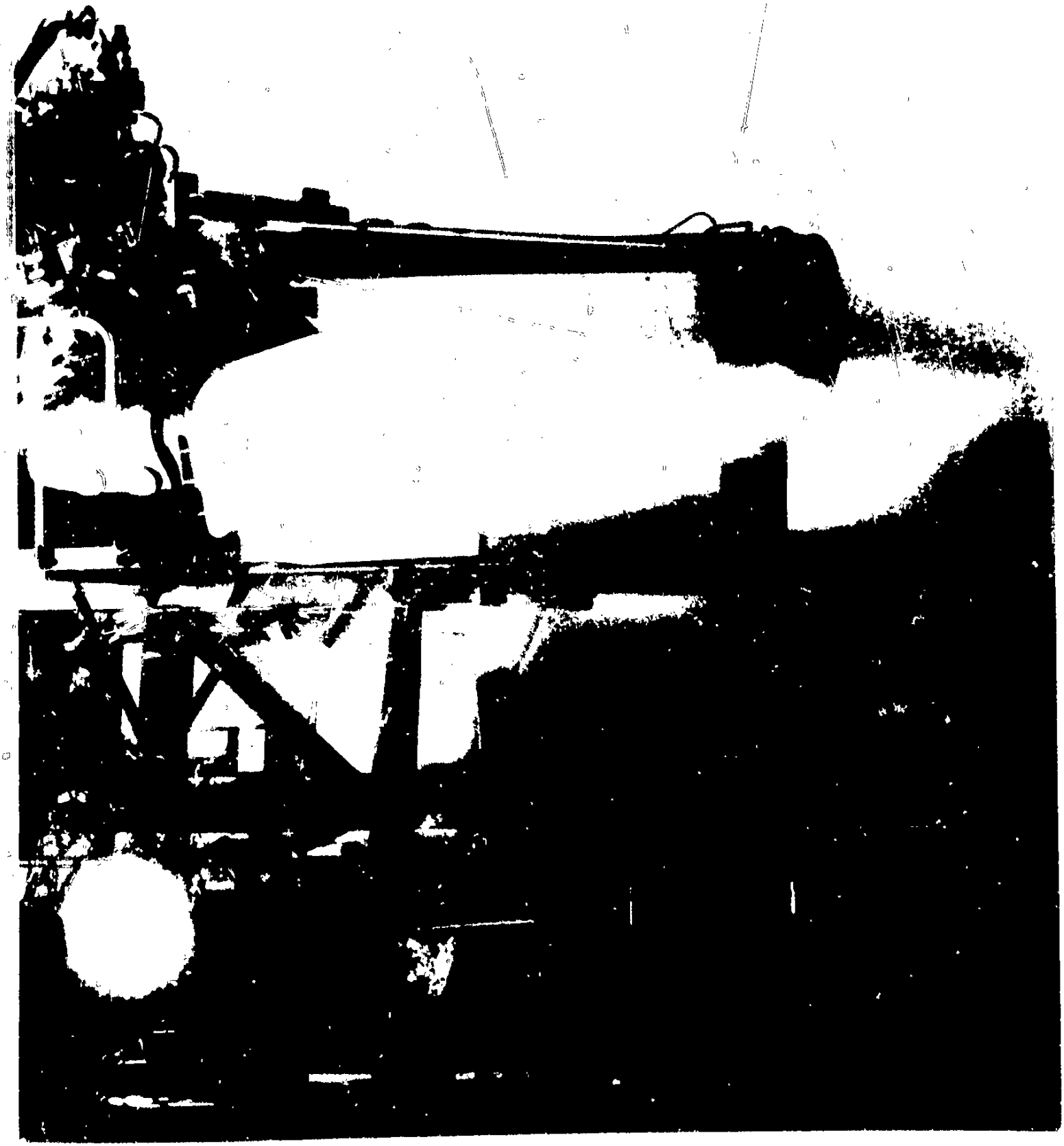
PLEASE NOTE THAT DUE TO THE POOR QUALITY OF THE FICHE SOME OF THE FOLLOWING IMAGES ARE ALSO OF POOR QUALITY



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Cover picture:
Trials with plenum chamber burning on a Pegasus engine at the Ministry of Defence establishment at Shoeburyness. This technique dramatically boosts the power and will have application in future supersonic aircraft of the Harrier type

Chairman's statement

The turnover in 1980 was £1258 million which was 48 percent higher than the previous year. Both military and civil engines contributed to this increase. Although rising costs made it difficult to maintain satisfactory margins, the Company traded at a small profit before interest and tax. After charging net interest – up £22 million from 1979 – the pretax loss was £22 million compared with £58 million in the previous year.

Although less than a quarter of the income of Rolls-Royce is denominated in US dollars, most aero engine prices are considerably influenced by the prices and costs prevailing in the United States of America. All through 1980 the pound sterling remained relatively strong against the US dollar and other currencies; success in curbing inflation is likely to keep it so. This reinforces the continuing necessity to increase productivity and reduce costs.

Productivity bonus schemes tailored to the requirement of individual sites formed the main element of pay agreements during 1980. The improvements in productivity contributed to the achievement of the Company's manufacturing programmes. The schemes enable pay rates to remain competitive and the Company suffered no strikes or major industrial relations problems during the year. The early part of 1980 saw the need for some increase in direct operators, but in the last quarter of the year manpower numbers started to decline and this will continue through 1981.

Equally important to manufacturing programmes is the productivity and quality control of the many firms who supply goods and services to the Company. A substantial part of each engine comprises finished components and subcontract work which we purchase from outside. The largest part of this work is placed in the UK and there has been marked progress towards better cost control and on-time delivery.

The current cost accounts, produced in accordance with the requirements of the UK Statement of Standard Accounting Practice No. 16, illustrate the effect of external inflation factors on the long-term economic health of the Company. It is too early to draw conclusions from the results published under this new accounting convention, but they help to explain the need for increased cash to finance stocks and the replacement of fixed assets.

Military and related business represent over half the Company's turnover. Output of the RB199 engine exceeded budget and it entered service in the European Tornado aircraft. The RB199, like the Adour, is the result of successful European collaborations. The Sea Harrier, powered by the Pegasus engine, is now in squadron service with the Royal Navy. Work continued throughout the year and culminated in a successful demonstration of the standard of Pegasus engine required for the US Marine Corps' AV-8B aircraft.

The Gem helicopter engine was selected for flight development of the Italian Agusta 129, and work continued on more powerful Gem derivatives to widen the market prospects for this sector of our business. Demonstration work continued in collaboration with Turboméca for a new helicopter engine called the RTM321.

More than 3000 civil aeroplanes will become 15 years old by 1990. Of these, some two-thirds are the early four-engined 707 and DC8 turbofans, the 727-100 and Trident tri-jets, and the early twin jets. Relatively poor fuel performance and the inability, in certain instances, to meet revised noise regulations make this latter group of aeroplanes prime candidates for early replacement. However, the re-equipment problem comes at a time when most airlines are severely constrained by a lack of capital, mainly as a result of one of the worst recessions in the post-war period coinciding with a greater degree of de-regulation. Orders have slowed down quite considerably and there are no signs as yet of a turn around. When it does come, business could pick up quite rapidly

Fuel efficiency has become the major factor in the competition between engine manufacturers. The RB211-524D4 engine, certificated this year, maintains our lead as

- 4 AUG 1981

the most fuel efficient engine flying in the Boeing 747. The RB211 entered service with Qantas Airways in its Boeing 747 fleet and Air New Zealand have also selected the engine for deliveries of the same aeroplane.

