COMPANY NUMBER
1003142

Rolls-Royce plc
1993 Annual Report

Group Financial Highlights

for the year ended December 31, 1993

	1993 £m	1992 £m
Turnover	3,518	3,562
Exceptional items	—	(268)
Research and development (net)	(253)	(229)
Profit/(loss) before taxation	76	(184)
Profit/(loss) attributable to shareholders	63	(202)
Equity shareholders' funds	1,225	899
Earnings/(loss) per ordinary share – net basis	5.95p	(20.39)p
– net basis before exceptional items	5.95p	6.46p
Dividend per ordinary share	5.00p	5.00p
Average number of ordinary shares in issue	1,058m	966m

Contents:

Rolls-Royce plc
Registered office:

65 Buckingham Gate
London SW1E 6AT
Telephone: 071 222 9020

Company number: 1003142

Rolls-Royce is a high integrity engineering group bringing advanced cost-effective technology to aerospace and industrial power systems markets worldwide.

With extensive international experience and outstanding technological skills we are making Rolls-Royce a world market leader in its chosen product fields: aero, marine and industrial gas turbines, power generation, nuclear engineering and materials handling.

Rolls-Royce operates through two main units: the Aerospace Group, specialising in gas turbines for civil and military aircraft; and the Industrial Power Group which designs, constructs and installs complete power generation, transmission and distribution systems and major equipment for marine propulsion, oil and gas pumping, offshore and defence markets.

Today's Rolls-Royce is a significant supplier wherever cost-effective engineering solutions are required. In 1993 more than 70 per cent of its sales were achieved overseas.

1993 was my first full year as Chairman of this famous international engineering company. It was a year in which considerable progress was made, despite the continued difficult market conditions.

Profit before tax rose to £76 million (1992 loss before tax £184 million) on sales which fell slightly to £3.5 billion (1992 £3.6 billion).

Cash was generated from operations despite spending £92 million of the provision made in 1992 on extensive restructuring. The restructuring will continue through 1994.

A successful Rights Issue in September raised £307 million net of costs and I would like to thank all shareholders for their support.

This Issue strengthens Rolls-Royce's competitive position and enables the Group to maintain a strong balance sheet whilst continuing with its capital investment programme and the development of the technologies and products which are the key to its market position and future growth.

The Rights Issue, along with the cash we generated from operations, led to a year end net cash balance of £473 million.

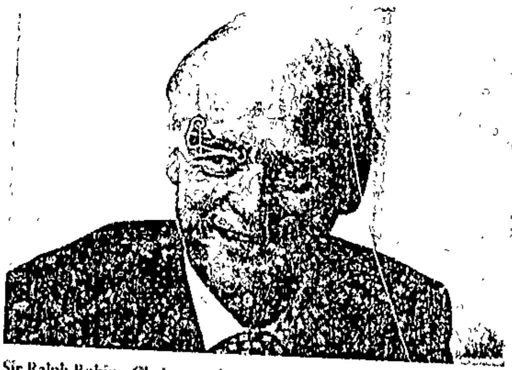
We made outstanding progress during the year with the development of new products, in particular with the Trent family of engines.

The Trent 700 engine, for the Airbus Industrie A330 aircraft, was certificated on schedule at the end of the year. The initial running of the more powerful Trent 800 engine for the Boeing 777 aircraft was very successful, with high powers being achieved almost immediately. I cannot remember any new engine performing so well at such an early stage.

Good progress is also being made with the development of the 50 MW industrial Trent, which achieved its launch order during the year.

Similar excellent progress has been made with the BMW Rolls-Royce BR710, the core of which first ran in mid-year, the EJ200 combat engine and the exciting WR-21 advanced marine engine being developed with Westinghouse for the United States and other navies.

We won significant new business throughout



Sir Ralph Robins, Chairman of Rolls-Royce plc

the year including several large contracts for both the Aerospace and Indusrrial Power Groups. As a result, we maintained a good forward order book with a year end value of more than £6 billion.

The long recession in the world's airline industry still continues, and as yet there are few signs of recovery. Our military engine business has continued to reduce with the worldwide cut-back in defence spending. These market conditions underline the importance of our restructuring programme.

This programme, which involves the closure of several sites and inevitable further reduction in the number of employees, is on plan and is essential to enable us to maintain our competitiveness. Similar actions are being taken by our two principal aero engine competitors.

As part of the restructuring programme, we have created new companies for commercial aero engines, military aero engines and aero engine services. These companies are profit centres and will focus activity on the particular needs of their customers.

The Industrial Power Group has had a generally satisfactory year in markets somewhat less affected by recession than those faced by the Aerospace Group. Rationalisation of the Industrial Power Group continued through the year, including the disposal of some non-core businesses, the sale of which has contributed to the overall reduction in the total workforce.

Last year I gave evidence to the Select Committee on Trade and Industry during its review of the UK aerospace industry. Towards the end of the year, the Government published its response to the report and despite its somewhat disappointing tenor, we look forward to Government and Industry continuing to develop a relationship that will benefit UK aerospace and manufacturing.

An important issue for Rolls-Royce is to have aero engines included in the new GATT agreement and during 1994 we will press our case to make this happen.

The Government was supportive of our marketing efforts during the year. I accompanied the Prime Minister on a tour of the Far East during which he visited Connaught Bridge Power Station in Malaysia where he unveiled a plaque to mark the completion of an important Parsons project to convert the station to combined cycle operation.

Our overseas strengths are evidenced by the position of Rolls-Royce as one of the top five UK exporters. This achievement has gone hand-in-hand with our improvements in productivity and is a credit to the workforce.

We have recently instituted some changes at board and senior management level. Mr Richard Maudslay, Managing Director of the Industrial Power Group, joined the Board in January 1994. Mr John Rose was appointed Deputy Managing Director of the Aerospace Group with effect from February 1994. In April 1993 Mr Clyde Harris became Company Secretary following the departure of Mr Richard Henchley.

Sadly, Sir Philip Shelbourne, a non-executive director who retired in 1992, died in April 1993 and I would like to record the Board's gratitude for his valuable and devoted service.

In her Birthday and New Year Honours Lists, Her Majesty The Queen graciously bestowed honours on two of our employees. Mr Alan Plumb, Regional Director for Korea, received an OBE and Sgt Major Steve Radford, a member of our security staff, an MBE. I congratulate both these colleagues.

Prospects

It is the Board's intention to continue to improve Rolls-Royce's position in its two key market sectors, aerospace and power generation. In civil aerospace we are now taking 25 per cent of world orders and with our current product portfolio there is no reason to doubt that we can secure a greater share of this business. The Industrial Power Group's access to market will be progressively widened through its relationship with the Westinghouse Corporation and its alliance partners.

Collaborative ventures are a very important factor in our future growth. The continued success of Cooper Rolls, our joint company with Cooper Industries Inc., is very gratifying and this company has become a world leader within the gas and oil production industry. Our joint company with BMW AG, BMW Rolls-Royce, has had a splendid start. With the launch of the BR710 engine for both Gulfstream and Canadair for their long range business jets and the subsequent selection of the BR715 for the McDonnell Douglas MD-95, BMW Rolls-Royce has achieved a dominant market position.

I firmly believe that we have world class products and a name and international reputation that is the envy of our competitors. We also have very highly skilled people to whom I would like to extend my thanks for their hard work, dedication and co-operation throughout the year.

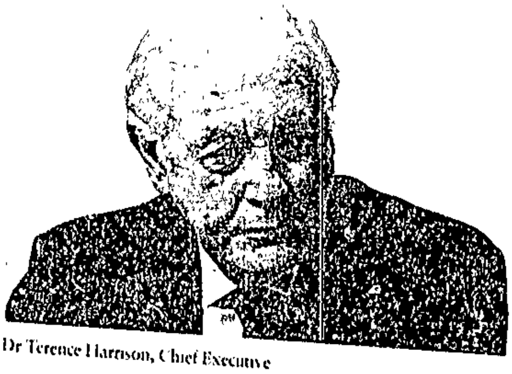
Our extensive reorganisation will lead to progressive improvement in the efficiency of our operations and allow us to exploit our growing worldwide business opportunities.

In considering the outlook and market conditions, and as indicated in the Rights Issue prospectus, the Board has recommended a final dividend payment of 3.00p a share, making a total of 5.00p for the year.

Rolls-Royce is sound financially and technically and strong in international markets. These are qualities that will enhance our position as one of the world's leading power systems companies.

Ralph Robins

Sir Ralph Robins
Chairman
March 9, 1994



Dr Terence Harrison, Chief Executive

Rolls-Royce continues to develop as a major player in growth markets worldwide. To achieve continued commercial success our management understands that we must provide high quality reliable products which give minimum cost of ownership for our customers.

To this end, the main thrust of our efforts has been in the following areas:

- continued investment in a high level of research and development in both our Aerospace and Industrial Power Groups
- further progress with our radical restructuring programme to ensure that our engineering and manufacturing capabilities are competitive in world terms
- reduction of our involvement with activities which are peripheral to our mainstream operations
- modification of management structures to pinpoint accountability and focus on the real priorities of the business, with increasing emphasis on inventory levels and cash management.

Aerospace Group operations

The formation of three new companies within the Aerospace Group is a clear manifestation of our intention to maintain our position in world markets. More than 85 per cent of Aerospace Group products and services are for export markets. The group is headquartered in Derby where most of our advanced research and development work is undertaken. The commercial aero engine business is also centred in Derby and the military aero engine business in Bristol.

Rolls-Royce Commercial Aero Engines Limited

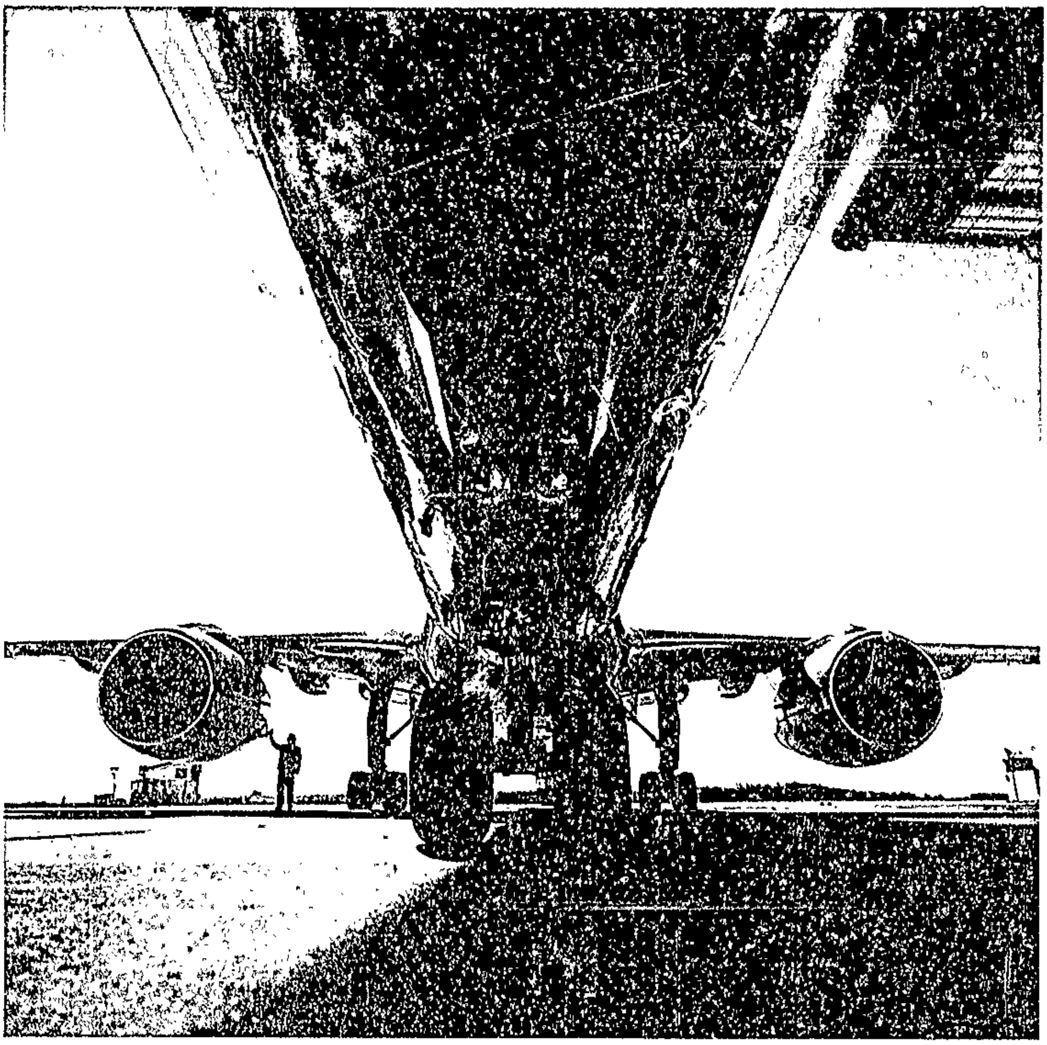
The market for commercial aircraft engines remained depressed. However, in an environment where new orders are rare, and cancelled or deferred orders common, we have suffered less than some of our competitors, securing 25 per cent of new business announced worldwide during the year.

