**	1,140
Social security costs	**128**	95
Pensions and other post-retirement benefits (note 29)	**77**	71
	1,593	1,306

[1] Classified in 1999 as 'Businesses to be disposed'.

9 Intangible fixed assets

	Group			Company		
	Goodwill £m	Certification costs [1] £m	Total £m	Goodwill £m	Certification costs [1] £m	Total £m
Cost						
At January 1, 2000 as restated	**878**	**96**	**974**	—	**96**	**96**
Exchange adjustments	**6**	—	**6**	—	—	—
Additions	—	**10**	**10**	—	**10**	**10**
Other movements [2]	**33**	—	**33**	—	—	—
Disposals	**(19)**	—	**(19)**	—	—	—
At December 31, 2000	**898**	**106**	**1,004**	—	**106**	**106**
Accumulated amortisation						
At January 1, 2000 as restated	**5**	**51**	**56**	—	**51**	**51**
Provided during the year	**46**	**14**	**60**	—	**14**	**14**
Disposals	**(1)**	—	**(1)**	—	—	—
At December 31, 2000	**50**	**65**	**115**	—	**65**	**65**
Net book value at December 31, 2000	**848**	**41**	**889**	—	**41**	**41**
Net book value at December 31, 1999 as restated	**873**	**45**	**918**	—	**45**	**45**

[1] Certification costs, which were previously included in prepayments, have been treated as intangible assets. This change in accounting policy which has resulted from the adoption of UITF* 24 'Accounting for Start-up Costs', has no effect on prior year reserves. The period of amortisation has been amended from five years to the life of the programme, subject to the maximum of ten years, as this is considered to be more appropriate.
*The UITF (Urgent Issues Task Force) is a committee of the Accounting Standards Board.

[2] For the acquisitions made in 1999, provisional fair values were ascribed to the assets and liabilities at the acquisition dates (1999 annual report note 30). Other movements comprising the finalisation of these fair values and of the consideration paid are detailed in note 30 (page 64).

10 Tangible fixed assets

Group	Land and buildings £m	Plant and equipment £m	Aircraft and engines £m	In course of construction £m	Total £m
Cost or valuation:					
At January 1, 2000	489	1,547	209	170	2,415
Exchange adjustments	4	27	12	3	46
Additions at cost	12	133	26	82	253
On disposals of businesses	(13)	(33)	—	(1)	(47)
Reclassifications	8	101	—	(109)	—
Disposals/write-offs	(8)	(74)	(45)	(2)	(129)
At December 31, 2000	492	1,701	202	143	2,538
Accumulated depreciation:					
At January 1, 2000	41	570	51	—	662
Exchange adjustments	1	8	2	—	11
Provided during year	22	145	11	—	178
On disposals of businesses	—	(8)	—	—	(8)
Disposals/write-offs	(3)	(60)	(14)	—	(77)
At December 31, 2000	61	655	50	—	766
Net book value at December 31, 2000	431	1,046	152	143	1,772
Net book value at December 31, 1999	448	977	158	170	1,753

Company	Land and buildings £m	Plant and equipment £m	Aircraft and engines £m	In course of construction £m	Total £m
Cost or valuation:					
At January 1, 2000	265	883	—	133	1,281
Additions at cost	4	76	—	20	100
Reclassifications	8	82	—	(90)	—
Disposals/write-offs	(2)	(31)	—	—	(33)
At December 31, 2000	275	1,010	—	63	1,348
Accumulated depreciation:					
At January 1, 2000	26	398	—	—	424
Provided during year	10	68	—	—	78
Disposals/write-offs	—	(29)	—	—	(29)
At December 31, 2000	36	437	—	—	473
Net book value at December 31, 2000	239	573	—	63	875
Net book value at December 31, 1999	239	485	—	133	857

10 Tangible fixed assets continued

Tangible fixed assets include:	Group 2000 £m	Group 1999 £m	Company 2000 £m	Company 1999 £m
Net book value of finance leased assets	**104**	109	**27**	32
Assets held for use in operating leases:				
Cost	**178**	194	**—**	—
Depreciation	**(37)**	(44)	**—**	—
Net book value	**141**	150	**—**	—
Non-depreciable land	**85**	90	**59**	59
Land and buildings at cost or valuation comprise:				
Cost	**235**	222	**72**	62
Valuation at December 31, 1985	**1**	1	**—**	—
Valuation at December 31, 1996[1]	**256**	266	**203**	203
	492	489	**275**	265
Land and buildings at net book value comprise:				
Freehold	**400**	415	**231**	232
Long leasehold	**19**	19	**9**	8
Short leasehold	**12**	14	**(1)**	(1)
	431	448	**239**	239
On an historical cost basis the net book value of land and buildings would have been as follows:				
Cost	**475**	471	**256**	246
Depreciation	**(152)**	(135)	**(118)**	(111)
	323	336	**138**	135
Capitalised interest included in net book value of assets in course of construction	**4**	2	**—**	—
Capital expenditure commitments – contracted but not provided for	**91**	177	**27**	33

The Group has adopted FRS 15 'Tangible fixed assets', and has followed the transitional provisions to retain the book value of land and buildings, certain of which were revalued in 1996 (see [1] below).

[1] Group properties were revalued at December 31, 1996 as follows:

i) Specialised properties, including certain of the Group's major manufacturing sites, were revalued on a depreciated replacement cost basis.
ii) Non-specialised properties were revalued by reference to their existing use value.
iii) Properties surplus to the Group's requirements were revalued on an open market value basis.

In the United Kingdom the revaluation was carried out by Gerald Eve, Chartered Surveyors, Fuller Peiser, Chartered Surveyors and Storey Sons & Parker, Chartered Surveyors, in accordance with the appraisal and valuation manual of the Royal Institution of Chartered Surveyors. Overseas properties were valued principally by independent local valuers.

11 Investments – subsidiary undertakings

Company	Shares £m	Loans £m	Total £m
Cost:			
At January 1, 2000	1,385	294	1,679
Additions	—	208	208
At December 31, 2000	1,385	502	1,887

The principal subsidiary undertakings are listed on pages 66 and 67.

12 Investments – joint ventures

Group	Shares at cost £m	Share of post acquisition reserves £m	Loans £m	Total £m
At January 1, 2000	106	23	22	151[1]
Exchange adjustments	3	—	1	4
Transfer from subsidiary undertaking	4	—	—	4
Additions	11	—	2	13
Disposals and repayments	(3)	—	(10)	(13)
Transfer to subsidiary undertakings	—	—	(4)	(4)
Share of retained profit	—	19	—	19
At December 31, 2000	121	42	11	174[1]
Company				
At January 1, 2000	44	—	4	48
Additions	3	—	—	3
At December 31, 2000	47	—	4	51

The principal joint ventures are listed on pages 68 and 69.