The first production RB211-535C engine for the Boeing 757 has been delivered on time for flight trials, and will enter service in 1983 with British Airways, Eastern Airlines and Monarch Airlines. The Company continues to develop all its products: the RB211-535E4 engine, which capitalises on our fuel efficiency lead, will enter service in 1984, with the above customers and also with Transbrasil.

The Lockheed TriStar continued to expand its customer base with the introduction into service of the latest version of the L1011-500, in Pan Am, BWIA and LTU. Other opportunities are available for this first-class aircraft. In particular certain customers are evaluating the TriStar powered by RB211-535E4 engines both for new aircraft procurement and for retrofit of existing fleets.

By the end of 1980, the 1000th RB211 engine was on-build with orders and options existing for a further 450 engines. It is in service with twenty airlines and has accumulated over 8 million hours of operation.

Other commercial programmes, including the Spey for the Gulfstream III and the Fokker F28, and the Dart for the Fokker F27 and the British Aerospace 748, continue to win expanding markets.

Early in 1980, the Company signed a long-term collaboration agreement with three companies in the Japanese aerospace industry to develop jointly the new RJ500 engine for the smaller size civil aircraft of the future. There is considerable interest in aeroplanes of 150 seats or less. The collaboration is in the design and definition phase, and the engine is planned for entry into service in the second half of the 1980s.

The Industrial and Marine businesses achieved their sales and profit targets. Greater specialisation is taking place in each segment of the market. Further orders were taken for Olympus and Tyne sets, and development continues on the industrial versions of the Spey and RB211 engines for these markets.

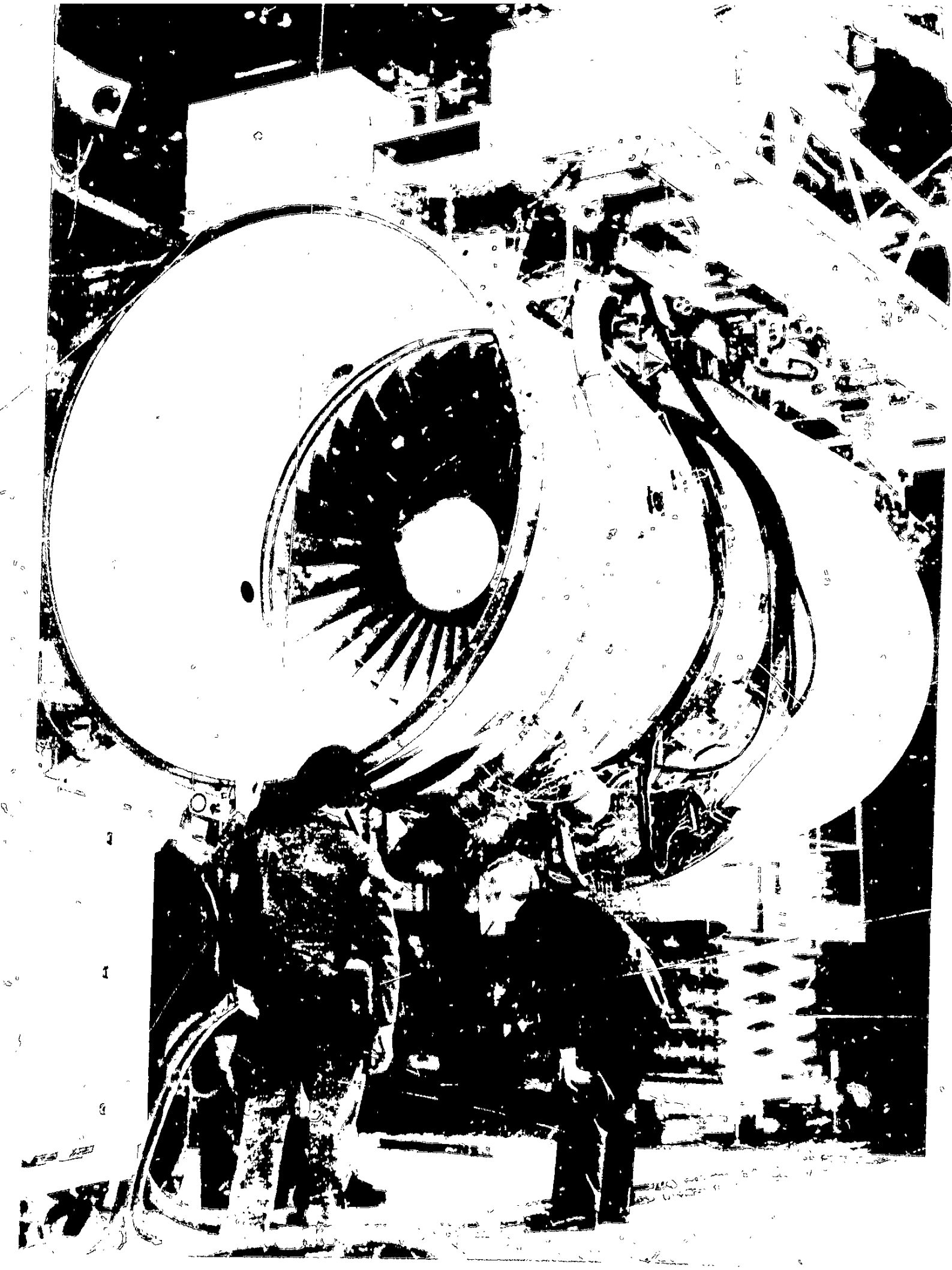
During the year Marshal of the Royal Air Force Sir Denis Spotswood, retired. He had made a unique contribution to Rolls-Royce, particularly on the military side, and his colleagues wish him well. Also during the year Ray Whitfield left the Board after a long and distinguished career in the Company.

Following the reorganisation of the Company, Mr Dennis Head became Managing Director–Operations; Mr Alan Newton and Mr Trevor Salt were appointed to the Board as Director of Engineering and Director of Manufacturing respectively.

Employees at all levels have contributed to the efforts during the course of 1980 to consolidate the Company's position and achieve the appreciable increase in sales. In 1981 there will be modest growth in output but from 1982 onwards much business remains to be won. The market is likely to remain highly competitive for the foreseeable future. Rolls-Royce will continue its efforts to keep in the forefront of technology–in particular its lead in fuel efficiency and low operating costs.