Reliability and low total cost of ownership remain the by-words for our turbofan products. The number of Boeing 747-400 aircraft achieving more than 15,000 hours without removal of any of their original RB211-524 engines continues to increase.

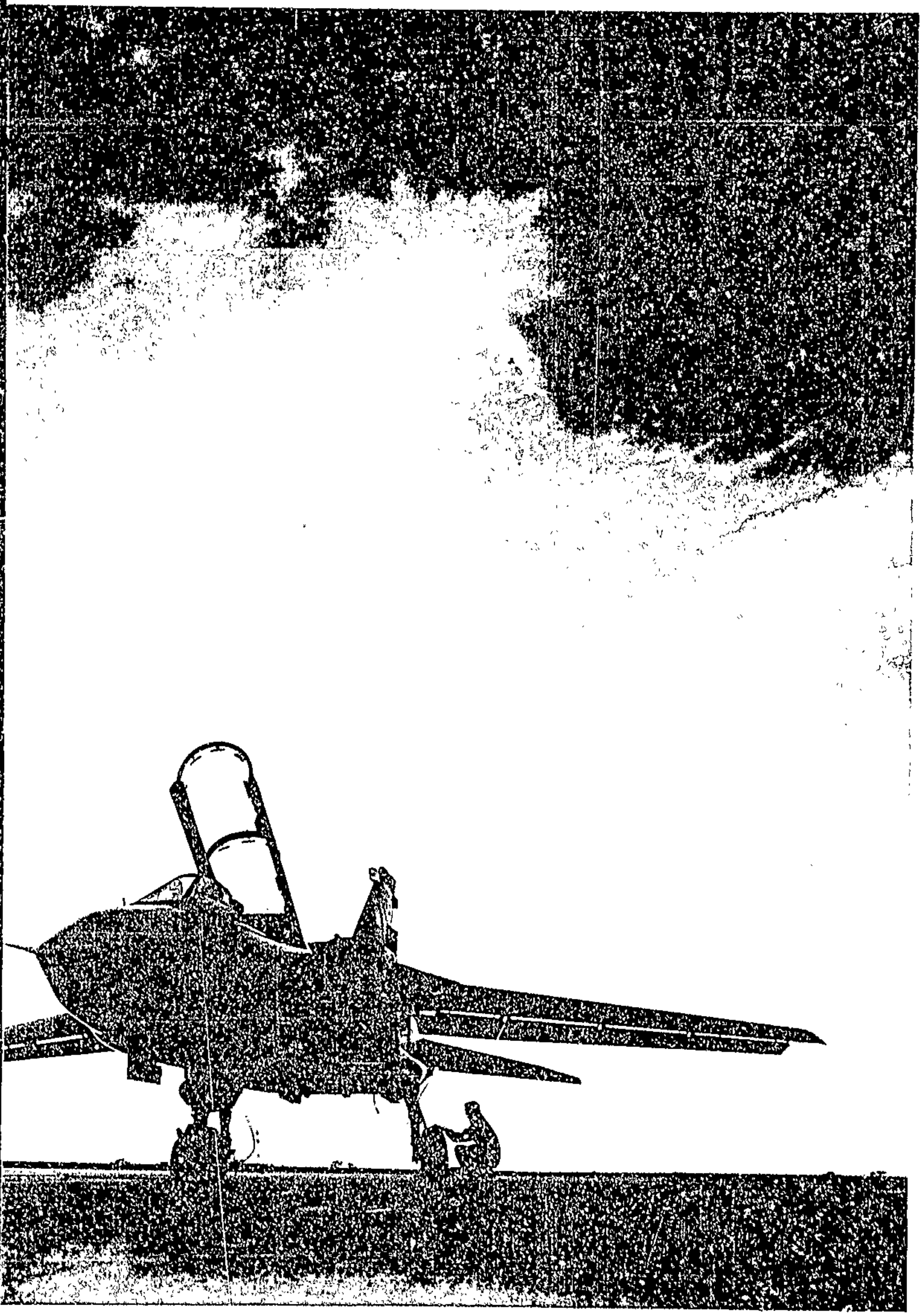
Significant orders from United Parcel Service, Continental and USAir confirmed the RB211-535 as the engine of choice for more than 80 per cent of all Boeing 757 operators.

On the Fokker 100 the Tay continues to prove its worth in service with customers worldwide. Airlines which placed orders in 1993 included New Midway, Air UK, British Midland, Royal Swazi National Airways and Transwede Airways. The Fokker 70, a new regional airliner also powered by Tay engines, was launched with orders from Sempati Air and Pelita Air Service in Indonesia, followed by Mesa Airlines in the USA, Air Littoral in France and British Midland.

The Trent 700 engine made its first flight on an Airbus A330 from Toulouse in January 1994, while the Trent 800 for the Boeing 777 also passed several significant milestones on, or ahead, of schedule and achieved a world record thrust level of 106,000 lb during routine development testing. I would particularly like to thank everyone involved in the Trent programme for their excellent efforts during the year.



The Al Yamamah II contract involves Rolls-Royce Military Aero Engines Limited in the production of more than one hundred RB199 engines for Tornado aircraft of the Royal Saudi Air Force.



The V2500 collaborative engine programme made good progress with certification and first flights of the -D5 variant on the A321 and McDonnell Douglas MD-90. The -A5 variant entered service with both United Airlines and Lufthansa.

BMW Rolls-Royce confirmed its position in the long-range business jet and regional jet markets with the selection of the BR710 engine by Canadair for the new Global Express aircraft and the BR715 for the McDonnell Douglas MD-95. The core of this advanced turbofan family ran on schedule in August.

Rolls-Royce Military Aero Engines Limited

In the face of declining defence expenditure and powerful competition, the military engine business nevertheless achieved a satisfactory performance.

The business is increasingly orientated towards export sales which now represent 70 per cent of our total military activity. Encouragingly, our order book increased during 1993 in spite of the overall decline in defence orders worldwide.

Notable in 1993 was the signing of the Al Yamamah II contract involving more than one hundred RB199 engines for Saudi Arabia, with scope for further sales of Adour engines.

An agreement between the USA, Italy and Spain enabled the multi-national Harrier II Plus programme to proceed, leading to continuing Pegasus engine business in these countries.

The US Navy confirmed that the cost effective Adour will remain the sole powerplant for its T-45A Goshawk trainer although acquisition of the aircraft will be spread over a longer period.

Europe's newest military powerplant, the EJ200, achieved its clearance for flight in the prototype Eurofighter 2000. With the EJ200, Rolls-Royce and our European partners are at the forefront of combat engine technology.

Flight trials of the EH101 Merlin naval helicopter, fitted with three RTM322 engines, showed good results. Re-commitment of the Royal Air Force's intent to purchase RTM322 powered EH101s in the future was also encouraging.

Further export sales brought continuing success for the combination of the Gem 42 engine and the Super Lynx helicopter, now dominant in naval helicopter markets.

All our engine programmes are running on time and we have achieved high standards of quality, reliability and delivery.

Rolls-Royce Aero Engine Services Limited

The focus provided by the formation of Rolls-Royce Aero Engine Services, together with its extensive network of service bases and overhaul facilities, provides us with excellent opportunities in the highly competitive aftermarket for aero gas turbine products.

The reallocation of work between sites and substantial investment in specialised workshops and maintenance centres has helped to improve productivity. This, with the emphasis on faster and more cost-effective service and the ability to operate in a more entrepreneurial fashion, has helped us to win new commercial aero engine overhaul work.

The volume of military engine business has declined, but we have successfully retained our significant share of this market and see some new opportunities both in the UK and overseas.

A joint venture with Howmet Corporation has been formed to take advantage of parts refurbishment opportunities in North America. We have also undertaken more parts refurbishment activity for overhaul bases overseas.

In total 60 per cent of revenues were from export customers.

Manufacturing and Procurement

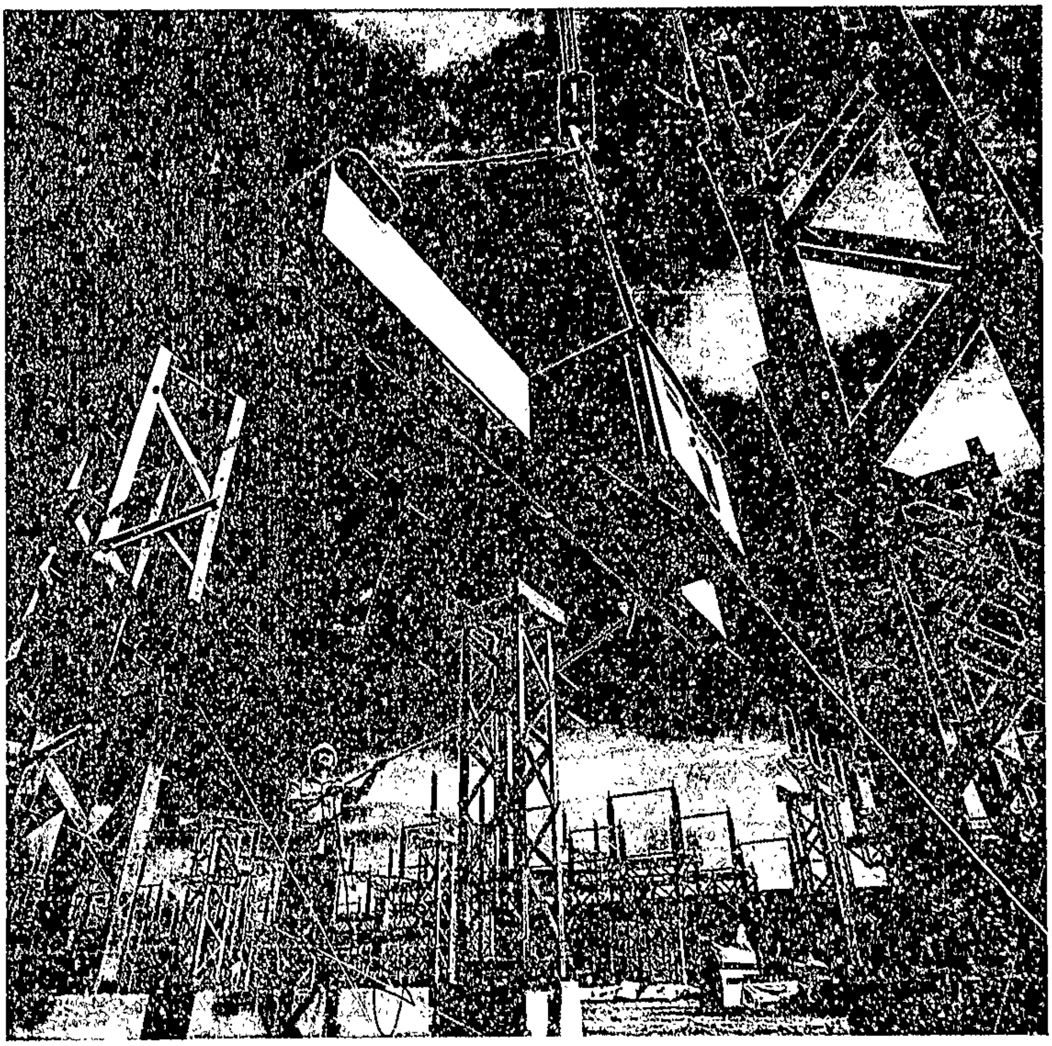
An important development in 1993 was the formation of two business units, Manufacturing and Procurement, to provide increasing focus on our own domestic manufacturing capability and that of our global supply network.

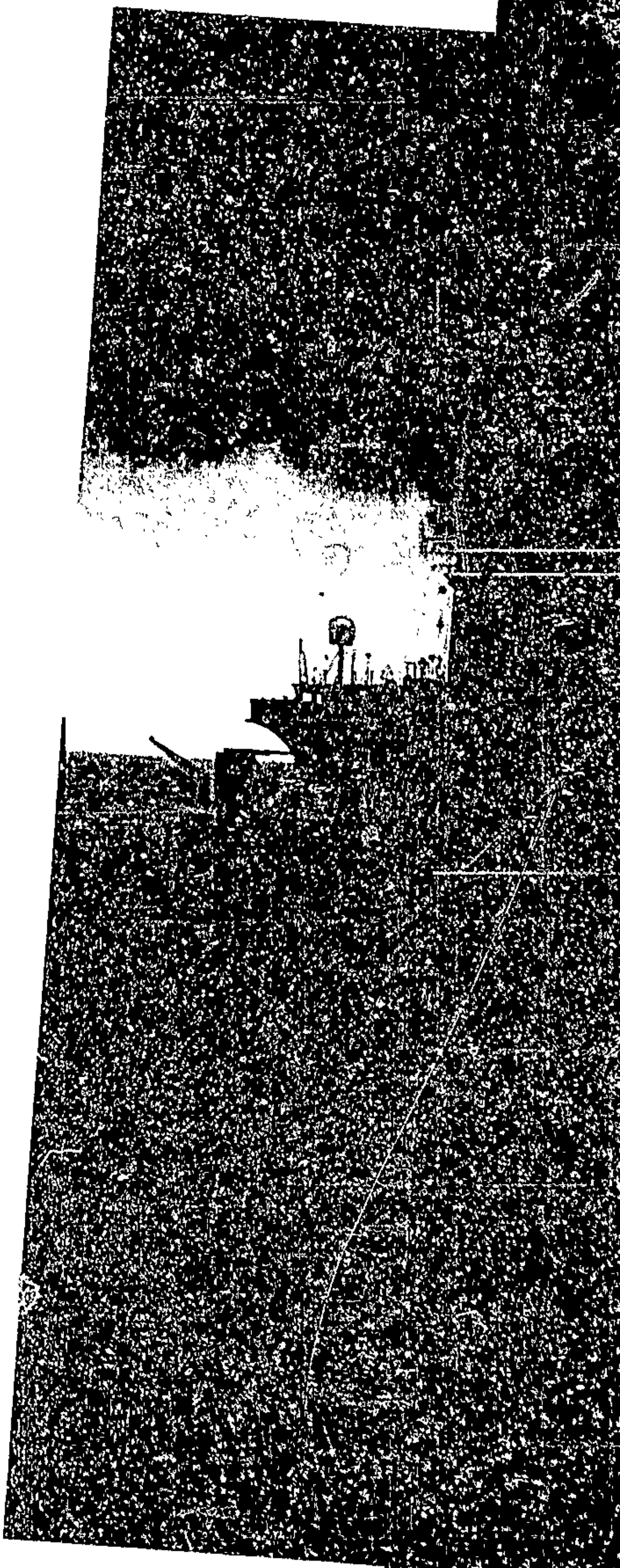
The Manufacturing organisation achieved its best-ever delivery performance in 1993, even as it adjusted to a reduced level of demand and the first year of a two-year £100 million restructuring programme.