[1] Investments in joint ventures are represented by:

	2000 £m	1999 £m
Share of aggregate assets:		
Fixed	710	588
Current	407	370
Share of aggregate liabilities:		
Due within one year	(437)	(387)
Due after one year	(506)	(420)
	174	151

13 Investments – other

	Unlisted investments at cost £m	Own shares held under trust[1] £m	Total £m
Group			
At January 1, 2000	21	10	31
Additions less amortisation	2	—	2
At December 31, 2000	23	10	33
Company			
At January 1, 2000	—	10	10
Additions less amortisation	—	—	—
At December 31, 2000	—	10	10

[1] Ordinary shares in the Company are held in two trusts:

i) as part of the long-term incentive plan (LTIP), the Rolls-Royce 1999 executive share option plan and other employee share schemes (see Remuneration report on pages 30 to 36).
This independently managed trust purchased shares on the open market:

		£m
June 25, 1997	672,891 at £2.42 per share	1.6
April 24, 1998	651,103 at £2.82 per share	1.8
March 26, 1999	569,800 at £2.54 per share	1.4
June 30, 1999	1,475,000 at £2.73 per share	4.0

At December 31, 2000, these shares had a market value of £6.7m. In accordance with UITF 17 'Employee share schemes', the Company is required to amortise the cost of likely awards over each separate performance measurement period and to include this charge as part of the cost of 'wages and salaries'. The UITF is a committee of the Accounting Standards Board.

ii) in respect of a qualifying employee share trust (QUEST), which provides employees with shares under Inland Revenue approved Save As You Earn (SAYE) share schemes. In accordance with UITF 17 (Revised), no amortisation charge has been made. At December 31, 2000, a total of 2,321,587 of these shares had still not been allocated to option holders, their market value being £4.6m. These outstanding allocations are expected to occur in 2001.

Both trusts have waived dividends and voting rights, and their costs of administration have been charged to the Company's profit and loss account.

14 Stocks

	Group 2000 £m	Group 1999 £m	Company 2000 £m	Company 1999 £m
Raw materials	**258**	288	**65**	54
Work in progress	**354**	483	**99**	178
Long-term contracts work in progress	**119**	159	**13**	8
Finished goods	**674**	597	**475**	461
Payments on account	**33**	45	**22**	11
	1,438	1,572	**674**	712
Progress payments received against:				
Long-term contracts work in progress	**(97)**	(121)	**—**	—
Other stocks [1]	**(162)**	(177)	**(113)**	(86)
	1,179	1,274	**561**	626
[1] Includes payments received from joint ventures	**(5)**	(12)	**(5)**	(12)

15 Debtors – amounts falling due within one year

	Group 2000 £m	Group Restated 1999 £m	Company 2000 £m	Company Restated 1999 £m
Trade debtors	**919**	839	**352**	272
Amounts recoverable on contracts	**94**	78	**18**	3
Amounts owed by – subsidiary undertakings	**—**	—	**645**	606
– joint ventures	**156**	165	**129**	121
Corporate taxation	**11**	10	**7**	10
Other debtors	**201**	93	**40**	1
Prepayments and accrued income [1]	**210**	107	**143**	44
	1,591	1,292	**1,334**	1,057

[1] Certification costs amounting to **£28m** (1999 £29m) which were previously included in prepayments have been treated as intangible assets (see note 9).

16 Debtors – amounts falling due after one year

	Group 2000 £m	Group Restated 1999 £m	Company 2000 £m	Company Restated 1999 £m
Trade debtors	**18**	45	**17**	40
Amounts recoverable on contracts	**97**	39	**93**	39
Amounts owed by – subsidiary undertakings	**—**	—	**13**	25
– joint ventures	**57**	45	**43**	44
Corporate taxation	**26**	19	**26**	19
Other debtors	**49**	66	**—**	—
Prepayments and accrued income [1]	**78**	36	**76**	36
Prepaid pension contributions	**157**	105	**5**	5
	482	355	**273**	208

[1] Certification costs amounting to **£13m** (1999 £16m) which were previously included in prepayments have been treated as intangible assets (see note 9).

17 Short-term deposits and investments

	Group		Company	
	2000 £m	1999 £m	**2000 £m**	1999 £m
Short-term deposits	**106**	431	**—**	355
Investments – government securities and corporate bonds	**36**	33	**—**	—
	142	464	**—**	355

18 Borrowings – amounts falling due within one year

	Group		Company	
	2000 £m	1999 £m	**2000 £m**	1999 £m
Overdrafts	**103**	100	**—**	—
Bank loans	**103**	160	**25**	150
Other loans	**57**	141	**—**	—
Obligations under finance leases	**9**	7	**1**	1
	272	408	**26**	151

19 Other creditors – amounts falling due within one year

	Group		Company	
	2000 £m	1999 £m	**2000 £m**	1999 £m
Payments received on account [1]	**257**	348	**118**	145
Trade creditors	**584**	658	**266**	339
Amounts owed to – subsidiary undertakings	**—**	—	**662**	432
– joint ventures	**118**	105	**95**	98
Corporate taxation	**187**	130	**101**	71
Other taxation and social security	**63**	66	**33**	34
Other creditors	**526**	547	**377**	387
Accruals and deferred income	**698**	501	**332**	223
Interim dividend since paid	**47**	41	**47**	41
Final proposed dividend	**79**	71	**80**	71
	2,559	2,467	**2,111**	1,841
[1] Includes payments received from joint ventures	**70**	64	**70**	64

20 Borrowings – amounts falling due after one year

	Group 2000 £m	Group 1999 £m	Company 2000 £m	Company 1999 £m
Unsecured				
Bank loans	**23**	734	**—**	696
7⅛% Notes 2003 [1]	**199**	199	**—**	—
4½% Notes 2005 [2]	**177**	177	**177**	177
6¾% Notes 2007 [2]	**310**	—	**310**	—
7⅜% Notes 2016	**200**	—	**200**	—
Other loans 2001-2009 (interest rates nil)	**4**	5	**—**	—
Secured				
Bank loans	**13**	—	**—**	—
Obligations under finance leases payable: [3]				
Between one and two years	**23**	8	**16**	1
Between two and five years	**33**	45	**3**	17
After five years	**37**	44	**1**	3
Zero-coupon bonds 2005/2007 (including 9.0% interest accretion) [4]	**39**	33	**—**	—
Bank loans 2001 (interest rates 5.8% to 6.8%) [4]	**—**	26	**—**	—
	1,058	1,271	**707**	894
Repayable				
Between one and two years – by instalments	**26**	26	**16**	1
– otherwise	**—**	408	**—**	398
Between two and five years – by instalments	**37**	48	**3**	17
– otherwise	**378**	497	**177**	298
After five years – by instalments	**68**	82	**1**	3
– otherwise	**549**	210	**510**	177
	1,058	1,271	**707**	894

[1] The Group has borrowed US $300m through a subsidiary, Rolls-Royce Capital Inc., in order to provide a loan for general Group purposes. This has been translated into sterling after taking account of future contracts. The loan is guaranteed by the Company. These notes are the subject of interest swap agreements under which counterparties have undertaken to pay amounts at fixed rates of interest in consideration for amounts payable by the Group at variable rates of interest.