Frank Ste McFadzean

McFadzean of Kelvinside

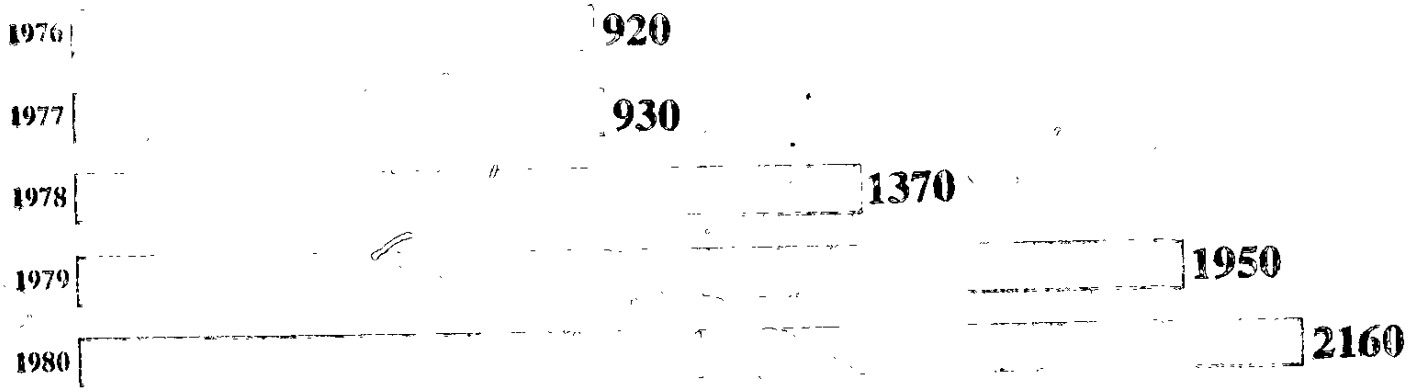


Five-year review

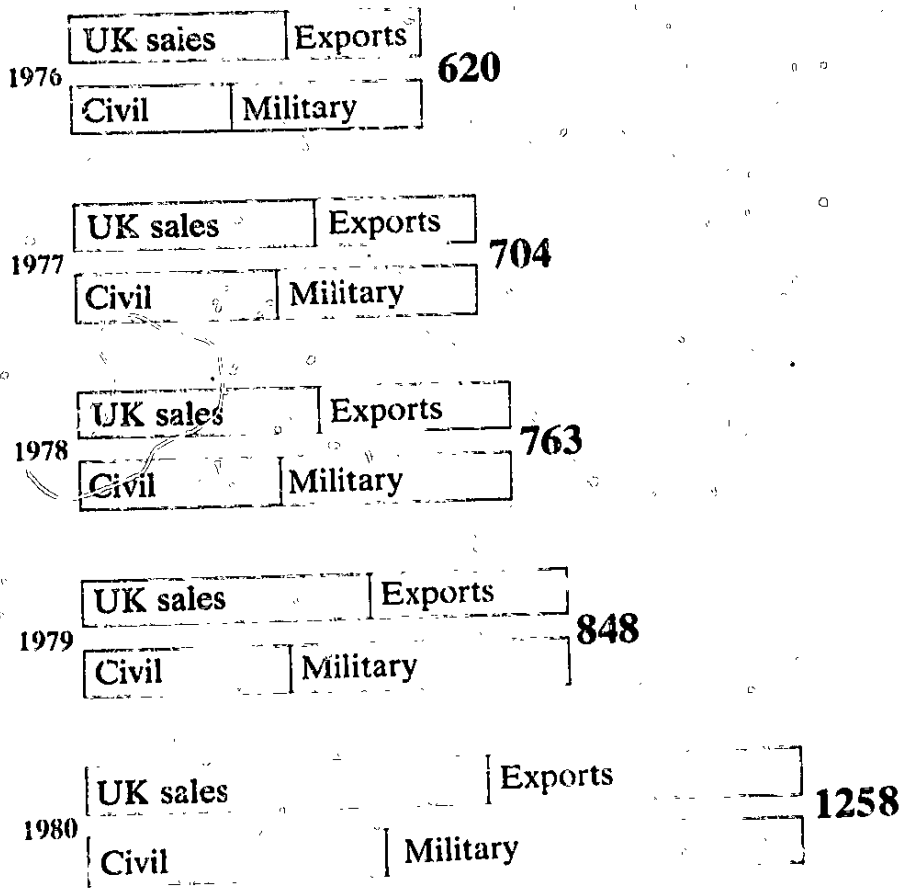
	1980 £m	1979 £m	1978 £m	1977 £m	1976 £m
Turnover	1 258	848	763	704	620
Direct exports from UK	44%	41%	45%	40%	38%
Trading profit (loss) before interest	11	(47)	23	32	(16)
Net interest paid	(33)	(11)	(11)	(11)	(9)
Profit (loss) before taxation	(22)	(58)	12	21	(25)
Taxation	(1)	(3)	(2)	(2)	(2)
Profit (loss) after taxation	(23)	(61)	10	19	(27)
Attributable to minority shareholders	(2)	—	—	—	—
Extraordinary items	(2)	(2)	(3)	(4)	3
Net profit (loss) attributable to Rolls-Royce Limited	(27)	(63)	7	15	(24)
Net assets employed					
Current assets	940	687	544	484	466
Current liabilities	594	492	289	233	259
Net current assets	346	195	255	251	207
Property and plant	299	136	108	97	96
	645	331	363	348	303
Financed by					
Share capital	328	234	203	196	175
Reserves	124	6	69	62	47*
	452	240	272	258	222
Loans	187	90	90	89	80
Minority interest in subsidiaries	6	1	1	1	1
	645	331	363	348	303

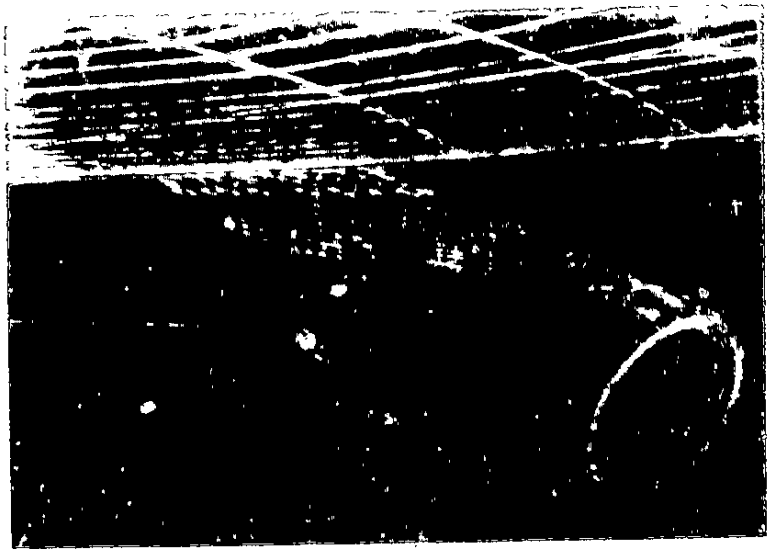
**Restated in accordance with the accounting policy on deferred taxation set out on Page 18.*

Orders on hand at end of year – £m



Sales analysis – £m





Engineering

Rolls-Royce's engineering resources are invested in two closely-related areas advanced engineering to develop fundamental technology for the future, and the development and support of existing engine programmes.

Some 500 specific research programmes are in progress within the Company and a further 100 are supported in research establishments and universities in the UK and abroad. The year ended well with all major engineering programmes on target.

The importance of advanced technology has been emphasised by the need today to obtain the lowest possible fuel consumption and to retain this economy of operation throughout the life of each powerplant.

Much of this work is in long-term, large-scale demonstrator programmes to prove new concepts and features. Examples include the quiet engine demonstrator (QED), advanced core engine technology (ACFT) and the high temperature demonstrator unit (HTDU).