Through improved process control we have reduced floor space and inventory while improving productivity. Areas which have benefitted from this process-led approach, such as our precision casting and fully interactive machining facilities, provide a highly competitive advanced manufacturing capability.

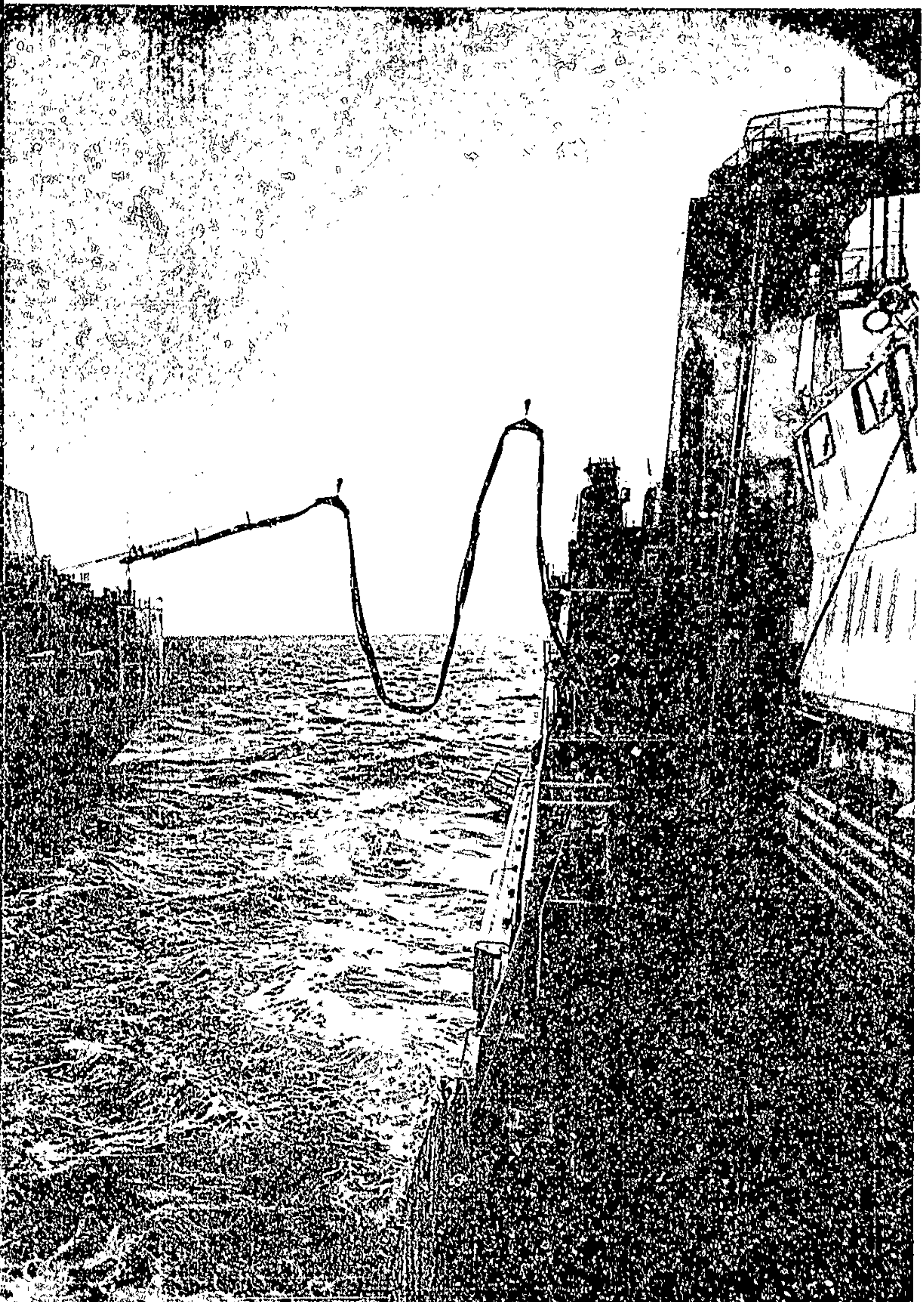
The external Procurement arm continued to develop the supplier base into fewer, more competent suppliers – and, to this end, implemented a formal supplier performance ranking system.

Reyrolle substations in the Middle East and the Far East, including Malaysia (below), helped this company to achieve exports which were recognised by the Queen's Award for Export Achievement.





Industrial Power Group companies, Allen Power and Clarke Chapman, provided main engines, crane, winch, windlass and other equipment for the new Royal Fleet Auxiliary vessel *Fort George* (right), undertaking replenishment-at-sea (RAS) operations with the unique Clarke Chapman RAS system.



Industrial Power Group operations

The Industrial Power Group brings together the non-aero activities of the Company and is one of the world's most comprehensive providers of systems for power generation and transmission, marine propulsion, the oil and gas industry and materials handling. The business is centred on Newcastle-upon-Tyne.

1993 was a year of steady performance within Industrial Power especially when set against the depressed market scene. The development of the Westinghouse alliance, which includes MHI of Japan and FiatAvio of Italy, was an important feature of Industrial Power operations.

We are working with Westinghouse on many projects and we extended the transfer of technology on various gas and steam turbines.

The year saw our Industrial Power companies reacting positively to our customers' changing needs, especially in the developing independent private powerplant field and the aftermarket.

Rolls-Royce Power Engineering plc

All our major operating companies in the electrical power generation and transmission sector saw important market developments, particularly in India and the Far East. 1993 began and ended with the focus firmly on India. In January I accompanied the Prime Minister on an export-boosting visit to India and, in November, returned to sign letters of award for power stations worth £660 million, under which Parsons has been selected to provide total turnkey project management for both the Balagarh and Chandil 500 MW coal-fired power station projects. Parsons has also been selected to build the £110 million Godavari 200 MW gas-fired combined cycle power station, with Westinghouse supplying the gas turbines.

Parsons, together with Westinghouse, won a contract to refurbish large power generation equipment for the Tennessee Valley Authority's Colbert power station in Alabama. This will modernise an existing steam turbine generator manufactured by Parsons some years ago.

Reyrolle's major successes in Middle and Far East markets, with its range of high voltage gas insulated switchgear, merited the Queen's Award for Export Achievement in 1993.

International Combustion continued advanced work on low NO_X burner systems to help the world's utilities meet increasingly strict emissions standards and supplied low emissions equipment to several plants in the USA and Spain.

Our materials handling business, Clarke Chapman, had a successful year including the completion of the £40 million turnkey project at Liverpool's Gladstone Dock coal handling terminal.

Rolls-Royce Industrial & Marine Gas Turbines Limited

The market for gas turbines in the oil and gas sector was much reduced in 1993 but we retained our dominant share of this business through our joint-venture company, Cooper Rolls. Five European oil and gas companies ordered industrial RB211 powered Coberra units to the value of £120 million. Coberra sets were also ordered for use in Malaysia and the North Sea.

The 50 MW industrial Trent is the most significant current product investment by the Industrial Power Group. With our partner, Westinghouse, we announced the first order for the Trent EconoPac. This version of the Trent will have the highest open-cycle efficiency of any gas turbine in the world.

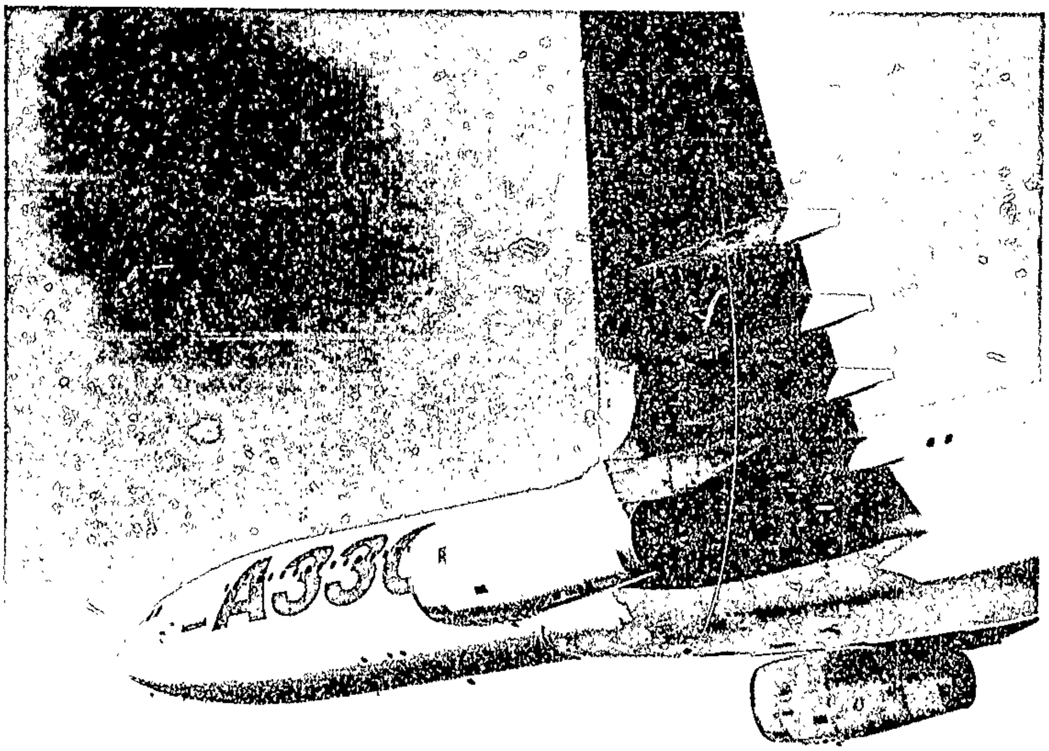
Work to design, manufacture and test the WR-21 intercooled recuperated gas turbine for the US Navy, in conjunction with Westinghouse, has been accelerated to meet other possible market opportunities.

Rolls-Royce Nuclear Engineering Limited

Rolls-Royce and Associates won a major contract for in-service support of Britain's Trident submarines, the first of which, HMS *Vanguard*, was formally accepted by the Royal Navy in 1993. We have provided the steam supply system for all the UK's nuclear submarines.

We demonstrated our technical capability in civil nuclear systems by completing important contracts at Sizewell B and Hunterston B power stations.

In October, Thompson Defence Projects won a £120 million contract from the UK's Ministry of Defence to build the next generation of bridging systems for the British Army. This system, 'Bridging for the 1990s' (BR90), keeps the UK at the forefront of military bridging technology and has substantial export sales potential.



Rolls-Royce Industries Canada Inc.

Our company in Canada is taking the lead in developing the industrial Trent. A new industrial gas turbine test facility – an important step in this project – was built on schedule in Montreal. The first order for the Trent EconoPac was for an installation in Canada.

Rolls-Royce Canada sales included major new maintenance contracts and completion of the 200th industrial RB211. On the CF-5 programme Bristol Aerospace returned the first of 46 fully modernised fighter aircraft to the Canadian Forces.

Research and development activities

Successful research and development remains the key to the exploitation of new markets and future growth. 1993 saw increasing commitment to this activity including the transfer of technology between parts of the Group to improve the competitiveness of our products.

New research and development programmes were launched in 1993, covering both the Aerospace and Industrial Power sectors. The proportion of this work that we have to fund ourselves has increased as Government and other external sponsored research declines.

There is a growing emphasis on further enhancing the environmental acceptability of our products. All our current range of commercial aero engines more than meet legislative requirements but long-term research towards further improvement continues. In particular, we are working to reduce gaseous emissions from industrial and aero gas turbines and from thermal power stations.

The rigorous certification programme for the Trent 700 turbofan demonstrated the excellent reliability of this engine and covered multiple bird strikes, ingestion of hail, water and ice, cold starting and relighting and handling at simulated altitude. The most critical hurdle – a fan blade containment test – was achieved at the first attempt.