[2] The Company has borrowed €756m in order to provide a loan for general Group purposes. These notes are the subject of currency swap agreements under which counterparties have undertaken to pay amounts at fixed rates of interest and exchange in consideration for amounts payable by the Company at variable rates of interest and at fixed exchange rates.

[3] Obligations under finance leases are secured by related leased assets.

[4] Secured on aircraft financed by joint arrangements. Repayment of the zero-coupon bonds is also guaranteed by the Company.

21 Other creditors – amounts falling due after one year

	Group 2000 £m	Group 1999 £m	Company 2000 £m	Company 1999 £m
Payments received on account [1]	**66**	40	**66**	40
Amount owed to subsidiary undertaking	**—**	—	**198**	198
Other creditors	**57**	18	**41**	—
Accruals and deferred income	**83**	51	**24**	21
	206	109	**329**	259
[1] Includes payments received from joint ventures	**—**	—	**—**	—

22 Provisions for liabilities and charges

Group	At January 1, 2000 £m	Exchange adjustments £m	Fair value adjustments[1] £m	On disposal of businesses £m	Unused amounts reversed £m	Charged to profit and loss account £m	Utilised £m	At December 31, 2000 £m
Post-employment, pensions and other post-retirement benefits	**108**	**9**	**(1)**	**—**	**—**	**16**	**(2)**	**130**
Deferred taxation	**60**	**2**	**(7)**	**(1)**	**—**	**1**	**(6)**	**49**
Warranty/guarantees	**161**	**2**	**5**	**—**	**(1)**	**52**	**(32)**	**187**
Contract loss[2]	**46**	**1**	**15**	**—**	**(6)**	**148**	**(89)**	**115**
Customer financing	**30**	**2**	**13**	**—**	**(3)**	**6**	**(13)**	**35**
Insurance	**27**	**—**	**—**	**—**	**—**	**1**	**(6)**	**22**
Restructuring	**35**	**—**	**(8)**	**—**	**—**	**27**	**(24)**	**30**
Other	**36**	**—**	**1**	**—**	**(1)**	**11**	**(14)**	**33**
	503	**16**	**18**	**(1)**	**(11)**	**262**	**(186)**	**601**
Company								
Warranty/guarantees	**41**	**—**	**—**	**—**	**(1)**	**11**	**(9)**	**42**
Contract loss	**6**	**—**	**—**	**—**	**(3)**	**3**	**(3)**	**3**
Customer financing	**13**	**—**	**—**	**—**	**—**	**6**	**(13)**	**6**
Restructuring	**—**	**—**	**—**	**—**	**—**	**9**	**—**	**9**
Other	**5**	**—**	**—**	**—**	**—**	**2**	**—**	**7**
At December 31, 2000	**65**	**—**	**—**	**—**	**(4)**	**31**	**(25)**	**67**

[1] Fair value adjustments comprise the finalisation of provisional fair values as described in note 30.
[2] Includes industrial Trent provision.

Post-employment, pensions and other post-retirement provisions are long term in nature and the timing of their utilisation is uncertain.
Warranty provisions primarily relate to products sold and generally cover a period of up to three years.
Provisions for contract loss and restructuring are generally expected to be utilised within one year.
Customer financing provisions cover guarantees provided for asset values and/or financing as described in note 27. Timing of utilisation is uncertain.
Insurance provisions relate to the Group's captive insurance business with timing of utilisation being uncertain.
Other provisions comprise numerous liabilities with varying expected utilisation rates.

Deferred taxation	Group		Company	
	2000 £m	1999 £m	**2000 £m**	1999 £m
Provided in accounts:				
Fixed asset timing differences	**8**	5	**—**	—
Other timing differences	**60**	70	**—**	—
Advance corporation tax	**(19)**	(15)	**—**	—
	49	60	**—**	—
Full potential liability/(asset):				
Fixed asset timing differences	**136**	127	**112**	99
Other timing differences	**57**	52	**(2)**	(14)
	193	179	**110**	85
Advance corporation tax	**(19)**	(75)	**—**	(56)
	174	104	**110**	29

The above figures exclude taxation payable on capital gains which might arise from the sale of fixed assets at the values at which they are stated in the Group's balance sheet.

23 Financial instruments

Details of the Group's policies on the use of financial instruments are given in the Finance Director's review on pages 18 to 23 and in the accounting policies on pages 43 and 44. The following disclosures provide additional information regarding the effect of these instruments on the financial assets and liabilities of the Group excluding short-term debtors and creditors, where permitted by FRS 13.

Funding and interest rates

	Sterling £m	US Dollar £m	Euro £m	Other £m	2000 Total £m
Financial assets					
Cash at bank and in hand [1]	**474**	**14**	**6**	**4**	**498**
Short-term deposits [2]	**10**	**32**	**10**	**54**	**106**
Government securities and corporate bonds [3]	**34**	**2**	**—**	**—**	**36**
Unlisted fixed asset investments [4]	**—**	**13**	**—**	**10**	**23**
Debtors – amounts falling due after one year [4]	**60**	**26**	**23**	**15**	**124**
	578	**87**	**39**	**83**	**787**
Financial liabilities [5]					
Floating-rate borrowings [6]	**—**	**(15)**	**(59)**	**(164)**	**(238)**
Fixed-rate borrowings	**(976)**	**(83)**	**—**	**(29)**	**(1,088)**
Borrowings on which no interest is paid [7]	**—**	**—**	**—**	**(4)**	**(4)**
Other creditors – amounts falling due after one year [4]	**(50)**	**(1)**	**—**	**(6)**	**(57)**
Provisions [4]	**(11)**	**—**	**—**	**(3)**	**(14)**
	(1,037)	**(99)**	**(59)**	**(206)**	**(1,401)**

	Sterling £m	US Dollar £m	Euro £m	Other £m	1999 Total £m
Financial assets					
Cash at bank and in hand [1]	366	72	17	66	521
Short-term deposits [2]	370	16	23	22	431
Government securities and corporate bonds [3]	21	1	9	2	33
Unlisted fixed asset investments [4]	—	10	—	11	21
Debtors – amounts falling due after one year [4]	132	24	—	—	156
	889	123	49	101	1,162
Financial liabilities [5]					
Floating-rate borrowings [6]	(505)	(123)	(143)	(131)	(902)
Fixed-rate borrowings	(673)	(76)	—	(23)	(772)
Borrowings on which no interest is paid	—	—	—	(5)	(5)
Other creditors – amounts falling due after one year [4]	—	(2)	—	(16)	(18)
Provisions [4]	(19)	—	—	(7)	(26)
	(1,197)	(201)	(143)	(182)	(1,723)

Notes

[1] Cash at bank and in hand comprises deposits placed on money markets overnight and bank balances.

[2] The short-term deposits are deposits placed on money markets for periods ranging from two nights up to one month.

[3] The interest on the securities and bonds are at fixed rates. The weighted average interest rate on the sterling securities is 6.7% (1999 6.8%) and the weighted average interest rate on the US Dollar securities is 9.0% (1999 6.0%). The weighted average time for these securities is 2.5 years (1999 1.5 years).