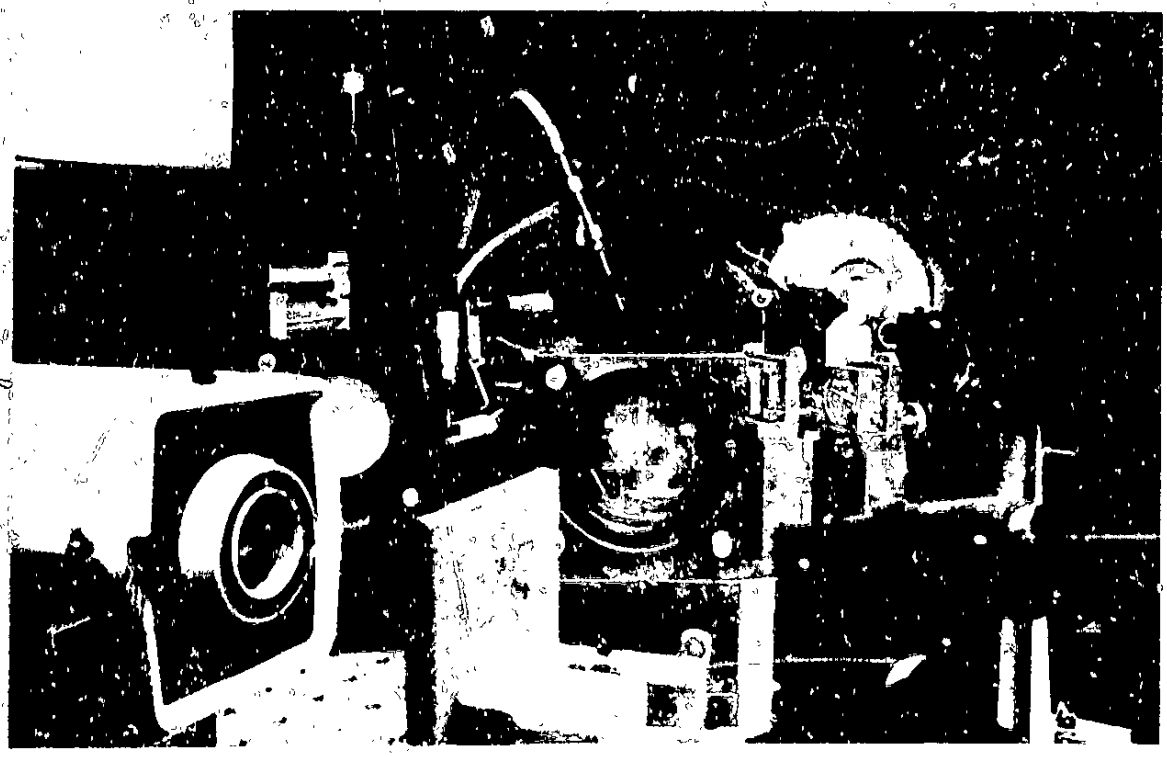
The HTDU programme is aimed to develop components and cooling techniques to operate in temperatures far above those in current engines.

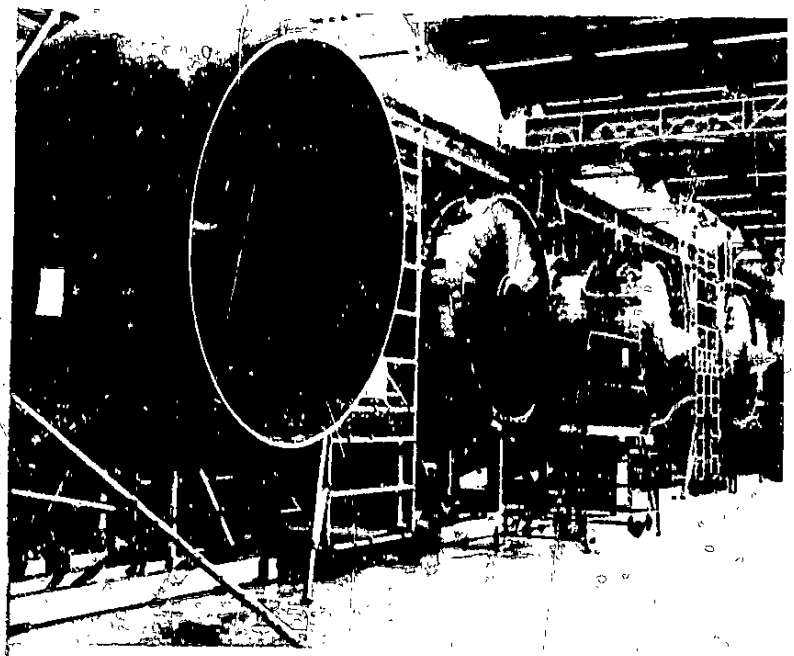
Work continued throughout the year on new analysis and measurement methods such as laser holography, anemometry and advanced radiography. These are providing a greater understanding of the complex gas flow patterns and the motion of major components inside engines.

During 1980 a small engineering organisation was set up in the USA at Atlanta, Georgia. This will enable the Company to compete for American Government research contracts and provide on-shore support for customers there.

During the year the RB211-22B engine achieved its best fleetwide reliability since entering service in 1972. The new directionally-solidified (DS) cast high-pressure turbine blades are in service with six airline customers; these more than double

"Image derotation" holography is used to study the vibration modes of a rotating fan





RB211-524 engines being assembled at Derby, coated with a protective film for transportation

the life of the turbine and significantly improve specific fuel consumption (sfc).

Further improvements were achieved with the RB211-524. The -524B4 derivative was certificated with a five percent lower fuel consumption than the B2, already the most fuel-efficient engine from any manufacturer to power the Boeing 747 airliner. The higher thrust C2 engine has entered service and will be followed by the D4 with further improvements in thrust and sfc. The D4 engine will enter service with the Boeing 747 early in 1982.

At the time of going to press the RB211-535C, a lower-thrust derivative ideally suited to short-haul twin-engined airliners, was undergoing certification. It will enter service in 1983 and will be the first engine to power the Boeing 757.

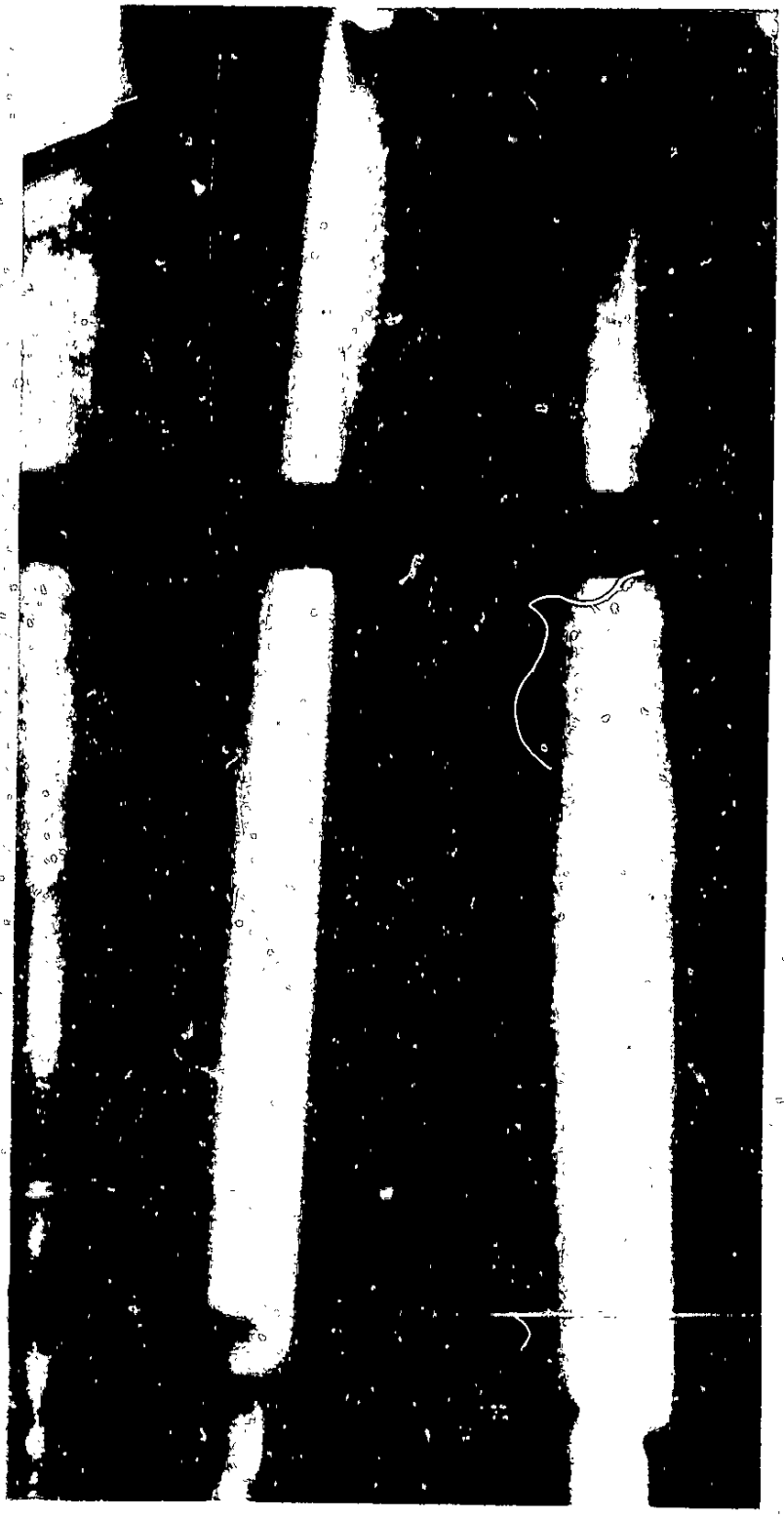
The -535C has many of the proven advanced