Our most powerful engine, the Trent 800 turbofan, which has been largely designed on computer and constructed without the use of paper drawings, has made an outstanding start to its development programme, demonstrating good functional performance as well as its thrust potential. The engine produced more power than its certification requirement within just two hours of the start of its first run.

The excellent technical performance of the EJ200 continues to vindicate the Company's early investment in demonstrator programmes to prove new technologies such as advanced high temperature turbine blading and lightweight structures.

We continue to invest in necessary additions to our aero engine test facilities. At Derby, this year saw the opening of a major new test bed, the upgrading of two others and a new high pressure facility for component rig testing.

Amongst our advanced engineering projects all the components for an advanced core for future three-shaft engines were tested and we achieved more than 5,000 cycles for our third generation single crystal turbine blade materials at mean temperatures up to 1,600°C.

On the Industrial Power front, our commitment to reducing environmental impact is illustrated by work on the Dry Low Emissions RB211 by Rolls-Royce Industrial & Marine Gas Turbines and the Trent EconoPac by Rolls-Royce Gas Turbine Engines in Montreal. International Combustion continues important work on the development of low NO_x burners.

Based closely on the Trent 800 aero engine design, the Trent EconoPac turbo machinery is set to follow the outstanding market performance of the RB211 industrial derivative.

Another important RB211 derivative is the inter-cooled regenerative WR-21 for marine applications with the US Navy. The WR-21 adapts components from various marks of RB211 into an advanced cycle machine. The principles will be capable of further exploitation in commercial applications. The first development engine is due to start testing during 1995.

Parsons Turbine Generators is developing a series of modular single cylinder turbines for combined cycle non-reheat applications to extend the power-range of machines available in the market place.

Reyrolle is developing new and improved medium and high voltage switchgear. The range of open terminal circuit-breakers, for example, is being extended in order to meet overseas requirements for 550kV, and work on a 300kV single break design has begun.

Michael Townsend, Finance Director

Results for the year

Turnover, at £3,518 million, was marginally down on 1992 reflecting the difficult market conditions. The number of civil engines delivered declined from 445 to 413 and civil spares remained flat. The military business delivered more engines than in 1992, but was affected by the reorientation of the EJ200 development programme. Industrial Power sales fell by 3 per cent with lower Power Engineering sales partially offset by increases in Canada and Industrial and Marine Gas Turbines. Exports amounted to 72 per cent of sales.

Profit before tax was £76 million (1992 was a loss of £184 million, after exceptional charges of £268 million). An improvement in the achieved dollar rate contributed £23 million to profit, by comparison with 1992, but this was more than offset by a £24 million increase in net research and development costs, reflecting the high level of activity associated with Trent development and a reduction in fees received from partners and others. Risk and revenue sharing partners currently represent 19 per cent, net of our own interests, of the Trent programme.

Profit attributable to shareholders amounted to £63 million (compared to a £202 million loss in 1992). The resulting earnings per share were 5.95p.

Good progress has been made with our restructuring programme, for which we provided in our 1992 financial statements. Expenditure charged against this provision in 1993 amounted to £92 million. Employment levels fell by 3,600 (to 25,900) in Aerospace and by 2,400 (to 19,900) in Industrial Power (including approximately 800 in businesses which have been sold during the year).

There was a net cash inflow of £389 million in the year (including the proceeds of the Rights Issue in September 1993).

The Group's accounting policy on research and development (see page 29) is to write off all expenditure as it is incurred, except where and to the extent that it is covered by a customer order. This is a prudent policy in that our substantial investment in technology is not represented as an asset in the balance sheet. At the present time research and development in the Aerospace Group is running at approximately 10 per cent of turnover, which is above our long-term target level.

The accounting policy for certification costs is also disclosed on page 29. Currently £13 million is carried forward in prepayments, although this will increase in the short term as certification of the Trent 700 powered Airbus A330 proceeds.

Capital structure

The Group is financed predominantly through equity capital. The Board considers this appropriate at present.

We repaid a £150 million Bond upon maturity in July 1993. Later in the same month we issued a ten-year Bond denominated in US dollars, and matched by future US dollar trading receipts to the sterling equivalent of £198 million. In September we made a one-for-four Rights Issue which raised £307 million after expenses.

The maturity of the principal debt outstanding at December 31, 1993 is shown in Notes 16 and 18 to the financial statements. In addition to these borrowings, the Group has committed facilities to the value of £250 million from a number of banks. These facilities expire in 1996.

The Group has entered into net worth and debt/equity based covenants with its lenders. There is currently a significant margin over these limits.

Current liquidity

The Group Cash Flow Statement is shown on page 26. As analysed in the 'Reconciliation with the Group Balance Sheet' on page 27, net cash balances at December 31, 1993 were £473 million (1992 £84 million). The major elements in the improved balance are the proceeds of the Rights Issue and a significant reduction in working capital, partly offset by the cost of restructuring.

The Group's net cash position is subject to wide variations. The average position over the year was £96 million overdrawn (1992 £120 million overdrawn).

Foreign exchange management

The Group's dominant currency exposure is to the US dollar/sterling exchange rate. US dollar income represents approximately 40 per cent of Group sales. Taking account of expenditure in dollars, the net exposure is reduced to 25 per cent.

The Group hedges foreign exchange risk, removing approximately 85 per cent of our exposure to the volatility of the US dollar exchange rate. US dollar cover extends for periods up to ten years, but is primarily in the 1-5 year time horizon. Total cover currently represents approximately three years net dollar income.

The Group's exposure and forward cover are closely monitored, regularly reviewed by the Board and considered in detail by a specialist committee on a quarterly basis.

Sales financing

The provision of financing support to customers is a feature of the aerospace industry and takes a variety of forms.

These can include guarantees as to the future value of aircraft, or the provision or guarantee of finance to the airline customer both prior to and following delivery of the aircraft. Such guarantees are, in general, secured on the aircraft.

Any contract including such support is subject to strict approval procedures and policy limits and is regularly monitored. Our associated undertaking, Rolls-Royce & Partners Finance Limited, participates in a number of these arrangements.

The net contingent liability, after taking account of the value of the relevant security, amounted to £13 million at December 31, 1993. The Group has suffered no significant losses from such arrangements, and the directors regard the possibility of any such loss arising as remote.

Taxation

As a result of expenditure on restructuring, which was provided for in the 1992 financial statements, there is no mainstream UK corporation tax payable on the 1993 profits. The Group's UK tax losses carried forward have increased to approximately £325 million and these losses are available for offset against future UK trading profits.

Because there is no UK tax payable in respect of 1993, all the advance corporation tax (ACT) generated by the 1993 dividends has been written off. At the end of 1993 £141 million of ACT was available to offset future corporation tax liabilities.

The 1993 tax charge represents, principally, ACT written off and tax on overseas earnings. Because of the high ACT element, the tax charge is relatively stable, but produces a high tax rate in periods of low profitability.

Risk management and insurance

The Group has, over recent years, paid increased attention to risk management, seeking to enhance awareness at all levels of the cost and business impact of both insured and uninsured losses.

Where appropriate the Group retains risk using its insurance subsidiary Nightingale Insurance Limited. The amount of net retained risk is currently £15 million. The Board receives an annual Risk Management Report and a sub-committee of the Board reviews the risk management programme half-yearly.

Pension funds

The Group operates two principal pension funds, both of which are administered by Trustees and which are independent of the management of the Group. The Funds are not permitted to hold any direct investment in the Group's assets or equity. The Funds are subject to triennial valuation of their assets and liabilities by independent qualified actuaries.

Relevant details of the basis and results of these valuations and of contributions to the Funds by the Group are included in note 27 to the financial statements.

Internal control

The directors are responsible for establishing internal control practices and systems which provide reasonable assurance of the maintenance of proper accounting records and the reliability of financial information used within the business or for publication. In the exercise of this responsibility, the Group has an Audit Committee comprised solely of non-executive directors, which meets with the executive directors and with the auditors several times a year. Audit committees also operate in Canada and South Africa.

An internal audit department works closely with the external auditors, and operares to a programme agreed with the Audit Committee.

In addition, finance and general management are required to acknowledge, by interview and in writing, that they are aware of their responsibility to operate adequate internal control systems, that their financial results are properly stated in accordance with internal and statutory requirements and that they are appropriate for inclusion in the Group financial statements.

Share capital

During 1993 the price of the Company's shares ranged between 97 pence and 174 pence. Over the year it outperformed the FTSE 100 index (to which the Company was readmitted in September 1993) by 20 per cent. The price includes the effect of the Rights Issue, which was 87 per cent taken up by existing shareholders.

The Company's Articles of Association contain a restriction on the total foreign share ownership of 29.5 per cent of the issued share capital. This limit, which is being reconsidered by Her Majesty's Government, was exceeded in July 1993 and some foreign shareholders were forced to dispose of their shares on a last in, first out basis.

Board of Directors

[illegible] March [illegible]

Sir Ralph Robins
BSc, F Eng[3]
Chairman
Elected to the Board in 1982. He joined Rolls-Royce in 1955, became Managing Director in 1984 and was appointed Chairman in 1992. Age 61.

Dr Terence Harrison
DL, BSc, F Eng[3]
Chief Executive
Elected to the Board in 1989 and appointed Chief Executive in 1992. He joined Clarke Chapman, part of NEI, in 1957. Age 60.

E. John Clark BS, MBA[1,3]
Non-Executive Director
Elected to the Board in 1993. He is Chief Executive Officer of BET plc. Age 52.

Sir Gordon Higginson
BSc, PhD, F Eng[1,2,3]
Non Executive Director
Elected to the Board in 1988. He is Vice-Chancellor of Southampton University. Age 64.

Richard H. Maudslay
BSc, C Eng
Managing Director – Industrial Power Group
Elected to the Board on January 1, 1994. He joined Bruce Peebles, part of NEI, in 1968. Age 47.

Stewart C. Miller
CBE, BSc, HonDTech, F Eng
Director – Engineering and Technology
Elected to the Board in 1985. He joined Rolls-Royce in 1954 and was appointed Director – Engineering and Technology in 1993. Age 59.

Harold G. Mourgue
FCA[1,2,4]
Non Executive Director
Elected to the Board in 1985. He is Chairman of Kenwood Appliances plc. Age [illegible]

Sir Robin Nicholson
FRS, F Eng[2,3]
Non-Executive Director
Elected to the Board in 1986. He is an Executive Director of Pilkington plc. Age 59.

John E.V. Rose MA
Deputy Managing Director – Aerospace Group
Elected to the Board in 1992. He joined Rolls-Royce in 1984. Age 41.

John W. Sandford MSc
Managing Director – Aerospace Group
Elected to the Board in 1993. He joined Rolls-Royce in 1993 as President and Chief Executive Officer of Rolls-Royce Inc. Age 59.

Michael Townsend MA, FCA
Finance Director
Elected to the Board in 1991. He joined Rolls-Royce in [illegible] Age 52.

Richard T. Turner OBE, BA
Group Marketing Director
Elected to the Board in 1992. He rejoined Rolls-Royce in 1991 having previously been with the Company from 1965 to 1988. Age 51.

Company Secretary and General Counsel
Clyde R. Harris
Appointed 1993. Solicitor. He joined Rolls-Royce in 1960. Age 60.

[1]Member of the Audit Committee.
[2]Member of the Remuneration Committee.
[3]Member of the Nomination Committee.
[4]Chairman of the Trustees of The Rolls-Royce Pension Fund.

Note: Committees 1 and 2 are made up entirely of non-executive directors.

The Board of Rolls-Royce plc.
Front row from left to right:
Dr Terence Harrison, Sir Ralph Robins, Michael Townsend.
Back row from left to right: Sir Gordon Higginson, Clyde Harris, Richard Turner, John Clark, Richard Maudslay, Harold Mourgue, John Sandford, Stewart Miller, John Rose, Sir Robin Nicholson.

Report of the Directors

The directors present their report and the audited financial statements of the Group for the year ended December 31, 1993.

Principal activities

The Corporate Profile (page 1) describes the Group's principal activities.

Results for the year

Profit before taxation was £76m (1992 loss £184m). Profit attributable to the shareholders, after taxation and minority interests, was £63m (1992 loss £202m). The directors recommend a final dividend of 3.00p a share. With the interim dividend of 2.00p a share, paid on January 10, 1994, this will make a total dividend of 5.00p a share for the year (1992 5.00p). Subject to approval of the recommended final dividend, the total cost of dividends for 1993 is £56m. If approved, the Company will pay the final dividend on July 4, 1994 to shareholders registered on April 14, 1994. Consequently £7m has been added to Group reserves.

The Chairman's Statement, the Chief Executive's Review of Activities and the Finance Director's Review together give information relating to the year's operations, research and development activities and future prospects.

Employment

The number of Group employees at the end of the year was 45,800 (1992 51,800) of whom 25,900 (1992 29,500) were in Aerospace and 19,900 (1992 22,300) were in Industrial Power.

The Group's policy is to provide, wherever possible, employment opportunities and training for disabled people to make the best possible use of their skills and potential. It also operates an equal opportunities policy, details of which are available to all employees.

There are various forms of communication across the Group, each adapted to the particular needs of individual businesses. The Group consults with employees and their elected representatives on a comprehensive range of topics which relate to its overall business objectives. Management and employee representatives hold regular meetings at every location to discuss problems and opportunities.