[4] These amounts do not incur or accrue interest.

[5] Financial liabilities are stated after taking into account the various interest rate and currency swaps entered into by the Group.

[6] The floating-rate financial liabilities comprise bank borrowings bearing interest at rates fixed in advance for periods ranging from one to six months based on the applicable LIBOR rate.

[7] The weighted average period for borrowings on which no interest is paid is nine years (1999 ten years).

23 Financial instruments continued

The analysis of fixed-rate borrowings is as follows:

	2000			1999		
	Total £m	**Weighted average interest rate at which fixed %**	**Weighted average period for which rate is fixed Months**	Total £m	Weighted average interest rate at which fixed %	Weighted average period for which rate is fixed Months
Currency						
Sterling	**976**	**6.2**	**23**	673	5.8	96
US Dollar	**83**	**7.1**	**59**	76	6.4	61
Other	**29**	**5.4**	**72**	23	5.0	79

The maturity profile of the Group's financial liabilities is as follows:

	2000 £m	1999 £m
In one year or less, or on demand	**286**	434
In more than one year but not more than two years	**57**	778
In more than two years but not more than five years	**441**	255
In more than five years	**617**	256
	1,401	1,723

Borrowing facilities

The Group has various borrowing facilities available to it. The undrawn committed facilities available at December 31, 2000 were as follows:

	2000 £m	1999 £m
Expiring within one year	**15**	20
Expiring in one to two years	**238**	100
Expiring thereafter	**790**	395
	1,043	515

Exchange risk management

The table below shows the Group's currency exposures at December 31, 2000 on currency transactions that give rise to the net currency gain and losses recognised in the profit and loss account. Such exposures comprise the net monetary assets and liabilities at December 31, 2000 of the Group that are not denominated in the functional currency of the operating company involved. The exposures are stated after taking into account the effects of currency swaps and forward foreign exchange contracts.

	2000 Net foreign currency monetary assets/(liabilities)				1999 Net foreign currency monetary assets/(liabilities)			
Functional currency of Group operation	**Sterling £m**	**US Dollar £m**	**Euro £m**	**Other £m**	Sterling £m	US Dollar £m	Euro £m	Other £m
Sterling	**—**	**7**	**(8)**	**2**	—	(4)	(7)	5
US Dollar	**—**	**—**	**—**	**—**	1	—	—	—
Euro	**—**	**1**	**—**	**1**	—	—	—	—
Other	**(2)**	**—**	**3**	**6**	(1)	27	9	(2)

23 Financial instruments continued

Fair values of financial assets and financial liabilities

The estimated fair value of the Group's financial instruments are summarised below:

Where available, market values have been used to determine current values. Where market values are not available, fair values have been calculated by discounting expected future cashflows at prevailing interest and exchange rates.

	2000 Book value £m	2000 Fair value £m	1999 Book value £m	1999 Fair value £m
Unlisted fixed asset investments	**23**	**23**	21	21
Cash at bank and in hand	**498**	**498**	521	521
Short-term deposits and investments	**142**	**140**	464	462
Short-term debt	**(272)**	**(273)**	(408)	(409)
Long-term debt	**(1,058)**	**(1,121)**	(1,271)	(1,283)
Other creditors – amounts falling due after one year	**(57)**	**(54)**	(18)	(16)
Debtors – amounts falling due after one year	**124**	**117**	156	132
Provisions	**(14)**	**(14)**	(26)	(25)
Derivatives used to hedge the interest, currency and commodity exposure of the business:				
Jet fuel swaps	**—**	**4**	—	3
Interest rate swaps	**(17)**	**(55)**	(10)	(8)
Currency options	**—**	**(5)**	(6)	(3)
Forward foreign currency contracts	**(20)**	**(273)**	(4)	32
Forward purchase of shares to meet share option commitments	**—**	**(1)**	—	—

Cash at bank and in hand, short-term deposits and short-term borrowings

The book value approximates to fair value either due to the short-term maturity of the instruments or because the interest rate of investments is reset after periods not greater than six months.

Derivatives

The fair value of derivatives is the estimated amount which the Group would expect to pay or receive were it to terminate the derivatives at the balance sheet date. This is based on current market rates.

Hedges of future transactions

As described in the Finance Director's review on pages 18 to 23 the Group's policy is to hedge the following exposures:

- interest rate risk – using interest swaps
- currency exposures on future forecast sales – using forward foreign currency contracts, currency swaps and currency options
- commodity price risk – using jet fuel swaps

Gains and losses on instruments used for hedging are as outlined in the accounting policies on pages 43 and 44.

Unrecognised gains and losses on instruments used for hedging, and the movements therein, are as follows:

	2000 Gains £m	2000 (Losses) £m	2000 Total net gains/(losses) £m	1999 Gains £m	1999 (Losses) £m	1999 Total net gains/(losses) £m
Unrecognised gains and losses on hedges at January 1, 2000	**64**	**(20)**	**44**	169	(24)	145
Gains and losses arising in previous year that were recognised in 2000	**(27)**	**2**	**(25)**	(62)	18	(44)
Gains and losses arising in previous year that were not recognised in 2000	**37**	**(18)**	**19**	107	(6)	101
Gains and losses arising as a result of acquisitions	**—**	**—**	**—**	3	(4)	(1)
Gains and losses arising in 2000 that were not recognised in 2000	**59**	**(371)**	**(312)**	(46)	(10)	(56)
Unrecognised gains and losses on hedges at December 31, 2000 of which:	**96**	**(389)**	**(293)**	64	(20)	44
Gains and losses expected to be recognised in 2001	**54**	**(116)**	**(62)**	22	(2)	20
Gains and losses expected to be recognised thereafter	**42**	**(273)**	**(231)**	42	(18)	24

24 Share capital

	Non-equity special share of £1	Equity ordinary shares of 20p each	Nominal value £m
Authorised			
At January 1 and December 31, 2000	1	2,000,000,000	400
Issued and fully paid			
At January 1, 2000	1	1,545,024,330	309
Exercise of share options	—	6,620,836	1
In lieu of paying dividends in cash	—	17,612,912	4
At December 31, 2000	1	1,569,258,078	314

Certain special rights, set out in the Company's Articles of Association, attach to the special rights redeemable preference share (special share) issued to HM Government. Subject to the provisions of the Companies Act 1985, the special share may be redeemed by the Treasury Solicitor at par at any time. The special share confers no rights to dividends or to vote at general meetings but in the event of a winding-up it shall be repaid at its nominal value in priority to any other shares.