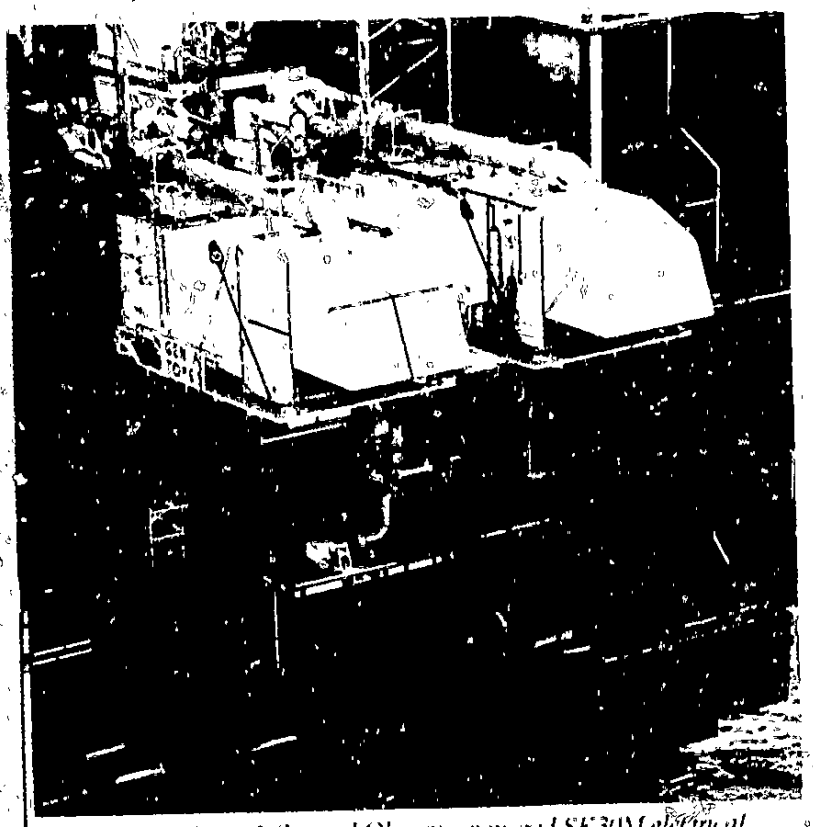
The RB199 powers the Tornado, Europe's largest collaborative military engine programme. Over 2000 engines are required for present and anticipated orders

[illegible] RB[illegible] [illegible] production engine was completed [illegible] time and development engines [illegible] demonstrated fuel consumption within guarantees. This achievement was [illegible] basis from which to launch the next derivative, the [illegible]535E4. Using the latest technology, this engine will have a substantially lower fuel consumption than the [illegible]535C and increased thrust. It will be the first in the world to have hollow fan blades which are more efficient and much lighter than those used by all other engines. These blades have been developed by Rolls-Royce during ten years of research. The [illegible]535E4 will enter service in 1984.

Work continued throughout 1980 on more powerful and fuel efficient derivatives which will enter service in the mid-1980s. Advanced engineering programmes, combined with over 250 million hours of gas turbine engine

X-ray photography of a low pressure turbine while engine is running, using high energy dynamic radiography (right).
An RB199 engine on test at Bristol





Industrial Olympus-powered SK30M electrical generating sets on board the Murchison oil rig in the North Sea

A Pegasus-powered Sea Harrier in service with the Royal Navy, ordered by the Indian Navy

operating experience, will enable the RB211 family of engines to stay ahead of the field for many years.

Other major engineering projects include the RB500, a new-generation turbofan engine in the 20–30,000 lb thrust class. The objective is to achieve a level of fuel consumption as good as the best large fan engines – in the order of a one-third improvement over present-day engines of similar power. Development is in collaboration with a consortium of three Japanese aerospace companies and the engine is planned for service in the mid-1980s, powering short- to medium-range 120–160 seat airliners.

Work continued on the Pegasus vectored-thrust engine which is the key to the vertical and short take-off and landing (V/STOL) capabilities of the British Aerospace Harrier, the only operational aircraft of its kind in the free world. The year saw good progress with the version of this engine for the McDonnell Douglas AV-8B Advanced Harrier and with the testing of plenum chamber burning (PCB) to augment the engine thrust for future supersonic V/STOL aircraft (see cover of this report and caption inside).

Further product improvement work was carried out on other military and civil engines including the RB199 (which entered service in the Tornado aircraft during 1980), Adour, Spey and Dart and the Gem helicopter engine.

The benefits of Rolls-Royce engineering spread beyond aerospace through the many aero-engines developed for marine and industrial use. During 1980 there was good progress with the development of the Marine Spey to provide high-speed and cruise power for a new generation of warship. This is the latest in a long line of engines which the Company has developed as powerplants for ships of 25 navies.

There were also encouraging results from a dual-fuel industrial version of the RB211 which is committed for use on a North Sea oil rig. By the end of the year Avon engines in industrial service had accumulated over 10 million hours' running.

Manufacturing

Rolls-Royce established new manufacturing records in 1980. Output from the factories was 50 percent up over 1979 and, with few exceptions, output of engines and spare parts was accomplished on time. Production of RB211 engines doubled and that of the RB199 increased substantially.