Health, safety and the environment (HS & E)

In 1993, industrial accidents remained at a level substantially below the average for similar UK engineering companies, although regretably the year was marred by a fatal accident to an employee. A corporate HS & E committee, chaired by the Chief Executive, assesses the Group's activities and reviews its performance.

Safety representatives and safety committees encourage workforce involvement in these issues.

1993 saw significant progress in increasing awareness of HS & E requirements among management and employees in all parts of the Group. This has helped the assimilation of the new health and safety legislation and related training has been implemented throughout the business.

The Group is committed to best environmental practice and continues to strive to reduce the environmental impact of its products and operations. Success continues to be achieved in energy conservation and active measures continue to be taken to reduce or eliminate the use of materials harmful to the environment.

Copies of the Group's Environment Policy are available on written request to the Company Secretary.

Training

Training to support business objectives is a vital activity. During 1993, 122 school, college and university leavers joined the Group as trainees. All of these trainees were recruited into the Industrial Power Group where the level of trainee intake is at approximately the same level as the previous year. No trainees were taken into the Aerospace Group during the year due to the implementation of a major restructuring programme. However, the Company guaranteed that all trainees would complete their training and approximately 90 per cent of those who completed their training in 1993 are now employed on a full-time basis.

The Group has 1,079 trainees engaged in a wide range of training and personal development activities. A variety of in-house training sessions were developed to meet demands for improving the effectiveness of people in the business, from which more than 28,000 employees benefitted in 1993.

The quality of Rolls-Royce training was publicly recognised with the award of an individual National Training Award to Joanne Trelford from Rolls-Royce and Associates, part of the Industrial Power Group.

Three engineering technician trainees from the Aerospace Group undertook a project for the Derbyshire Royal Infirmary. In addition to winning the regional final of The Young Engineer of Great Britain competition, each will receive the Creativity in Science and Technology (CREST) gold award issued by the British Association for Schools, Science and Technology.

As part of their apprentice training, in support of the Group's extensive training programmes in China, a team of three engineering apprentices from the Ansty site assisted in the training of students at the Civil Aviation Flying College at Guanghan. As a result, the Civil Aviation Administration of China invited the team to China for a week as its guests.

Our training centres continue to operate Youth Training Schemes for unemployed school leavers and in 1993 some 147 started the programme, making a total of 261 receiving training of this kind during the year.

Directors

The directors listed on page 18 were in office throughout 1993 apart from Mr L.J. Clark who was appointed on February 1, 1993 and Mr R.H. Maudslay who was appointed on January 1, 1994.

The directors retiring by rotation at the Annual General Meeting on May 25, 1994 are Sir Gordon Higginson, Mr S.C. Miller, Sir Ralph Robins and Mr J.E.V. Rose. They offer themselves for re-election. Mr R.H. Maudslay, the new director, retires at the Annual General Meeting. He offers himself for re-election.

Mr R.H. Maudslay and Mr J.E.V. Rose have service agreements which are subject to two years notice of termination. Sir Ralph Robins has a fixed term service agreement which expires within three years and Mr S.C. Miller reaches normal retirement age within three years. Sir Gordon Higginson does not have a service agreement. All are subject to re-election by rotation every three years.

The Company has renewed an insurance policy to indemnify its directors and officers against liability when acting for the Company.

The Board is not aware of any significant contract with the Company or its subsidiary undertakings in which a director has, or has had, a material interest.

Note 22 to the financial statements gives details of directors' share interests.

Corporate governance

The Board welcomes the recommendations set out in the Code of Best Practice issued by the Cadbury Committee on the Financial Aspects of Corporate Governance. As the Chairman indicated in his 1992 Statement, the Company complied in all major respects with the Code.

During 1993 opportunity has been taken to formalise certain matters which had previously been dealt with on an informal basis by adopting:

i) an agreed procedure for directors, in connection with their duties, to take independent professional advice at the Company's expense
ii) a formal process for the selection of non-executive directors whose appointment is a matter for the Board as a whole.

The Company is now in full compliance with the provisions of the 17 paragraphs of the code currently in force. Guidance is awaited from the accountancy profession on the remaining two paragraphs regarding reporting on 'internal control' and on 'going concern'.

The auditors, KPMG Peat Marwick, have confirmed to the directors that they are satisfied that this statement appropriately reflects the Company's compliance with the Code of Best Practice, insofar as it relates to the paragraphs of the Code which the London Stock Exchange has specified for their review.

Members of the Audit Committee, Remuneration Committee and Nomination Committee are identified on page 18.

Fixed assets

Group expenditure on tangible fixed assets related mainly to manufacturing and engineering facilities and supporting computer equipment. Movements in tangible fixed assets during the year are set out in note 10 to the financial statements.

At the end of 1993 a review of the Company's land and buildings was carried out by professional valuers, which suggests a value marginally greater than the figure shown in the financial statements.

Notes 11 and 12 to the financial statements give the movements on investments.

Donations

During 1993 the Company made charitable donations amounting to £208,000. The annual donations budget is administered by a committee of the Board and by local site committees to a policy predominantly directed towards assisting military services benevolent associations and charities associated with engineering, scientific and educational objectives as well as objectives connected with the Group's business and place in the community.

A political contribution of £60,000 was made to the Conservative and Unionist Party.

Close company status

The close company provisions of the Income and Corporation Taxes Act 1988 do not apply to the Company.

Share capital

Note 22 to the financial statements gives details of the share capital and employee share schemes.

At the Annual General Meeting a resolution will be proposed to give the directors authority, for a further year, to allot shares for cash both by way of rights issues and, for a limited number of ordinary shares, to people other than existing shareholders.

The Company holds no notice of a notifiable interest in the Company's ordinary shares.

Auditors

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

By order of the Board

C. R. Harris
Company Secretary
March 9, 1994

Group Five Year Review

for the years ended December 31

Profit and loss account

	1993 £m	1992 £m	1991 £m	1990 £m	1989 £m
Turnover	3,518	3,562	3,515	3,670	2,962
Trading profit[1]	329	325	335	468	383
Exceptional items	—	(268)	(58)	(50)	(4)
Research and development (net)*	(253)	(229)	(216)	(237)	(161)
Share of profits of associated undertakings	12	6	6	2	—
Net interest (payable) receivable	(12)	(18)	(16)	(7)	15
Profit/(loss) on ordinary activities before taxation	76	(184)	51	176	233
Taxation	(18)	(25)	(32)	(36)	(36)
Profit/(loss) on ordinary activities after taxation	58	(209)	19	140	197
Attributable to equity minority interests	5	7	5	(6)	(5)
Profit/(loss) attributable to the shareholders	63	(202)	24	134	192
Dividends	(56)	(48)	(70)	(69)	(67)
Transferred to/(from) reserves	7	(250)	(46)	65	125
Earnings/(loss) per ordinary share					
Net basis	5.95p	(20.39)p	2.43p	13.60p	20.79p
Nil distribution basis	7.18p	(19.29)p	3.44p	14.93p	22.74p
Net basis before exceptional items	5.95p	6.46p	8.12p	18.68p	21.22p
Dividends per ordinary share	5.00p	5.00p	7.25p	7.25p	7.00p
*Research and development (gross)	(451)	(482)	(498)	(480)	(343)

Balance sheet

	1993 £m	1992 £m	1991 £m	1990 £m	1989 £m
Fixed assets	950	936	885	827	742
Current assets	2,354	2,117	2.150	2,020	1,851
	3,304	3,053	3,035	2,847	2,593
Liabilities and provisions	(2,069)	(2,139)	(1,886)	(1,645)	(1,394)
	1,235	914	1,149	1,202	1,199
Share capital	244	194	193	192	192
Reserves	981	705	929	972	934
Equity shareholders' funds	1,225	899	1,122	1,164	1,126
Minority interests in subsidiary undertakings	10	15	27	38	73
	1,235	914	1,149	1,202	1,199

No material discontinued operations have occurred.

[1]Trading profit represents gross profit less commercial, marketing, product support, general and administration costs but is stated before exceptional items.

During 1993 there was a rights issue and accordingly the earnings/(loss) per ordinary share comparatives for 1989 to 1992 have been restated to reflect the bonus issue element.

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 the Group and of the profit for that period.
In preparing those 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 a going concern basis unless it is inappropriate to presume that 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 the Group and to enable them to ensure that the financial statements comply with the requirements of 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

KPMG **Peat Marwick**

We have audited the financial statements on pages 24 to 47.

Respective responsibilities of directors and auditors

As described above the Company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of 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, 1993 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 Peat Marwick

KPMG Peat Marwick
Chartered Accountants, Registered Auditors

London
March 9, 1994

Group Profit and Loss Account

for the year ended December 31, 1993

	Notes	1993 £m	1992 £m
Turnover	2	3,518	3,562
Cost of sales – including exceptional items of £nil (1992 £268m)	3	(2,995)	(3,307)
Gross profit		523	255
Commercial, marketing and product support costs		(105)	(105)
General and administrative costs		(89)	(93)
Research and development (net)		(253)	(229)
Operating profit/(loss)		76	(172)
Share of profits of associated undertakings		12	6
Profit/(loss) on ordinary activities before interest	2	88	(166)
Net interest payable and other similar charges	4	(12)	(18)
Profit/(loss) on ordinary activities before taxation	3	76	(184)
Taxation	5	(18)	(25)
Profit/(loss) on ordinary activities after taxation		58	(209)
Attributable to equity minority interests in subsidiary undertakings		5	7
Profit/(loss) attributable to the shareholders of Rolls-Royce plc		63	(202)
Dividends	6	(56)	(48)
Transferred to/(from) reserves	23	7	(250)
Earnings/(loss) per ordinary share			Restated
Net basis		5.95p	(20.39)p
Nil distribution basis		7.18p	(19.29)p
Net basis before exceptional items		5.95p	6.46p

The earnings/(loss) per ordinary share calculations are explained and reconciled in note 7.

No material acquisitions or discontinued operations have occurred.

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/(loss) attributable to the shareholders of Rolls-Royce plc', a profit of £44m (1992 loss £211m) has been dealt with in the profit and loss account of the Company.

Balance Sheets
at December 31, 1993

	Notes	Group 1993 £m	Group 1992 £m	Company 1993 £m	Company 1992 £m
Fixed assets					
Tangible assets	10	882	874	639	620
Investments – subsidiary undertakings	11	–	–	339	333
– associated undertakings	12	68	62	53	52
		950	936	1,031	1,005
Current assets					
Stocks	13	611	696	466	529
Debtors – amounts falling due within one year	14	694	798	458	538
– amounts falling due after one year	15	158	144	482	494
Short-term deposits and cash		891	479	792	373
		2,354	2,117	2,198	1,934
Creditors – amounts falling due within one year					
Borrowings	16	(58)	(214)	–	(171)
Other creditors	17	(1,185)	(1,163)	(946)	(870)
Net current assets		1,111	740	1,252	893
Total assets less current liabilities		2,061	1,676	2,283	1,898
Creditors – amounts falling due after one year					
Borrowings	18	(360)	(181)	(150)	(150)
Other creditors	19	(165)	(173)	(649)	(458)
Provisions for liabilities and charges	21	(301)	(408)	(233)	(346)
		1,235	914	1,251	944
Capital and reserves					
Called up share capital	22	244	194	244	194
Share premium account	23	506	241	506	241
Revaluation reserve	23	120	125	115	119
Other reserves	23	20	16	261	261
Profit and loss account	23	335	323	125	129
Equity shareholders' funds		1,225	899	1,251	944
Minority interests in subsidiary undertakings					
Equity interests		7	12	–	–
Non-equity interests		3	3	–	–
		1,235	914	1,251	944

The financial statements on pages 24 to 47 were approved by the Board on March 9, 1994 and signed on its behalf by:

Sir Ralph Robins
Chairman

M Townsend
Director

Group Cash Flow Statement

for the year ended December 31, 1993

		1993 £m	1992 £m
Net cash inflow from operating activities	a	253	308
Returns on investments and servicing of finance			
Interest received		21	35
Interest paid		(34)	(47)
Interest element of finance lease payments		(2)	(3)
Dividends paid to the shareholders of Rolls-Royce plc		(44)	(64)
Net cash outflow from returns on investments and servicing of finance		(59)	(79)
Taxation			
UK and overseas tax paid		(20)	(34)
Investing activities			
Purchases of tangible fixed assets		(130)	(126)
Disposals of tangible fixed assets		16	10
Disposals of subsidiary undertakings (see below)		22	3
Purchase of minority interest in subsidiary undertaking		(3)	(6)
Investments in associated undertakings		(1)	(10)
Disposals of investments		—	6
Net cash outflow from investing activities		(96)	(123)
Net cash inflow before financing		78	72
Financing			
Proceeds of ordinary share issues		(324)	—
Expenses paid in connection with the rights issue		9	—
New borrowings		(208)	(3)
Repayment of borrowings		156	—
Increase/(decrease) in short-term deposits (more than 3 months to maturity when acquired)		111	(58)
Capital element of finance lease payments		4	7
Net cash inflow from financing	b	(252)	(54)
Increase in cash and cash equivalents	c	330	126
		78	72