At December 31, 2000, the following ordinary shares were subject to options:

	Date of grant	Number	Exercise price	Exercisable dates
Executive share option scheme	1991	120,407	139p	2001
	1992	302,364	125p	2001-2002
	1995	1,761,250	176p	2001-2005
	1996	113,400	238p	2001-2006
Executive share option plan	1999	1,542,669	269p	2002-2009
	1999	254,896	216p	2002-2009
	2000	2,393,399	194p	2003-2010
	2000	7,988,316	194p	2003-2010
	2000	36,808	163p	2003-2010
	2000	410,664	163p	2003-2010
	2000	29,326	170p	2003-2010
	2000	85,045	170p	2003-2010
Sharesave schemes	1995	13,862,662	150p	2001/2003
	*1995	40,895	155p	2001
	*1996	94,895	168p	2001/2002
	1997	15,769,359	205p	2001/2003/2005
	*1997	123,095	154p	2002
	*1998	893,767	107p	2002/2004
	1999	23,340,725	194p	2002/2003/2005/2007

Under the terms of the executive share option scheme and the executive share option plan, options granted to 363 directors and senior executives were outstanding at December 31, 2000.

Under the terms of the sharesave schemes, the Board may grant options to purchase ordinary shares in the Company each year to those employees who enter into an Inland Revenue approved Save As You Earn (SAYE) contract for a period of either three, five or seven years.

Employees in 24 countries participate in sharesave schemes through arrangements broadly comparable to the UK scheme. In the USA a '423' plan which has a two-year savings period was offered.

*Relates to options granted under the Vickers plc sharesave schemes which, following acquisition of Vickers plc, were exchanged in accordance with Inland Revenue Rules for options over Rolls-Royce plc ordinary shares.

25 Reserves

Group	Share premium £m	Revaluation reserve £m	Other reserves £m	Profit and loss account £m
	Non-distributable			
At January 1, 2000	**615**	**112**	**140**	**812**
Exchange adjustments	**—**	**—**	**1**	**29**
Scrip dividend adjustment	**—**	**—**	**—**	**37**
Ordinary shares issued relating to scrip dividend	**(4)**	**—**	**—**	**—**
Write-back of purchased goodwill relating to disposals	**—**	**—**	**41**	**—**
Arising on share issues (net of expenses)	**9**	**—**	**—**	**—**
Relating to Qualifying Employee Share Trust	**3**	**—**	**—**	**(3)**
Transfers between reserves	**—**	**(4)**	**—**	**4**
Retained loss for the year	**—**	**—**	**—**	**(43)**
At December 31, 2000	**623**	**108**	**182**	**836**
Company				
At January 1, 2000	**615**	**104**	**167**	**819**
Scrip dividend adjustment	**—**	**—**	**—**	**37**
Ordinary shares relating to scrip dividend	**(4)**	**—**	**—**	**—**
Arising on share issues (net of expenses)	**9**	**—**	**—**	**—**
Relating to Qualifying Employee Share Trust	**3**	**—**	**—**	**(3)**
Transfers between reserves	**—**	**(3)**	**—**	**3**
Retained profit for the year	**—**	**—**	**—**	**68**
At December 31, 2000	**623**	**101**	**167**	**924**

The cumulative amount of goodwill, arising on the acquisition of undertakings still in the Group at December 31, 2000, written off against other reserves amounts to **£387m** (1999 £428m). The continuance of this basis, in respect of pre-1998 acquisitions, is permitted under the transitional arrangements of FRS 10.

The undistributed profits of overseas subsidiary and joint ventures may be liable to overseas taxes and/or United Kingdom tax (after allowing for double tax relief) if remitted as dividends to the UK. No deferred tax has been provided on the basis that there is currently no intention to pay such dividends.

26 Operating lease annual commitments

	Group		Company	
	2000 £m	1999 £m	**2000 £m**	1999 £m
Leases of land and buildings which expire:				
Within one year	**2**	2	**—**	—
Between one and five years	**5**	5	**2**	—
After five years	**6**	4	**3**	2
Other leases which expire:				
Within one year	**2**	3	**—**	1
Between one and five years	**12**	12	**6**	5
After five years	**42**	27	**—**	1

27 Contingent liabilities

In connection with the sale of its products, on some occasions the Group and Company enter into individually and collectively significant long-term contingent obligations. These can involve, inter alia, guaranteeing financing for customers, guaranteeing a proportion of the values of both engine and airframe, entering into leasing transactions, commitments to purchase aircraft and in certain circumstances could involve the Group and Company assuming certain of its customers' entitlements and related borrowing or cash flow obligations until the value of the security can be realised.

At December 31, 2000, having regard to the estimated net realisable value of the relevant security, the net contingent liabilities in respect of financing arrangements on all delivered aircraft amounted to **£184m** (1999 £118m). Sensitivity calculations are complex, but, for example, if the value of the relevant security was reduced by 20%, a net contingent liability of approximately **£347m** (1999 £272m) would result. There are also net contingent liabilities in respect of undelivered aircraft but it is not considered practicable to estimate these as deliveries can be many years in the future and the related financing will only be put in place at the appropriate time.

At the date these accounts are approved, the directors regard the possibility that there will be any significant loss arising from these contingencies, which cover a number of customers over a long period of time, as remote. In determining this, and the values above, the directors have taken account of advice, principally from Airclaims Limited, professional aircraft appraisers, who base their calculations on a current and future fair market value basis assuming an arms-length transaction between a willing seller and a willing buyer.

Contingent liabilities exist in respect of guarantees provided by the Group in the ordinary course of business for product delivery, performance and reliability. The Company and some of its subsidiary undertakings have, in the normal course of business, entered into arrangements in respect of export finance, performance bonds, countertrade obligations and minor miscellaneous items. Various Group undertakings are parties to legal actions and claims which arise in the ordinary course of business, some of which are for substantial amounts. As a consequence of the recent insolvency of an insurer, the Group is no longer fully insured against known and potential claims from employees who worked for certain of the Group's UK based businesses for a period prior to the acquisition of those businesses by the Group. While the outcome of some of these matters cannot precisely be foreseen, the directors do not expect any of these arrangements, legal actions or claims, after allowing for provisions already made, to result in significant loss to the Group or Company.

In addition to the guarantees referred to in note 20 at December 31, 2000, there were other Company guarantees in respect of financial obligations of subsidiary undertakings **£38m** (1999 £4m) and joint ventures **£14m** (1999 £46m).

28 Related party transactions

Joint ventures

In the course of normal operations, the Group has contracted on an arms-length basis with joint ventures. The aggregated transactions which are considered to be material and which have not been disclosed elsewhere in the financial statements are summarised below:

	2000 **£m**	1999 £m
Other income	**16**	18
Purchases of goods and services	**(233)**	(315)

29 Post-retirements benefits

Pensions

The Group's pension schemes are mainly of the defined benefit type and the assets of the schemes are held in separate trustee administered funds.

The pension cost relating to the UK schemes is assessed in accordance with the advice of independent qualified actuaries using the projected unit method. The latest actuarial valuations of the principal schemes were as at March 31, 1998 (for the Vickers Group Pension Scheme), April 5, 1998 (for the Rolls-Royce Group Pension Scheme), and March 31, 2000 (for The Rolls-Royce Pension Fund). The principal assumptions used were that in the long term the average returns on investments would be between 2.5% and 2.75% per annum higher than the average increase in pay and between 3.0% and 4.5% per annum higher than the average increase in pensions. The assets of the Vickers Group Pension Scheme have been valued using the discounted income method assuming that UK equity dividends increase at a rate which is 3.5% less than the return on investments. The assumptions used for the March 1998 valuation of the Vickers Group Pension Scheme were determined by Vickers plc prior to it being acquired by Rolls-Royce plc. For the Rolls-Royce Group Pension Scheme and The Rolls-Royce Pension Fund, assets were valued on a market related basis.