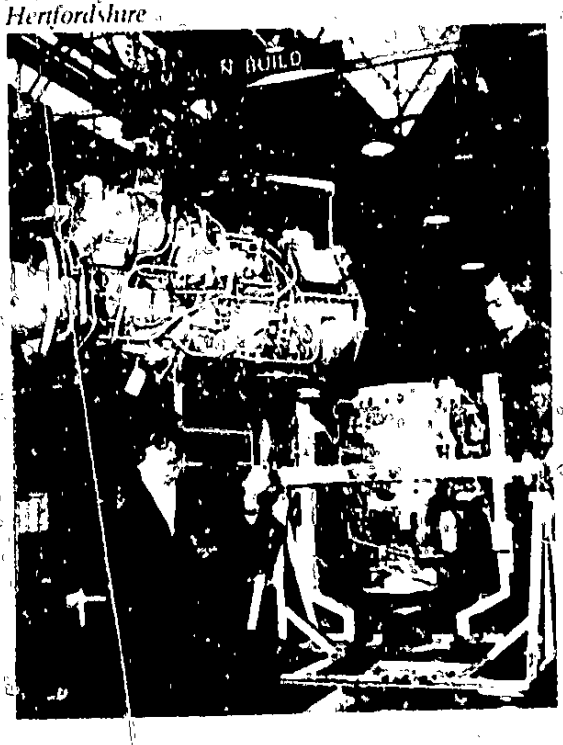
Productivity improved in all the Company's factories with modest recruitment of direct producers. Sub-contractors and suppliers of proprietary parts and materials all contributed to productivity.

Since late 1978 pay has been linked to output. This has enabled significant changes to be made to working practices, with the co-operation of the total workforce; as a result, by the end of 1980 output per employee had increased by 25 percent. A further 30 percent increase is planned by 1984.

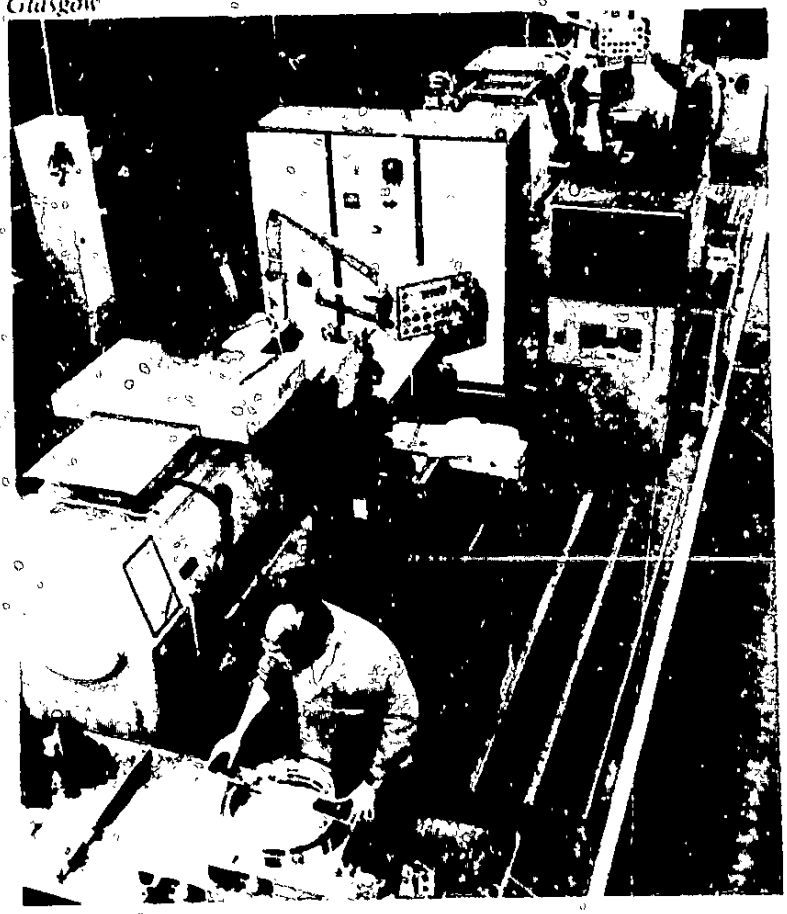
Some 70 percent of production costs is paid to suppliers, mostly in the U.K. They, too, now recognise opportunities to improve their efficiency; we are encouraging their plans and promoting lower costs by design changes

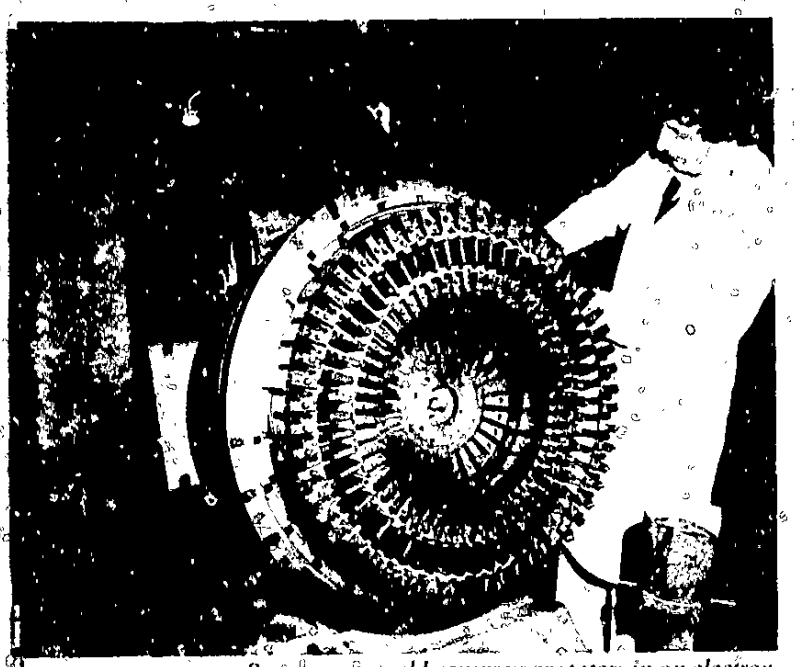
Latest machine tool technology includes the use of Syalon ceramics for high-speed cutting of difficult-to-work materials

Assembly of Gem helicopter engines at Leavesden, Hertfordshire



Heid numerically-controlled lathes at Hillington, Glasgow





Preparing to weld compressor stators in an electron-beam furnace at Bristol.

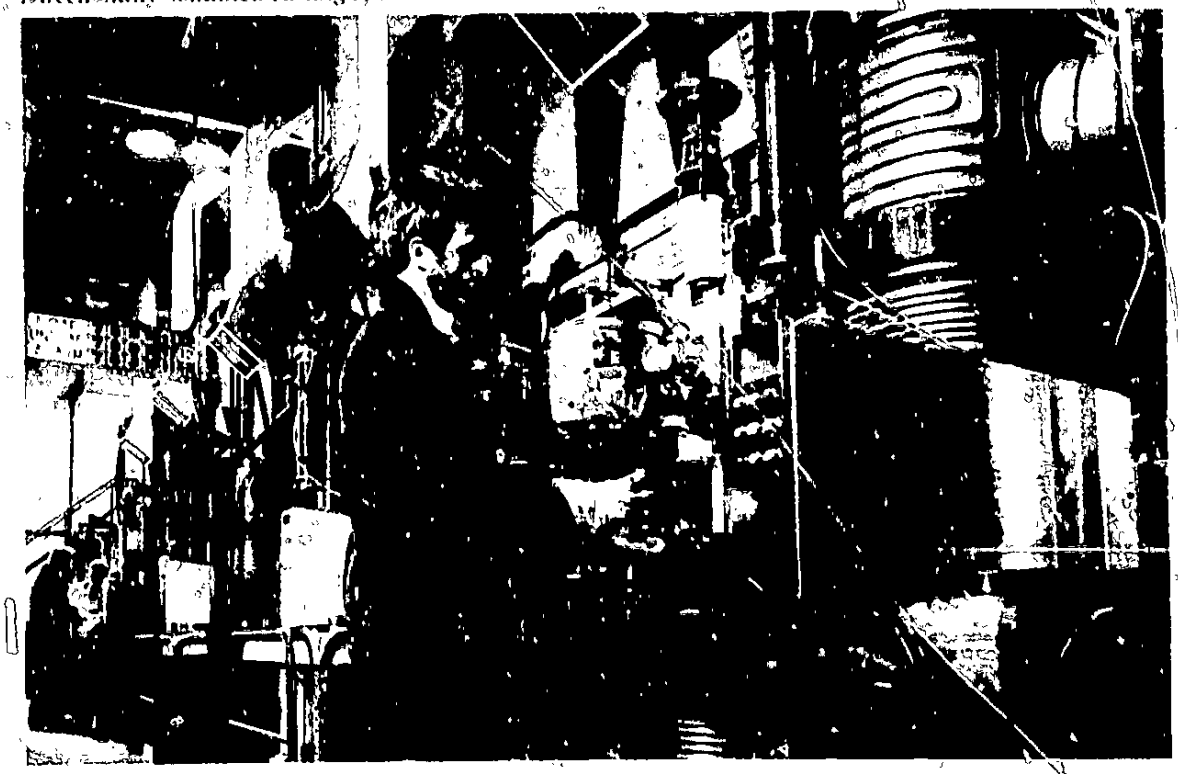
permitting easier manufacture of the parts they supply.