Disposals of subsidiary undertakings		
Tangible fixed assets	3	1
Non-cash equivalent working capital	13	2
	16	3
Purchased goodwill charged to profit and loss account	4	1
Profit/(loss) on disposals	2	(1)
Cash consideration	22	3

Reconciliation of operating profit to net cash inflow from operating activities

			1993 £m	1992 £m
	Operating profit/(loss)		76	(172)
	Depreciation of tangible fixed assets		105	104
	(Profit)/loss on disposals of subsidiary undertakings		(2)	1
	(Decrease)/increase in provisions for liabilities and charges		(107)	241
	Decrease in stocks		74	125
	Decrease/(increase) in debtors		85	(4)
	Increase in creditors		22	13
a	Net cash inflow from operating activities		253	308

Of the 1992 exceptional items of £268m, £38m related to payments made in that year. Payments in 1993, relating to 1992's £230m provision for exceptional items, have been £92m

Changes in financing

	At January 1		(807)	(748)
b	Net cash inflow from financing		(252)	(54)
	Finance leased tangible fixed assets		(7)	(5)
	At December 31		(1,066)	(807)
	Consisting of:			
	Called up share capital		(244)	(194)
	Share premium account		(506)	(241)
	Long-term borrowings	1	(360)	(181)
	Capital obligations under finance leases		(38)	(35)
	Items having more than 3 months to maturity when acquired:			
	Short-term deposits and cash	2	112	1
	Short-term borrowings	3	(30)	(157)
			(1,066)	(807)

Changes in cash and cash equivalents

	At January 1		421	294
c	Increase in cash and cash equivalents		330	126
	Exchange adjustments		—	1
	At December 31		751	421
	Consisting of:			
	Items within 3 months of maturity when acquired:			
	Short-term deposits and cash	2	779	478
	Short-term borrowings	3	(28)	(57)
			751	421

Reconciliation with Group Balance Sheet (page 25):

Short-term deposits and cash	2	891	479
Borrowings – amounts falling due within one year	3	(58)	(214)
– amounts falling due after one year	1	(360)	(181)
		473	84

Statement of Total Recognised Gains and Losses

for the year ended December 31, 1993

	Group	
	1993 £m	1992 £m
Profit/(loss) attributable to the shareholders of Rolls-Royce plc	63	(202)
Exchange adjustments on foreign currency net investments	(4)	25
Total recognised gains and (losses) for the year	59	(177)

Note of Historical Cost Profits and Losses

for the year ended December 31, 1993

	Group	
	1993 £m	1992 £m
Profit/(loss) on ordinary activities before taxation	76	(184)
Difference between the historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	4	4
Historical cost profit/(loss) on ordinary activities before taxation	80	(180)
Historical cost transfer to/(from) reserves	11	(246)

Reconciliation of Movements in Shareholders' Funds

for the year ended December 31, 1993

	Group		Company	
	1993 £m	1992 £m	1993 £m	1992 £m
At January 1	899	1,322	944	1,197
Total recognised gains and (losses) for the year	59	(177)	44	(211)
Ordinary dividends (net of scrip dividend adjustments)	(52)	(42)	(52)	(42)
New share capital issued	324	—	324	—
Expenses paid in connection with the rights issue	(8)	—	(9)	—
Goodwill acquired during the year	—	(5)	—	—
Goodwill transferred to the profit and loss account in respect of disposals of businesses	4	1	—	—
At December 31	1,225	899	1,251	944

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 of associated undertakings up to December 31. Any subsidiary and associated undertakings 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.

Goodwill, which represents the excess of the value of the purchase consideration for shares in subsidiary and associated undertakings over the fair value to the Group of the net assets acquired, is written off to reserves in the year of acquisition.

The profit or loss on the disposal of a previously acquired business takes into account the attributable amount of purchased goodwill relating to that business.

Turnover
Turnover excludes value added tax. 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.

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

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.

Pension costs
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' working lives with the Group.

Certification costs
Costs paid to airframe manufacturers in respect of meeting regulatory certification requirements for new civil engine/aircraft combinations are carried forward in prepayments to the extent that they can be recovered out of future sales and are charged to the profit and loss account over five years following certification.

1 Accounting policies continued

Taxation

Provision for taxation is made at the current rate and for deferred taxation on all timing differences where a liability is expected to crystallise in the foreseeable future. Advance corporation tax which is not recoverable in the immediate future by offset against United Kingdom corporation tax liabilities is included in the taxation charge for the year.

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.

Stocks and long-term contracts

Stocks are valued at the lower of cost and net realisable value. 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. Full provision is made for estimated losses to completion.

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

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 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 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. Rentals receivable as lessor under operating leases are included in turnover for the year on an accruals basis.

Depreciation

i) Properties

Depreciation is provided on the valuation of properties adopted at December 31, 1985 and on the original cost of purchases since 1985 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 – 10 to 45 years.
b) Leasehold land and buildings – lower of valuers' estimates or period of lease.

Depreciation is not provided on freehold land.

ii) Plant and equipment

Depreciation is provided on the original cost of plant and equipment and is calculated on the 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 14 years).

2 Analysis of turnover, profit and net assets

	Turnover		Profit/(loss) before taxation		Net Assets[1]	
	1993 £m	1992 £m	1993 £m	1992 £m	1993 £m	1992 £m
Analysis by business:[2]						
Aerospace	2,139	2,143	20	(220)	562	582
Industrial Power	1,379	1,419	68	54	200	248
	3,518	3,562	88	(166)	762	830
Geographical analysis by origin:						
United Kingdom	3,161	3,214	80	(184)	639	692
Other	357	348	8	18	123	138
	3,518	3,562	88	(166)	762	830
Geographical analysis by destination:						
United Kingdom	997	1,077				
Rest of Europe	379	418				
USA	1,151	1,123				
Canada	137	142				
Asia	558	506				
Africa	165	156				
Australasia	81	97				
Other	50	43				
	3,518	3,562				
Exports from United Kingdom	2,165	2,137				
Sales to overseas subsidiaries	(118)	(122)				
Sales by overseas subsidiaries	474	470				
Total overseas	2,521	2,485				

[1]Net assets exclude net cash balances of £473m (1992 £84m).
[2]The segmental analysis of 1992 exceptional items was Aerospace £237m and Industrial Power £31m.

3 Profit/(loss) on ordinary activities before taxation

	1993 £m	1992 £m
After charging		
Exceptional items:		
Restructuring payments made in the year	–	38
Provision for restructuring and customer problems	–	230
	–	268
Depreciation of owned tangible fixed assets	100	99
Depreciation of tangible fixed assets held under finance leases	8	5
Operating lease rentals payable – hire of plant and equipment	21	17
– hire of other assets	16	17
After crediting		
Operating lease rentals receivable	5	6

Auditors' fees were as follows during the year:
Audit 1993 £1.1m (1992 £1.0m)
Other 1993 – United Kingdom £0.7m (1992 £0.4m)
– Rest of World £0.3m (1992 £0.5m)

4 Net interest payable and other similar charges

	1993 £m	1992 £m
Interest receivable	24	31
Interest payable on:		
Borrowings repayable within five years	(26)	(29)
Borrowings repayable after five years	(8)	(17)
Finance leases	(2)	(3)
	(12)	(18)

5 Taxation

	1993 £m	1992 £m
United Kingdom – corporation tax at 33% (1992 33%)	–	4
– advance corporation tax written off	13	11
– double tax relief	–	(1)
– in respect of prior years	(3)	–
	10	14
Overseas	5	10
Associated undertakings	3	1
	18	25

The 1993 UK mainstream corporation tax charge has been reduced by the impact of restructuring expenditure provided for in the 1992 accounts.

6 Dividends – ordinary shares

	1993 £m	1992 £m
Interim 2.00p (1992 2.55p) per share	19	25
Final proposed 3.00p (1992 2.45p) per share	37	23
	56	48

7 Earnings/(loss) per ordinary share

Earnings/(loss) per ordinary share on the net basis are calculated by dividing the profit attributable to the shareholders of Rolls-Royce plc of £63m (1992 loss £202m) by 1,058 million (1992 966 million) ordinary shares, being the average number of ordinary shares in issue during the year.

Earnings/(loss) per ordinary share on the nil distribution basis are calculated as for the net basis but after adjusting for the irrecoverable advance corporation tax attributable to dividends paid and proposed of £13m (1992 £11m). This calculation is shown as recommended by Statement of Standard Accounting Practice No. 3 'Earnings per share'.

Earnings per ordinary share before exceptional items are calculated as for the net basis but after adjusting for the exceptional losses of £nil (1992 £266m), being the exceptional losses before taxation of £nil (1992 £268m), as shown in note 3, less tax relief of £nil (1992 £2m). This calculation shows the impact of exceptional items on the results for the year, as where such items are substantial they can have a material effect on the comparison of earnings from year to year and therefore warrant separate consideration.

Dilution of the earnings per ordinary share figure based upon outstanding share options is not material.

Prior year restatement

On September 2, 1993 the Company announced a rights issue to raise approximately £307m, net of expenses. Under the terms of the rights issue 242,736,773 new ordinary shares were issued in September 1993 at 130p per share on the basis of one new ordinary share for every four existing ordinary shares.

The actual cum rights price on September 6, 1993, the last day of quotation cum rights, was 148.5p and the theoretical ex rights price for an ordinary share was therefore 144.8p. The comparative earnings per share are shown after applying the factor 144.8/148.5 to the published figures for 1992 in order to adjust for the bonus element in the rights issue.

8 Employee information

	1993 Number	1992 Number
Average weekly number of Group employees during the year		
United Kingdom	41,400	46,000
Overseas	7,800	9,000
	49,200	55,000
Aerospace	27,900	30,700
Industrial Power	21,300	24,300
	49,200	55,000

	£m	£m
Group employment costs		
Wages and salaries	914	936
Social security costs	82	76
Other pension costs (note 27)	50	52
	1,046	1,064

9 Emoluments of directors

The directors' emoluments, including performance related bonuses of £58,000 (1992 £34,000) and pension contributions of £171,000 (1992 £252,000), charged before arriving at operating profit were:

	1993 £000	1992 £000
Fees	84	58
Other emoluments	1,761	1,503

The emoluments, including performance related bonuses but excluding pension contributions, of directors working wholly or mainly in the United Kingdom were:

£	1993 Number	1992 Number
5,001 to 10,000	—	2
10,001 to 15,000	—	2
15,001 to 20,000	3	—
20,001 to 25,000	—	1
30,001 to 35,000	1	—
130,001 to 135,000	—	1
140,001 to 145,000	—	1
145,001 to 150,000	—	1

£	Number	Number
165,001 to 170,000	—	1
170,001 to 175,000	—	1
190,001 to 195,000	2	—
200,001 to 205,000	2	—
205,001 to 210,000	—	1
255,001 to 260,000	1	—
275,001 to 280,000	—	1
305,001 to 310,000	1	—

Included in the above table are the emoluments of Sir Ralph Robins, who was chairman from October 1, 1992 and highest paid director in both 1992 and 1993, and Lord Tombs of Brailes, who was chairman until September 30, 1992.

In 1993 Sir Ralph Robins received salary and benefits amounting to £308,000 (1992 £278,000) having waived a performance related bonus of £7,000 (1992 £14,000 waived). Employer's pension contributions in the year were £36,000 (1992 £31,000).

Executive directors' salaries, performance related bonuses and executive share options are determined by the Remuneration Committee of the Board (see page 18). The members of this committee are all non-executive directors, none of whom receives salaries or bonuses or holds options.

The salary levels take into account the skill and experience of the individual, the scope of the duties performed and personal contribution. Account is also taken of the level of remuneration for comparable jobs in the UK engineering and aerospace industries, based upon information provided by independent remuneration consultants.

A performance improvement bonus scheme is in operation and membership is restricted to executive directors and a small number of other senior executives. The scheme is based on the achievement of profit and cash performance targets for the relevant business group or trading company during the year in question. Such bonuses have a ceiling of 20% of salary.

Executive share options are provided to executive directors and to certain other personnel, in accordance with the terms of the Executive Share Option Scheme. These options encourage executives to take a long-term view of the Group's performance and are granted at the market value at the date of issue. No options were granted in 1993 but existing options were adjusted in accordance with an Inland Revenue approved formula to take account of the effect of the rights issue on such options (note 22).

Under the Sharesave Scheme, options over shares are offered to all employees including executive directors. The latest offer (1992) was at a discount of 15% to the market value at the date of offer.