The pension cost relating to overseas schemes is calculated in accordance with local best practice and regulations.

The total pension cost for the Group was **£63m** (1999 £60m) of which **£12m** (1999 £7m) relates to overseas schemes.

The aggregate of the market values of the UK schemes at the dates of the latest actuarial valuations was £5,126m. The actuarial value of the assets of the principal schemes represented respectively 99.8% (for The Rolls-Royce Pension Fund), 111.0% (for the Vickers Group Pension Scheme) and 125.0% (for the Rolls-Royce Group Pension Scheme) of the value of the projected accrued liabilities.

The difference between the value of the assets and the value of the projected accrued liabilities (after allowing for expected future increases in earnings and discretionary pension increases) is being amortised over periods of between 9 and 13 years, being the average expected remaining service lives of the pensionable employees.

Prepayments of **£157m** (1999 £105m) are included in debtors and accruals of **£24m** (1999 £24m) are included in provisions for liabilities and charges, being the differences between the accumulated amounts paid into the pension funds and the accumulated pension costs.

Post-retirement benefits other than pensions

In the USA, and to a lesser extent in some other countries, the Group's employment practices include the provision of healthcare and life insurance benefits for retired employees. In the USA, 167 retired employees currently benefit from these provisions and it is estimated that 5,200 current employees will be eligible on retirement.

The cost of post-retirement benefits other than pensions for the Group was **£14m** (1999 £11m). Provisions for the benefit obligations at December 31, 2000 amounted to **£102m** (1999 £80m) and are included in provisions for liabilities and charges. There were no plan assets at either December 31, 2000 or December 31, 1999. The future costs of benefits are assessed in accordance with the advice of independent qualified actuaries and are based on a weighted average discount rate of 7.5% and a weighted average assumed healthcare costs trend rate of 5%.

30 Acquisition fair values

For the acquisitions made in 1999, provisional fair values have been finalised resulting in the following adjustments:

Vickers	**1999 Provisional fair values £m**	**Accounting policy adjustments £m**	**Revaluation adjustments £m**	**Adjusted fair value £m**
Tangible fixed assets	169	—	—	169
Investments	19	—	—	19
Stocks	153	—	(3)	150
Debtors	270	—	—	270
Cash and deposits	93	—	—	93
Borrowings	(191)	—	—	(191)
Other liabilities	(374)	—	(4)	(378)
Provisions for restructuring	(32)	—	4	(28)
Other provisions for liabilities and charges	(89)	—	(14)	(103)
Net assets acquired	18	—	(17)	1
Goodwill	577	—	16	593
Total consideration	595	—	(1)	594

The principal adjustments have been: £3m for obsolete stock, £4m for additional accruals, £10m for various contract issues and deferred tax asset and £1m adjustment to consideration.

Rolls-Royce Deutschland	**1999 Provisional fair values £m**	**Accounting policy adjustments £m**	**Revaluation adjustments £m**	**Adjusted fair value £m**
Tangible fixed assets	185	(3)	—	182
Stocks	80	5	—	85
Debtors	112	—	—	112
Borrowings	(141)	—	—	(141)
Other liabilities	(81)	(5)	—	(86)
Provisions for restructuring	(13)	—	4	(9)
Other provisions for liabilities and charges	(51)	1	(13)	(63)
Net assets acquired	91	(2)	(9)	80
Goodwill	198	2	10	210
Total consideration	289	—	1	290

The principal adjustments have been: £3m on fixed assets to align depreciation policies, £5m write-back of stock provision, £5m for other liabilities relating to the unwinding of foreign exchange positions and write-back of tax, £9m for provision adjustments and £1m adjustment to consideration.

Cooper Energy Services
Fair values have increased by £2m for additional accruals, and the consideration paid has increased by £2m.

Rolls-Royce Engine Services – Oakland
Fair values have increased by £1m for additional accruals.

Cash flow
The cash flow impact in 2000 was: 1999 accruals £43m, additional consideration £2m.

31 Disposal or termination of businesses

During the year, the Group disposed of or terminated its interests in Vickers turbine components and materials handling businesses. Additionally full or partial interests were sold in several other small businesses.

	Continuing businesses £m	Vickers turbine components £m	Materials handling disposal/ termination £m	Other businesses £m	Total £m
Intangible fixed assets	1	17	—	—	18
Tangible fixed assets	7	29	—	3	39
Investments	1	—	—	—	1
Stocks	8	21	5	1	35
Debtors	9	36	6	3	54
Creditors	(7)	(30)	(4)	(3)	(44)
Provisions for liabilities and charges	(1)	—	—	—	(1)
	18	73	7	4	102
Minority interest	(11)	—	—	—	(11)
Transfer to joint ventures	(4)	—	—	—	(4)
Net assets	3	73	7	4	87
Write-back of goodwill	1	—	40	—	41
Profit/(loss) on sale or termination of businesses	—	—	(73)	(5)	(78)
Disposal proceeds less costs	4	73	(26)	(1)	50
Deferred receipts	(1)	(77)	(1)	—	(79)
Accrued costs	—	3	21	—	24
Net cash inflow/(outflow) – Group cash flow statement	3	(1)	(6)	(1)	(5)

Principal subsidiary undertakings
at December 31, 2000

Incorporated within the UK

Civil aerospace	
Rolls E.L. Turbofans Limited	FJ44 engine support services/holding company
Defence	
Vickers Engineering plc [1]	Defence systems
Marine systems	
Rolls-Royce Marine Power Operations Limited	Nuclear submarine propulsion systems
Financial services and corporate	
NEI Overseas Holdings Limited [2]	Holding company
Rolls-Royce Aircraft Management Limited	Sales finance and other financial services
Rolls-Royce Capital Limited [3]	Sales finance and other financial services
Rolls-Royce International Limited	International support and commercial information services
Rolls-Royce Leasing Limited	Engine leasing
Rolls-Royce Overseas Holdings Limited	Holding company
Rolls-Royce Power Engineering plc	Power generation and marine systems
Rolls-Royce Power Ventures Limited	Provision of project development capabilities
Sourcerer Limited [3]	Supply of goods, services and utilities to the engineering sector
Vickers plc	Holding company

[1] The interest is held by Vickers plc.
[2] The interest is held by Rolls-Royce Power Engineering plc.
[3] These subsidiaries act as agents of Rolls-Royce plc.

The above companies operate principally in the UK and the effective Group interest is 100%.