Manufacturing methods and techniques within the Company continued to improve and £50 million was invested in 1980 on new facilities and equipment, including 50 advanced numerically-controlled machine tools. This investment was spread over ten sites in the UK and three in North America. It extended the Company's capability and was concentrated where product cost reductions were assured.

In Derby the directionally-solidified (DS) casting process producing longer-life turbine blades for the RB211-22B is in full operation. There are multiple furnaces of identical design, all fully automated.

New manufacturing equipment is being used for the RB199 at Bristol. Compressor stator rings are joined using numerically-controlled

Directionally-solidified casting of turbine blades at Derby



electron-beam welding in which all the welds for one assembly are made during a single evacuation of the chamber.

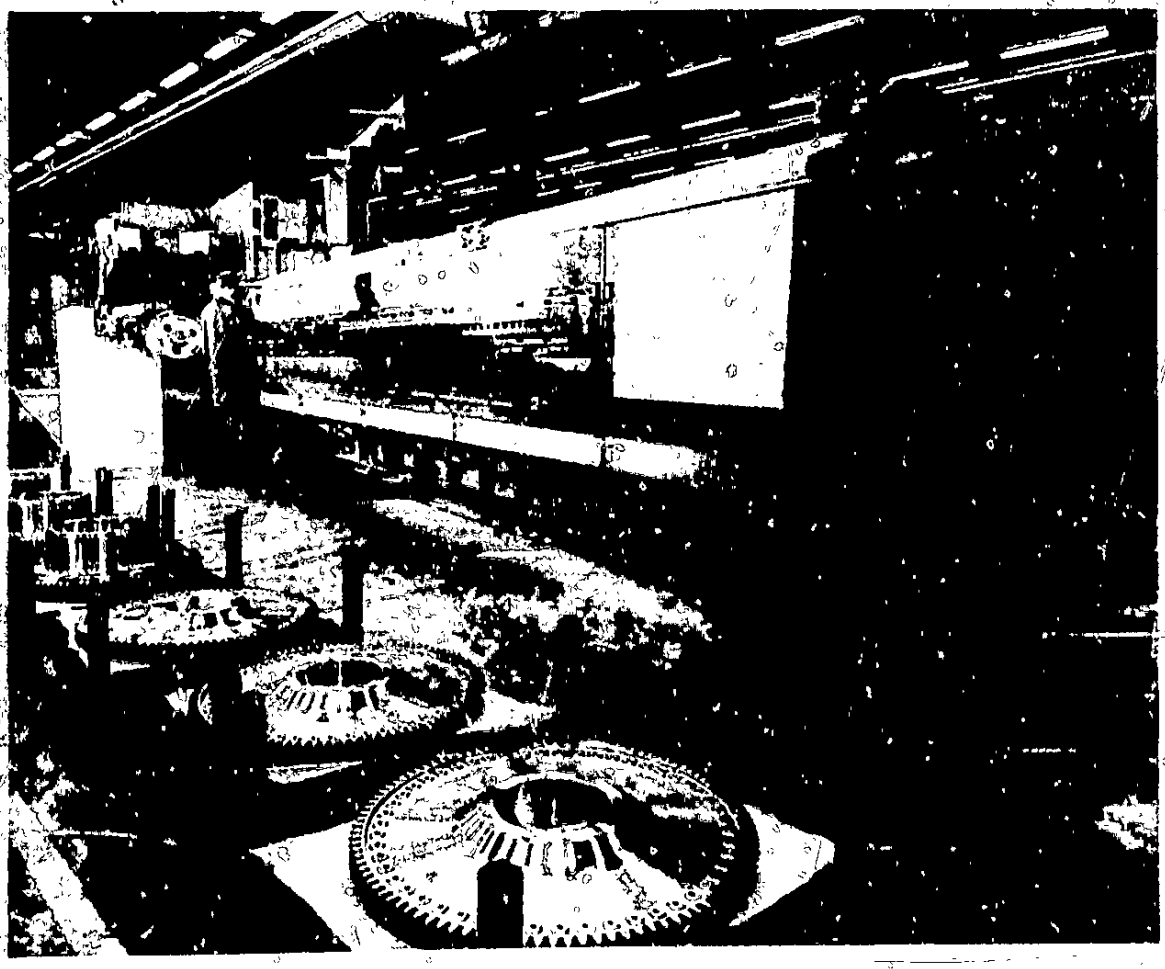
In April the factory extension at Sunderland began manufacturing RB211 turbine and compressor components. The new equipment has led to a considerable reduction in manufacturing times.