10 Tangible fixed assets

	Group			Company		
	Land & buildings £m	Plant & equipment £m	Total £m	Land & buildings £m	Plant & equipment £m	Total £m
Cost or valuation:						
At January 1, 1993	363	1,308	1,671	233	874	1,107
Exchange adjustments	(1)	(2)	(3)	—	—	—
Additions at cost	16	117	133	13	91	104
Disposals/write-offs	(7)	(92)	(99)	(2)	(55)	(57)
At December 31, 1993	371	1,331	1,702	244	910	1,154
Depreciation:						
At January 1, 1993	75	722	797	51	436	487
Exchange adjustments	—	(1)	(1)	—	—	—
Provided during year	13	92	105	10	69	79
Disposals/write-offs	(3)	(78)	(81)	(1)	(50)	(51)
At December 31, 1993	85	735	820	60	455	515
Net book value 1993	286	596	882	184	455	639
Net book value 1992	288	586	874	182	438	620

Included in the above are:

	Group		Company	
	1993 £m	1992 £m	1993 £m	1992 £m
Net book value of finance leased plant and equipment	44	47	339	320
Assets held for use in operating leases:				
Cost	79	76	—	—
Depreciation	(52)	(50)	—	—
Net book value	27	26	—	—
Land and buildings at cost or valuation comprise:				
Valuation at December 31, 1985[1]	186	187	173	174
Exchange adjustments	—	1	—	—
Cost	185	175	71	59
	371	363	244	233
Land and buildings at net book value comprise:				
Freehold	263	262	174	171
Long leasehold	21	22	8	9
Short leasehold	2	4	2	2
	286	288	184	182
On an historical cost basis the net book value of land and buildings would have been as follows:				
Cost	295	286	165	153
Depreciation	(129)	(123)	(96)	(90)
Net book value	166	163	69	63

[1] At December 31, 1985 specialised properties were revalued on a depreciated replacement cost basis and the remainder by reference to their open market value for existing use.

11 Investments – subsidiary undertakings

	£m
Company	
Shares at cost at January 1, 1993	333
Additions	6
Shares at cost at December 31, 1993	339

The principal subsidiary undertakings are listed on pages 44 and 45.

12 Investments – associated undertakings

	Interests in £m	Loans to £m	Total £m
Group			
Cost:			
At January 1, 1993	52	3	55
Additions	1	—	1
At December 31, 1993	53	3	56
Share of post acquisition reserves:			
At January 1, 1993	7	—	7
Exchange adjustments	(3)	—	(3)
Retained profit	8	—	8
At December 31, 1993	12	—	12
Net book value 1993	65	3	68
Net book value 1992	59	3	62
Company			
Cost:			
At January 1, 1993	49	3	52
Additions	1	—	1
At December 31, 1993	50	3	53

The principal associated undertakings are listed on pages 46 and 47.

13 Stocks

	Group		Company	
	1993 £m	1992 £m	1993 £m	1992 £m
Raw materials	75	104	47	56
Work in progress	291	380	183	251
Long-term contract work in progress	25	47	—	—
Finished goods	387	460	355	434
Payments on account	11	17	20	25
	789	1,008	605	766
Progress payments against:				
Long-term contract work in progress	(14)	(36)	—	—
Other stocks	(164)	(276)	(139)	(237)
	611	696	466	529

14 Debtors – amounts falling due within one year

Trade debtors	425	557	242	339
Amounts recoverable on contracts	60	65	3	6
Amounts owed by – subsidiary undertakings	—	—	47	60
– associated undertakings	119	104	118	102
Corporate taxation	2	1	—	—
Other debtors	27	28	4	5
Prepayments and accrued income	61	43	44	26
	694	798	458	538

15 Debtors – amounts falling due after one year

Trade debtors	75	67	28	28
Amounts recoverable on contracts	—	5	—	—
Amounts owed by – subsidiary undertakings	—	—	385	398
– associated undertakings	21	13	21	13
Prepayments and accrued income	33	40	33	39
Prepaid pension contributions	29	19	15	16
	158	144	482	494

16 Borrowings – amounts falling due within one year

Bank loans and overdrafts	25	33	—	21
Acceptance credits and promissory notes	7	31	—	—
9⅝% Notes 1993	—	150	—	150
Loan[1]	26	—	—	—
	58	214	—	171

[1]The Group has borrowed US $40m through a subsidiary, Rolls-Royce Euro Finance NV, which has entered into foreign exchange transactions in order to provide a sterling loan, at variable rates of interest, for general Group purposes. The loan is guaranteed by the Company.

17 Other creditors – amounts falling due within one year

	Group 1993 £m	Group 1992 £m	Company 1993 £m	Company 1992 £m
Payments received on account	214	191	[illegible]	57
Trade creditors	451	466	299	319
Amounts owed to – subsidiary undertakings	–	–	100	62
– associated undertakings	57	47	57	47
Corporate taxation	26	33	24	21
Other taxation and social security	44	39	17	16
Other creditors	294	296	230	217
Accruals and deferred income	37	35	28	19
Accrued pension costs	–	4	–	–
Interim dividend since paid	19	25	19	25
Final proposed dividend	37	23	37	23
Obligations under finance leases	6	4	37	54
	1,185	1,163	946	870

Company obligations under finance leases include £36m (1992 £34m) owed to a subsidiary undertaking.

18 Borrowings – amounts falling due after one year

Unsecured				
11⅝% Notes 1998[1]	150	150	150	150
7⅛% Notes 2003[2]	198	–	–	–
Loan 1994	–	26	–	–
Other loans 1995-2004 (interest rates nil)	2	4	–	–
Preference shares issued by a subsidiary[3]	10	–	–	–
Secured by charges on related buildings				
Loans 1995-2008	–	1	–	–
	360	181	150	150
Repayable				
Between one and two years – by instalments	2	1	–	–
– otherwise	–	26	–	–
Between two and five years – by instalments	–	2	–	–
– otherwise	160	2	150	–
After five years – by instalments	–	–	–	–
– otherwise	198	150	–	150
	360	181	150	150

[1]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 Company at variable rates of interest.
[2]The Group has borrowed US $300m through a subsidiary, Rolls-Royce Capital Inc., in order to provide a fixed rate loan for general Group purposes. This has been translated into sterling after taking account of future contracts. The loan is guaranteed by the Company.
[3]Cumulative preference shares, redeemable in 1996, have been issued by NEI Africa Operations Limited. The share issue is guaranteed by the Company.

19 Other creditors – amounts falling due after one year

	Group 1993 £m	Group 1992 £m	Company 1993 £m	Company 1992 £m
Payments received on account	41	42	41	42
Amount owed to subsidiary undertaking	–	–	198	–
Other creditors	77	83	73	83
Accruals and deferred income	12	15	12	15
Accrued pension costs	3	2	–	–
Obligations under finance leases payable:				
Between one and two years	6	5	38	56
Between two and five years	18	15	111	103
After five years	8	11	176	179
	165	173	647	458

Company obligations under finance leases include £318m (1992 £316m) owed to a subsidiary undertaking.

20 Deferred taxation

	Group 1993 £m	Group 1992 £m	Company 1993 £m	Company 1992 £m
Full potential liability/(asset):				
Fixed asset timing differences	77	73	(6)	(9)
Other timing differences	(78)	(124)	(70)	(110)

No provision for deferred taxation has been made.

At December 31, 1993, the Company had tax losses of approximately £325m (1992 £250m), which are available for relief against future trading profits of the Company.

At December 31, 1993 advance corporation tax of £141m (1992 £117m) for the Group, including £122m (1992 £104m) for the Company, is available for carry forward against future corporation tax liabilities.

21 Provisions for liabilities and charges

	Restructuring and customer problems £m	Other £m	Total £m
Group			
At January 1, 1993	230	178	408
Net charge to profit and loss account	–	46	46
Utilised	(92)	(61)	(153)
At December 31, 1993	138	163	301
Company			
At January 1, 1993	220	126	346
Net (credit)/charge to profit and loss account	(12)	30	18
Utilised	(82)	(49)	(131)
At December 31, 1993	126	107	233

Other provisions include, principally, warranty relating to sales up to the year end and estimated future losses on current contracts.

22 Share capital

	Special share at £1	Ordinary shares of 20p each	Nominal value £m
Authorised			
At January 1, 1993	1	1,282,000,000	256
At an Extraordinary General Meeting on October 14, 1993	—	468,000,000	94
At December 31, 1993	1	1,750,000,000	350
Issued and fully paid			
At January 1, 1993	1	967,472,786	194
Exercise of share options	—	7,349,593	1
In lieu of paying dividends in cash	—	3,224,730	1
Rights issue (see below)	—	242,736,773	48
At December 31, 1993	1	1,220,783,882	244

Subject to the provisions of the Companies Act 1985, the special rights redeemable preference share (special share) may be redeemed by the Treasury Solicitor at par at any time.

On September 2, 1993 the Company announced a proposal to raise approximately £307 million, net of expenses, by way of a fully underwritten rights issue. The purpose of this rights issue was to expand the equity base of the Company in order to finance the Group's long-term activities. Under the terms of the rights issue 242,736,773 new ordinary shares were issued in September, 1993 at 130p per share on the basis of one new ordinary share for every four existing ordinary shares.

At December 31, 1993 the following ordinary shares were subject to options:

	Date of grant	Number	Price	Normally exercisable
Executive Share Option Scheme	1987	1,503,159	200p	1994-1997
	1988	302,264	110p	1994-1998
	1989	295,048	183p	1994-1999
	1990	3,449,040	174p	1994-2000
	1991	2,612,641	140p	1994-2001
	1992	110,700	149p	1995-2002
	1992	3,878,600	126p	1995-2002
Sharesave Scheme	1987	5,852,327	180p	1994-1995
	1988	6,037,790	109p	1994-1996
	1990	12,863,994	146p	1996/1998
	1992	19,243,097	107p	1998/2000
NEI Executive Share Option Scheme (1985)	1988	57,862	130p	1994-1998
NEI Employee Sharesave Option Scheme	1989	277,309	160p	1994
Victor Products Share Option Scheme	1985	1,725	87p	1994-1995

The share options have been adjusted in accordance with an Inland Revenue approved formula to take account of the rights issue on such options.

Under the terms of the Executive Share Option Scheme, options granted to 87 directors and senior executives were outstanding at December 31, 1993.

Under the terms of the Sharesave Scheme 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 five or seven years.

22 Share capital continued

The directors at December 31, 1993 had the following beneficial interests, including options, in the ordinary share capital of the Company:

	Holdings		Options		
	Jan 1[1] 1993	Dec 31 1993	Jan 1 1993	Rights issue adjustment	Dec 31 1993
Sir Ralph Robins	6,041	7,700	671,500	16,788	688,288
Mr L.J. Clark	—	5,937	—	—	—
Dr T. Harrison	21,811	27,263	480,151	12,004	492,155
Sir Gordon Higginson	2,500	3,125	—	—	—
Mr S.C. Miller	4,018	5,022	451,900	11,299	463,199
Mr H.G. Mourgue	4,750	5,937	—	—	—
Sir Robin Nicholson	4,750	5,937	—	—	—
Mr J.E.V. Rose	—	1,250	230,700	5,768	236,468
Mr J.W. Sandford	10,000	12,746	—	—	—
Mr M. Townsend	1,000	1,250	258,520	6,464	264,984
Mr R.T. Turner	1,929	2,409	234,000	5,850	239,850

[1] or date of appointment if later.

Mr R.H. Maudslay was appointed on January 1, 1994. He has interests in 4,000 shares and options on 166,189 shares.

Sir Ralph Robins and Mr J.W. Sandford took shares, 78 and 130 respectively, instead of cash dividends in January 1994. Otherwise there has been no change in the directors' interests set out above between December 31, 1993 and March 9, 1994.

23 Reserves

	Non-distributable			
	Share premium £m	Revaluation reserve £m	Other reserves £m	Profit and loss account £m
Group				
At January 1, 1993	241	125	16	323
Exchange adjustments	—	(1)	—	(3)
Scrip dividend adjustment	—	—	—	4
Ordinary shares issued relating to scrip dividend	(1)	—	—	—
Arising on share issues (net of £9m expenses)	266	—	—	—
Goodwill on disposals	—	—	4	—
Transfers between reserves	—	(4)	—	4
Profit for the year	—	—	—	7
At December 31, 1993	506	120	20	335
Company				
At January 1, 1993	241	119	261	129
Scrip dividend adjustment	—	—	—	4
Ordinary shares issued relating to scrip dividend	(1)	—	—	—
Arising on share issues (net of £9m expenses)	266	—	—	—
Transfers between reserves	—	(4)	—	4
Loss for the year	—	—	—	(12)
At December 31, 1993	506	115	261	125

Goodwill, written off against other reserves, cumulatively amounts to £243m (1992 £247m).

The undistributed profits of overseas subsidiary and associated undertakings may be liable to overseas taxes and/or United Kingdom tax (after allowing for double tax relief) if remitted as dividends to the UK.

24 Capital expenditure commitments

	Group		Company	
	1993 £m	1992 £m	1993 £m	1992 £m
Contracted but not provided	18	40	14	33
Authorised but not yet contracted	23	21	18	18

25 Operating lease annual commitments

Leases of land and buildings which expire:				
Within one year	2	1	1	—
Between one and five years	4	3	1	1
After five years	4	5	2	3
Other leases which expire:				
Within one year	1	1	—	—
Between one and five years	8	3	4	—
After five years	12	9	—	—

26 Contingent liabilities

In connection with the sale of its products, on some occasions the Company enters 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, and in certain circumstances could involve the Company assuming certain of its customers' entitlements and related obligations. Having regard to the estimated net realisable value of the relevant security, the net contingent liabilities on delivered and undelivered aircraft amount to £11m (1992 £6m) and £2m (1992 £48m) respectively. At the date these accounts are approved the directors regard the possibility that there will be any significant loss arising from these contingencies as remote. In determining this, the directors have taken account of advice, principally from Airclaims Limited, professional aircraft appraisers.