Incorporated overseas

Civil aerospace		
Brazil	**Rolls-Royce Brasil Limitada**	Repair and overhaul
France	**Rolls-Royce Technical Support SARL** [1]	Project support
Germany	**Rolls-Royce Deutschland & Co KG** [2]	BR700 series engine development and manufacture
USA	**Rolls-Royce Corporation** [3]	Design, development and manufacture of gas turbine engines
USA	**Rolls-Royce Engine Services – Oakland Inc.** [4]	Repair and overhaul
USA	**Rolls-Royce Gear Systems Inc.** [4]	Design and manufacture of accessory gearbox systems
Marine systems		
Norway	**Rolls-Royce Marine AS** [5]	Holding company
Sweden	**Kamewa Holdings AB** [5]	Holding company
USA	**Syncrolift Inc.** [4]	Shiplift systems
Energy		
Canada	**Rolls-Royce Canada Limited** [6]	Industrial gas turbines and aero engine sales, service and overhaul
Canada	**Rolls-Royce Holdings Canada Inc.**	Holding company
Canada	**Rolls-Royce Industries Canada Inc.** [7]	Holding company
India	**Rolls-Royce Energy Systems India Pty Limited** [1]	Project management and customer support
USA	**Rolls-Royce Energy Systems Inc.** [4]	Turbine generator packages
Financial services and corporate		
Eire	**Rolls-Royce Ireland** [1]	Holding company
Guernsey	**Nightingale Insurance Limited** [1]	Insurance services
USA	**Rolls-Royce North America (USA) Holdings Co.** [8]	Holding company
USA	**Rolls-Royce North America Holdings Inc.** [9]	Holding company
USA	**Rolls-Royce Capital Inc.** [10]	Financial services

[1] The interests are held by Rolls-Royce Overseas Holdings Limited.
[2] The interest is held as follows: 50.5% Rolls-Royce Erste Beteiligungs GmbH, 49.5% Rolls-Royce Zweide Beteiligungs GmbH.
[3] The interest is held by Rolls-Royce Asset Management Inc.
[4] The interests are held by Rolls-Royce North America Ventures I Inc.
[5] The interests are held by Vickers International Limited.
[6] The interest is held by Rolls-Royce Industries Canada Inc.
[7] The interest is held by Rolls-Royce Holdings Canada Inc.
[8] The interest is held by Rolls-Royce Ireland.
[9] The interest is held by Rolls-Royce North America (USA) Holdings Co.
[10] The interest is held by Rolls-Royce North America Ventures II Inc.

The above companies operate principally in the country of their incorporation and the effective Group interest is 100%.

A list of all subsidiary undertakings will be included in the Company annual return to Companies House.

Principal joint ventures

at December 31, 2000

Incorporated within the UK

	Class	% of class held by Rolls-Royce plc	% of total equity held by Rolls-Royce plc
Civil aerospace			
RoSec Limited[1]	A Ordinary	—	50
Digital engine controls	B Ordinary	100	
TRT Limited	A Ordinary	—	49.5
Turbine blade repair services	B Ordinary	100	
Turbine Surface Technologies Limited	A Ordinary	—	50
Turbine surface coatings	B Ordinary	100	
Defence			
Rolls-Royce Turbomeca Limited (UK & France)	A Shares	—	50
Adour and RTM322 engines collaboration	B Shares	100	
Turbo-Union Limited (UK, Germany & Italy)	Ordinary	40	40
RB199 engine collaboration	A Shares	37.5	
Energy			
Rolls Wood Group (Repair and Overhauls) Limited	A Ordinary	100	50
Repair and overhaul	B Ordinary	—	
Financial services and corporate			
Alpha Partners Leasing Limited	A Ordinary	100	50
Engine leasing	B Ordinary	—	

Incorporated overseas

		Class	% of class held by Rolls-Royce plc	% of total equity held by Rolls-Royce plc
Civil aerospace				
China	**Xian XR Aero Components Co Limited** Manufacturing facility for aero-engine parts	Ordinary	49	49
Hong Kong	**Hong Kong Aero Engine Services Limited**[3] Repair and overhaul	Ordinary	45	45
Israel	**TechJet Aerofoils Limited**[3] Manufacture of compressor aerofoils	A Ordinary B Ordinary	50 50	50
Saudi Arabia	**Middle East Propulsion Company**[4] Repair and overhaul	Foreign Ordinary	16.7 —	16.7
Singapore	**International Engine Components Overhaul Pte Limited**[3] Repair and overhaul	Common	50	50
Singapore	**Singapore Aero Engine Services Limited**[3] (effective interest 39%) Repair and overhaul	Ordinary	30	30
Spain	**Industria de Turbo Propulsores SA** Manufacture and maintenance of aero engines	Ordinary	46.9	46.9
Switzerland	**IAE International Aero Engines AG** (UK, Germany, Japan & USA) V2500 series engine collaboration	A Shares B Shares C Shares D Shares	100 — — —	32.5
Switzerland	**Temro AG**[3] Repair and overhaul	Ordinary	50	50
USA	**Data Systems & Solutions, LLC**[5] Advanced controls and predictive data management	Common	50	50
USA	**Texas Aero Engine Services, LLC**[6] Repair and overhaul	Ordinary	50	50
USA	**Williams-Rolls Inc.**[7] (UK & North America) FJ44 engine collaboration	Common	15	15

Incorporated overseas continued

		Class	% of class held by Rolls-Royce plc	% of total equity held by Rolls-Royce plc
Defence				
Germany	**EUROJET Turbo GmbH** (UK, Germany, Italy & Spain) EJ200 engine collaboration	Ordinary	33	33
Germany	**MTU, Turbomeca, Rolls-Royce GmbH** (UK, France & Germany) MTR390 engine collaboration	Ordinary	33.3	33.3
Energy				
South Africa	**Northern Engineering Industries Africa Limited** [8] Energy conversion and distribution equipment	Ordinary	24.4	24.4
Financial services and corporate				
Isle of Man	**Pembroke Group Limited** [9] (Eire) Aircraft leasing	Ordinary	50	50
USA	**Alpha Leasing (US) LLC** [10] Engine leasing	Common	50	50
USA	**Alpha Leasing (US) (No. 2) LLC** [10] Engine leasing	Common	50	50
USA	**Rolls-Royce & Partners Finance (US) LLC** [10] Engine leasing	Common	50	50

Unincorporated overseas

Civil aerospace	
USA	**Light Helicopter Turbine Engine Company (LHTEC).** Rolls-Royce Corporation has a 50% interest in this unincorporated partnership which was formed to jointly develop and market the T800 engine.

[1] The interest is held by Rolls-Royce Engine Controls Limited.
[2] The interest is held by Rolls-Royce Power Engineering plc.
[3] The interests are held by Rolls-Royce Overseas Holdings Limited.
[4] The interest is held by Middle East Equity Partners Limited.
[5] The interest is held by Rolls-Royce Control Systems Holdings Co.
[6] The interest is held by Rolls-Royce Engine Services Holdings Co.
[7] The interest is held by Rolls E.L. Turbofans Limited.
[8] The interest is held by NEI Overseas Holdings Limited.
[9] The interest is held by Rolls-Royce Partners Finance (Netherlands) BV.
[10] The interests are held by Rolls-Royce Finance Holdings Co.

The countries of principal operations are stated in brackets after the name of the company.

Joint arrangements that are not entities

at December 31, 2000

		Class	% of class held by Rolls-Royce plc	% of total equity held by Rolls-Royce plc
Jersey	**RS Leasing Limited** [1] Aircraft leasing	A Ordinary B Ordinary	100 —	50

[1] The interest is held by Rolls-Royce Leasing Limited.

Group five year review

for the years ended December 31

Profit and loss account	2000 £m	1999 £m	1998 £m	1997 £m	1996 £m
Group turnover [1]	**5,864**	4,634	4,471	4,323	3,887
Operating profit before exceptional items and net research and development	**806**	713	626	539	442
Operating exceptional items	**(145)**	—	—	—	(101)
Research and development (net)*	**(371)**	(337)	(310)	(268)	(217)
Group operating profit [2]	**290**	376	316	271	124
Share of operating profit of joint ventures	**76**	31	17	17	12
Non-operating exceptional items	**(77)**	6	9	1	(147)
Net interest payable	**(123)**	(53)	(17)	(13)	(17)
Profit/(loss) on ordinary activities before taxation	**166**	360	325	276	(28)
Taxation	**(83)**	(74)	(65)	(51)	(16)
Profit/(loss) on ordinary activities after taxation	**83**	286	260	225	(44)
Equity minority interests in subsidiary undertakings	**—**	(2)	(2)	(1)	(3)
Profit/(loss) attributable to ordinary shareholders	**83**	284	258	224	(47)
Dividends	**(126)**	(112)	(99)	(88)	(78)
Transferred to/(from) reserves	**43**	172	159	136	(125)
*Research and development (gross)	**(604)**	(626)	(668)	(595)	(527)
[1] **Group turnover**					
Continuing operations	**5,864**	4,634	4,301	3,919	3,397
Discontinued operations	**—**	—	170	404	490

Group turnover has been restated for the change in treatment of risk and revenue sharing partnership receipts.

[2] Group operating profit/(loss)	2000	1999	1998	1997	1996
Continuing operations	**290**	376	326	266	229
Discontinued operations	**—**	—	(10)	5	(105)
Earnings/(loss) per ordinary share					
Underlying	**21.63p**	19.52p	16.91p	15.16p	12.70p
Basic	**5.33p**	18.86p	17.25p	15.16p	(3.19)p
Dividends per ordinary share	**8.00p**	7.25p	6.55p	5.90p	5.30p

Balance sheet	2000 £m	1999 £m	1998 £m	1997 £m	1996 £m
Fixed assets [1]	**2,868**	2,853	1,406	1,309	1,201
Current assets [1]	**3,892**	3,906	3,375	3,232	2,872
	6,760	6,759	4,781	4,541	4,073
Liabilities and provisions	**(4,696)**	(4,758)	(3,064)	(3,079)	(2,748)
	2,064	2,001	1,717	1,462	1,325
Share capital	**314**	309	301	296	295
Reserves	**1,749**	1,679	1,404	1,147	1,008
Equity shareholders' funds	**2,063**	1,988	1,705	1,443	1,303
Minority interests in subsidiary undertakings	**1**	13	12	19	22
	2,064	2,001	1,717	1,462	1,325

[1] Fixed and current assets have been restated following the adoption of UITF 24 'Accounting for Start-up Costs', resulting in certification costs being treated as intangible assets (previously included in prepayments). This change in accounting policy has no effect on prior year reserves.

Cash flow	2000 £m	1999 £m	1998 £m	1997 £m	1996 £m
Cash inflow from operating activities [1]	**479**	359	309	331	181
Interest, dividends and taxation	**(162)**	(152)	(98)	(113)	(102)
Capital expenditure and financial investment	**(253)**	(199)	(333)	(214)	(101)
Acquisitions and disposals	**(53)**	(666)	87	42	(21)
	11	(658)	(35)	46	(43)
Cash flow from financing	**(360)**	622	113	13	64
(Decrease)/increase in cash and liquid resources	**(349)**	(36)	78	59	21

[1] These figures have been restated following adoption of UITF 24 as explained in note[1] in the balance sheet.

Shareholders' information

Financial calendar

Ex dividend date for final dividend	April 25, 2001
Calculation period for scrip dividend	April 25-May 1, 2001
Qualifying (record) date for final dividend	April 27, 2001
Last date for new scrip dividend instructions	May 21, 2001
Annual General Meeting, The Queen Elizabeth II Conference Centre, Broad Sanctuary, London SW1	11am May 31, 2001
Payment of final/scrip dividend	July 2, 2001
Press advertisement of 2001 interim results*	August 24, 2001
Ex dividend date for interim dividend	October 17, 2001
Calculation period for scrip dividend	October 17-23, 2001
Qualifying (record) date for interim dividend	October 19, 2001
Last date for new scrip dividend instructions	November 9, 2001
Financial year end	December 31, 2001
Payment of interim/scrip dividend	January 7, 2002
Press advertisement of 2001 preliminary results*	March, 2002
2001 Annual Report published	April, 2002

*Note: Preliminary and interim results are notified by press advertisements and will also be available on the Company's website.

Analysis of ordinary shareholders at December 31, 2000

Number of shares	Number of holdings	% of total holdings	% of total shares
1 – 150	122,796	36.70	1.01
151 – 500	166,498	49.76	2.69
501 – 10,000	43,412	12.98	4.93
10,001 – 100,000	1,280	0.38	2.39
100,001 – 1,000,000	445	0.14	9.66
1,000,001 and over	158	0.04	79.32
	334,589	100.00	100.00

Shareholder enquiries

If you would prefer to receive new shares instead of cash dividends, please ask the Registrar for a scrip dividend mandate. If you have any queries on the following:

i) Transfer of shares
ii) Change of name or address
iii) Lost share certificates
iv) Lost or out of date dividend cheques
v) Death of a registered holder of shares
vi) Any other query relating to Rolls-Royce plc shares

please write to, or telephone, the Registrar at the following address:

Computershare Services PLC
PO Box 82
The Pavilions
Bridgwater Road
Bristol BS99 7NH
Helpline: 0870 702 0111

You may also contact the Registrar through the Internet at www.computershare.com

The Company operates a free-of-charge service for consolidating the individual shareholdings of immediate members of a family. Please ask the Registrar for details if you are interested.

Low-cost share dealing

Details of special low-cost dealing services in the Company's shares may be obtained from Hoare Govett Limited (telephone 020 7678 8000) and from NatWest Stockbrokers Limited (telephone 020 7895 5489). Both are members of the Securities and Futures Authority and NatWest Stockbrokers is also a member of the London Stock Exchange.

You can obtain the current market price of the Company's shares by telephoning 0839 500 232 or alternatively by viewing teletext or similar services.

Internet

The Annual Report, Company announcements and other information are available through the Internet on http://www.rolls-royce.com

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