Contingent liabilities exist in respect of guarantees provided by the Group in the ordinary course of business for engine 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, bills discounted, performance bonds, countertrade obligations and minor miscellaneous items. The net exposure of the Group at December 31, 1993 to promissory notes discounted with banks with recourse to the Group amounted to £20m (1992 £19m). There are claims outstanding which arise under contracts carried out by the Group. The directors do not expect any of these arrangements or claims, after allowing for provisions already made, to result in significant loss to the Group.

The Group and Company enter into forward exchange and swap transactions, including interest rate swaps, aimed at improving the achieved rate and limiting exposure to exchange rate movements in the medium and long-term.

In addition to the guarantees referred to in notes 16 and 18, there are other guarantees in respect of financial obligations of:

Subsidiary undertakings	—	—	68	122
Associated undertakings	—	—	30	39
Other undertakings	5	—	5	—

27 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, 1991 (for Rolls-Royce) and April 5, 1992 (for NEI). The principal assumptions used were that in the long-term the average return on investments would be between 1.5% and 2.5% per annum higher than the average increase in pay and between 4.5% and 5.5% per annum higher than the average increase in pensions. Assets have been valued using the discounted income method assuming that UK equity dividends increase at a rate of between 4.5% and 5.0% per annum less than the return on investments.

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 £50m (1992 £52m) of which £4m (1992 £4m) relates to the overseas schemes.

The aggregate of the market values of the UK schemes at the dates of the latest actuarial valuations was £1,906m. The actuarial value of the assets of the principal schemes represented respectively 95.4% (for Rolls-Royce) and 119.0% (for NEI) 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 as a percentage of scheme earnings over periods of between nine and 14 years, being the average remaining service lives of the pensionable employees.

Prepayments of £29m (1992 £19m) are included in debtors and accruals of £3m (1992 £6m) are included in creditors, being the differences between the accumulated amounts paid into the pension funds and the accumulated pension costs.

Principal Subsidiary Undertakings

at December 31, 1993

Registered in England

Aerospace Group	
Reflex Manufacturing Systems Limited	– Manufacturing control software
Rolls E.L. Turbofans Limited	– FJ44 engine support services/holding company
Rolls-Royce Aero Engine Services Limited[1]	– Overhaul and repair
Rolls-Royce Commercial Aero Engines Limited[1]	– Sale and support of aero gas turbine engines and parts
Rolls-Royce Engine Controls Limited	– Holding company
Rolls Royce International Support Services Limited	– Product support services
Rolls-Royce Military Aero Engines Limited[1]	– Sale and support of aero gas turbine engines and parts
Sawley Packaging Company Limited	– Specialised packaging
Industrial Power Group	
Allen Power Engineering Limited[2]	– Diesel engines, small steam turbines, compressors and valves
Becorit (Holdings) Limited (90%)[3]	– Mining equipment
Clarke Chapman Limited[2]	– Cranes and mechanical handling equipment
International Combustion Limited[2]	– Power station boilers and combustion systems
NEI Brantford International Limited (51%)[3]	– Freight forwarding
NEI Control Systems Limited[2]	– Control systems for power stations and industrial applications
NEI Mining Equipment Limited[2]	– Electrical and mechanical equipment for mining applications
NEI Overseas Holdings Limited[3]	– Holding company
Parsons Turbine Generators Limited[2]	– Large steam turbine generators
Peebles Electric Limited[2]	– Transformers and electric motors
Reyrolle Limited[2]	– Electrical switchgear and protection equipment
Rolls-Royce and Associates Limited	– Nuclear submarine propulsion systems
Rolls-Royce Industrial & Marine Gas Turbines Limited[1]	– Aero-derived gas turbines
Rolls-Royce Industrial Power (India) Limited[2]	– Power station construction
Rolls-Royce Nuclear Engineering Limited[4]	– Management company
Rolls-Royce Nuclear Engineering Services Limited[2]	– Refurbishment and modification of nuclear power plant
Rolls-Royce Power Engineering plc	– Holding company
Thompson Defence Projects Limited[2]	– Military bridging systems
Thompson Kennicott Limited[2]	– Water treatment plant
Victor Products Limited[5]	– Mining equipment
Corporate	
Middle East Equity Partners Limited	– Holding company
Rolls-Royce International Limited	– Support and commercial information services in Australia, Brazil, China, Dubai, France, Hong Kong, India, Indonesia, Japan, Korea, Malaysia, Mexico, Singapore and Thailand
Rolls-Royce Leasing Limited	– Leasing of engines
Rolls-Royce Overseas Holdings Limited	– Holding company
Rolls-Royce Plant Leasing Limited	– Leasing of plant

[1] These subsidiaries act as agents of Rolls-Royce plc.
[2] The interests are held by Rolls-Royce Power Engineering plc and these companies act as agents of that company.
[3] The interests are held by Rolls-Royce Power Engineering plc.
[4] This subsidiary acts as agent of Rolls-Royce Power Engineering plc.
[5] The interest was disposed of on February 26, 1994.

Except where otherwise stated, the above companies operate principally in Great Britain and the effective Group interest is 100%.

Incorporated overseas

Aerospace Group		
Brazil	Motores Rolls-Royce Limitada	– Overhaul and repair
France	Rolls-Royce Technical Support SARL[1]	– Project support
Industrial Power Group		
Australia	Rolls-Royce Industrial Power (Pacific) Limited[3]	– Electrical, mechanical and construction engineering
Canada	Bristol Aerospace Limited[6]	– Servicing of aircraft engine and air frames
	Ferranti-Packard Transformers Limited[6]	– Power transformers
	Parsons Turbine Generators Canada Limited[6]	– Turbine generator overhaul
	Rolls-Royce Canada Limited[6]	– Industrial gas turbines and aero engine sales, service and overhaul
	Rolls-Royce Gas Turbine Engines (Canada) Inc.[6]	– Industrial gas turbines
	Rolls-Royce Holdings Canada Inc.	– Holding company
	Rolls-Royce Industries Canada Inc.[5]	– Holding company
Mexico	Ferranti-Packard de Mexico SA De CV[7]	– Power transformers
New Zealand	Rolls-Royce Industrial Power (New Zealand) Limited[8]	– Electrical switchgear and industrial engineering
Saudi Arabia	Rolls-Royce International Turbines (Saudi Arabia) Limited (51%)	– Operation and maintenance of electrical generating plant
South Africa	NEI Africa Holdings Limited (60.33%)[3]	– Holding company
	Northern Engineering Industries Africa Limited (56.36%)[4] (The effective interest in South African Companies is 35.20%.)	– Energy conversion and distribution equipment
Zambia	Cutler Hammer Zambia Limited[3]	– Low voltage motor control equipment
	NEI Zambia Limited[3]	– Diesel engines, distribution switchgear
Zimbabwe	NEI Holdings Zimbabwe (Private) Limited[3]	– Boilers, distribution switchgear
Corporate		
Australia	Rolls-Royce of Australia Pty. Limited	– Service facilities
Guernsey	Nightingale Insurance Limited	– Insurers
Netherlands	Rolls-Royce Euro Finance NV	– Financial services
USA	Rolls-Royce Holdings Inc.[1]	– Holding company for US operations
	Rolls-Royce Inc.[2]	– Engineering research; marketing and support
	Rolls-Royce Capital Inc.[2]	– Financial services

[1] These interests are held by Rolls-Royce Overseas Holdings Limited.
[2] The interest is held by Rolls-Royce Holdings Inc.
[3] The interests are held by NEI Overseas Holdings Limited.
[4] The interest is held as follows: 53.34% by NEI Africa Holdings Limited, 3.02% by NEI Overseas Holdings Limited.
[5] The interests are held by Rolls-Royce Holdings Canada Inc.
[6] The interests are held by Rolls-Royce Industries Canada Inc.
[7] The interest is held as follows: 37% by Rolls-Royce Industries Canada Inc., 63% by NEI Overseas Holdings Limited.
[8] The interest is held by Rolls-Royce Industrial Power (Pacific) Limited.

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

Principal Associated Undertakings

at December 31, [illegible]

Registered in England or Scotland*

	Class	% held by Rolls-Royce plc	% of total equity held by Rolls-Royce plc
Aerospace Group			
Rolls-Royce Turbomeca Limited (England & France) – Adour and RTM 322 engines collaboration	A Shares	–	50
	B Shares	100	
Rolls Smiths Engine Controls Limited[1] – Digital engine controls	A Ordinary	–	50
	B Ordinary	50	
Turbo-Union Limited (England, Germany & Italy) – RB199 engine collaboration	Ordinary	40	40
	A Shares	37.5	
Industrial Power Group			
Rolls Wood Group (Repair & Overhauls) Limited* – Overhaul and repair	A Ordinary	100	50
	B Ordinary	–	
Cooper Rolls Limited[2] – Sale of mechanical drive units	Ordinary	50	50
Corporate			
Rolls-Royce & Partners Finance Limited – Financial services	Ordinary	40	40

Incorporated overseas

	Class	% held by Rolls-Royce plc	% of total equity held by Rolls-Royce plc
Aerospace Group			
Australia			
Turbine Components Australia Pty. Limited – Casting facility	A Shares	100	40
	B Shares	–	
Germany			
BMW Rolls-Royce GmbH (England & Germany) – BR700 engine development	Ordinary	49.5	49.5
EUROJET Turbo GmbH (England, Germany, Italy & Spain) – EJ200 engine collaboration	Ordinary	33	33
MTU, Turbomeca, Rolls-Royce GmbH (England, France & Germany) – MTR 390 engine collaboration	Ordinary	33.3	33.3
Italy			
Europea Microfusioni Aerospaziali SpA – Casting facility	Ordinary	33.3	33.3
Spain			
Industria de Turbo Propulsores SA – Component design and manufacture; engine overhaul	Ordinary	45	45
Switzerland			
IAE International Aero Engines AG (England, Germany, Italy, Japan & USA) – V2500 engine collaboration	A Shares	100	30
	B Shares	–	
	C Shares	–	
	D Shares	–	
	E Shares	–	
USA			
Williams-Rolls, Inc.[3] (Europe & North America) – FJ44 engine collaboration	Common	15	15

Incorporated overseas continued	Class	% held by Rolls-Royce plc	% of total equity held by Rolls-Royce plc
Industrial Power Group			
Canada			
Cooper, Rolls Corporation[4] – Sale and marketing of mechanical drive units	Common	50	50
India			
APF Belliss India Limited[5] – Steam turbines	Ordinary	40	40
USA			
Cooper Rolls Incorporated (Europe & North America) – Sale and marketing of mechanical drive units	Common	50	50
Corporate			
Saudi Arabia			
Middle East Propulsion Company Limited[6] – Overhaul and repair facility	Ordinary	16.6	16.6
USA			
R-H Component Technologies, L.C.[7] – Component refurbishment	Ordinary	50	50

[1] The interest is held by Rolls-Royce Engine Controls Limited.
[2] The interest is held by Cooper Rolls Incorporated.
[3] The interest is held by Rolls D.L. Turbofans Limited.
[4] The interest is held by Rolls-Royce Industries Canada Inc.
[5] The interest is held by Belliss & Morcom Holdings Limited.
[6] The interest is held by Middle East Equity Partners Limited.
[7] The interest is held by Rolls-Royce Inc.

The countries of principal operations, if other than the country of registration, are stated in brackets after the company's name.

Financial calendar

Ex dividend date for final dividend	March 28, 1994
Calculation period for scrip dividend	March 28 – April 5, 1994
Qualifying date for final dividend	April 14, 1994
Last date for new scrip dividend instructions	May 13, 1994
Annual General Meeting	May 25, 1994
Payment of final/scrip dividend	July 4, 1994
Press advertisement of 1994 Interim Results*	September 2, 1994
Ex dividend date for interim dividend	September 19, 1994
Calculation period for scrip dividend	September 19 – 23, 1994
Qualifying date for interim dividend	October 6, 1994
Last date for new scrip dividend instructions	November 11, 1994
Financial year end	December 31, 1994
Payment of interim/scrip dividend	January 9, 1995
Press advertisement of 1994 Preliminary Results*	March, 1995
1994 Annual Report published	April, 1995

*Note: Preliminary and Interim Results are notified by press advertisement only.

Analysis of ordinary shareholders at December 31, 1993

Size of holding	Number of holdings	% of total holdings	% of total shares
1 – 150	212,301	41.03	2.42
151 – 500	261,315	50.50	4.94
501 – 10,000	41,949	8.11	5.80
10,001 – 100,000	1,114	0.21	2.89
100,001 – 1,000,000	579	0.11	17.78
1,000,001 and over	204	0.04	66.17
	517,462	100.00	100.00

Details of special low cost dealing services in the Company's shares may be obtained from Hoare Govett Corporate Finance Limited (telephone 081 732 7717) and from NatWest Stockbrokers Limited (telephone 071 895 5454). Both are members of the Securities and Futures Authority and NatWest Stockbrokers Limited is a member of the London Stock Exchange.

If you have any queries about your shareholding please write to or telephone the Registrar at the following address:

National Westminster Bank Plc
Registrar's Department
PO Box 82
Caxton House
Redcliffe Way
Bristol BS99 7NH
Telephone: 0272 306600

You can obtain the current market price of the Company's shares by telephoning 0839 500 232.

If you would prefer to receive new shares instead of cash dividends please ask the Registrar for a Scrip Dividend Mandate.