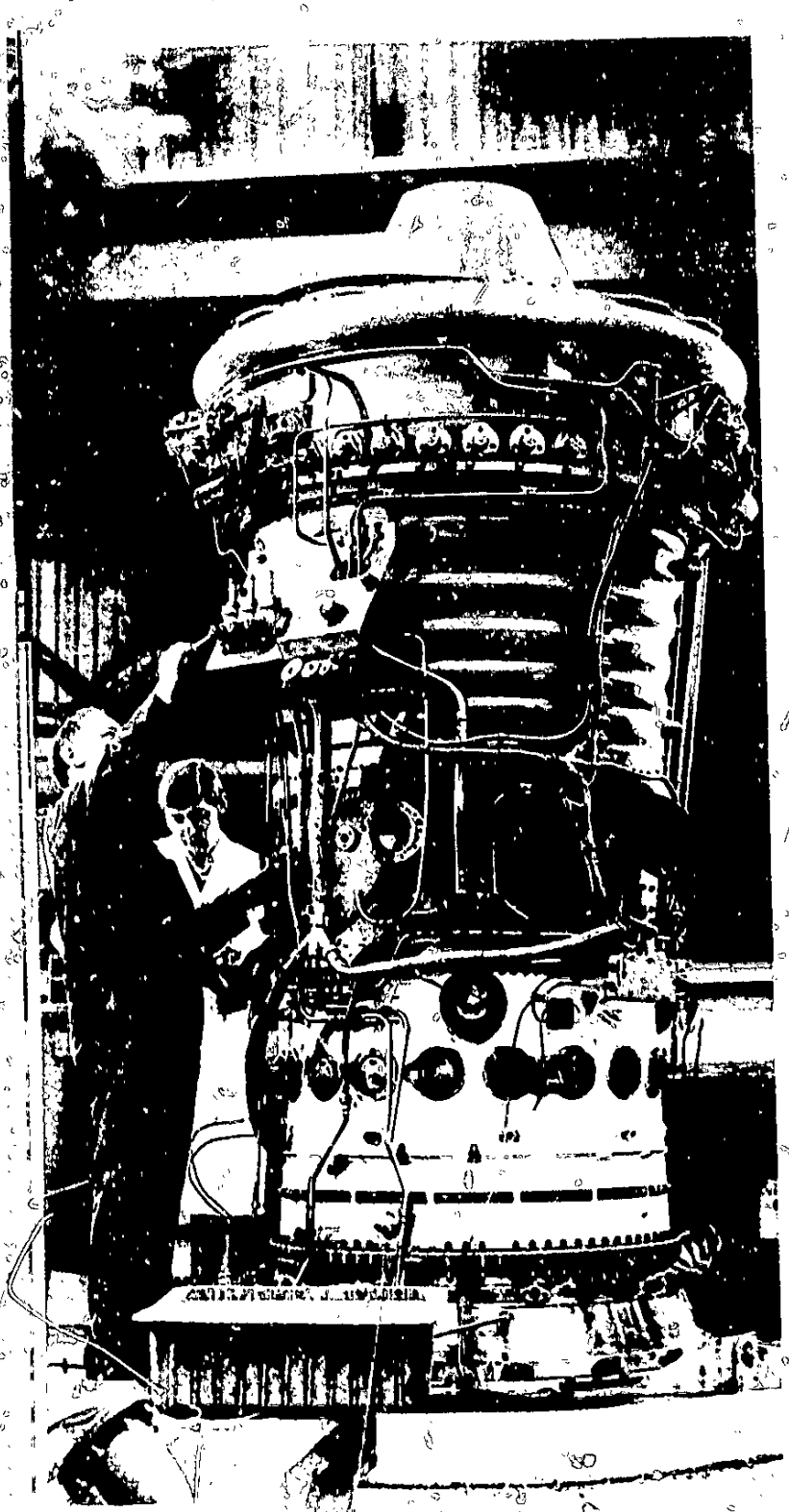
A modest-sized factory established at Miami, Florida, USA, began production, in October, of RB211 components as part of the Company's total manufacturing needs. This plant also supports the continuing expansion of Rolls-Royce sales in North America.

During 1980 the Montreal and Winnipeg factories making aerospace and nuclear products continued to expand. The Winnipeg factory is the sole supplier of the 'S' duct engine intake for the RB211-powered Lockheed TriStar. It is also starting

An RB211–535 fan

Broaching turbine discs at Sunderland, Tyne and Wear





manufacture of outlet guide vane castings for the RB211.

Assembly and test at Montreal of the Industrial RB211 began in mid-1980. This provides support for the North American market where these engines are marketed for use on gas pipelines. This follows the earlier introduction to the same factory of the Industrial Spey. New equipment has been installed in the Pie IX factory for component manufacture.

New capital equipment and productivity improvements at Rolls-Royce factories, and among suppliers in 1980 and earlier years, have provided resources fully capable of meeting the further increase in output required during the current year.

Rolls-Royce in Canada . . .
left: Assembling an Industrial RB211 in Montreal.
below: Machining outlet guide vane casings on a numerically-controlled lathe in Winnipeg.

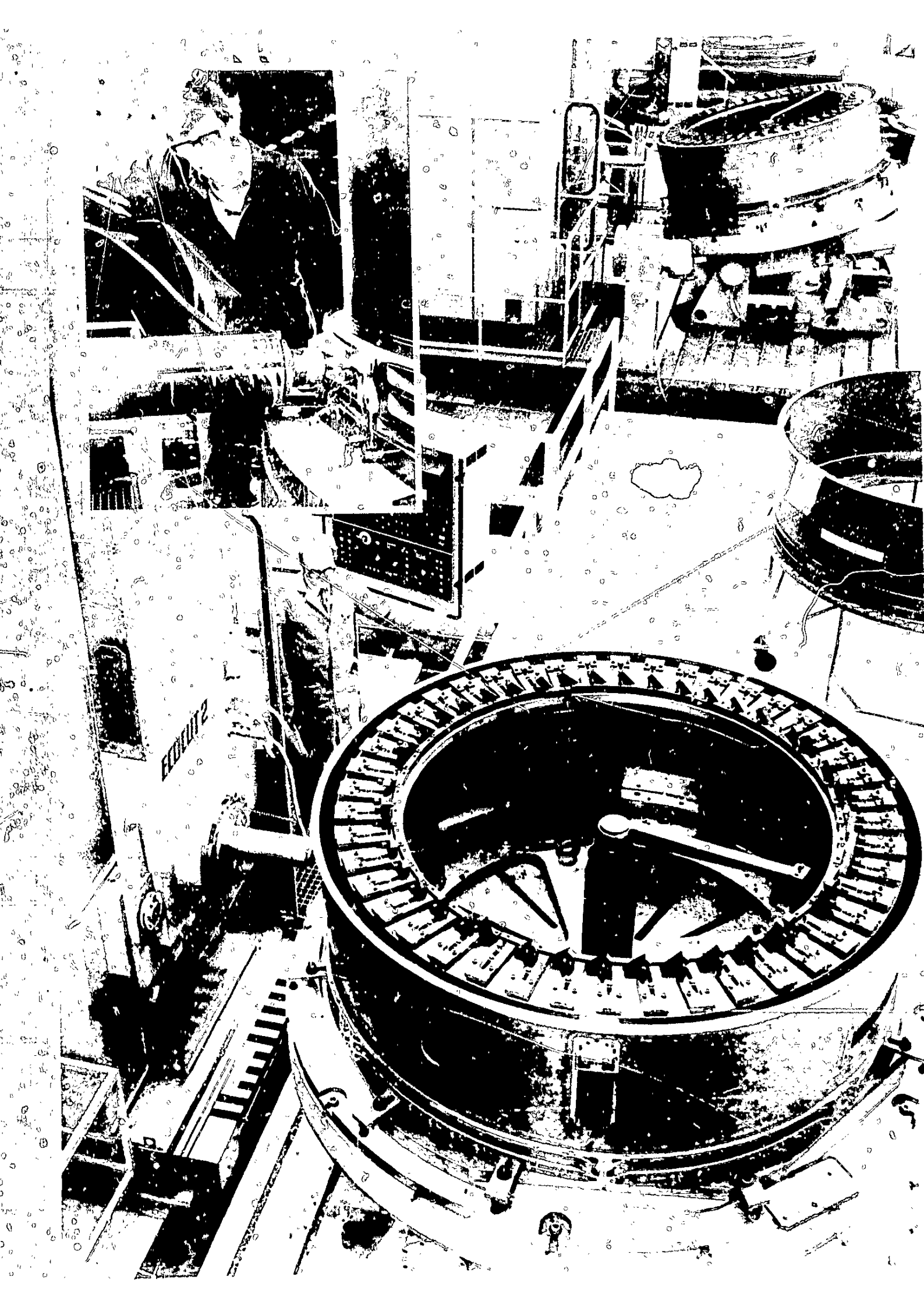


FIGURE 2

Report of the directors

Principal activities

The Company's principal business is the design, development, manufacture and sale of gas turbine engines and ancillary equipment for aircraft and for industrial and marine applications.

Subsidiary companies include Rolls-Royce and Associates Limited which designs, develops and procures nuclear steam-raising plant for naval purposes. Other subsidiaries are mainly concerned with providing sales and service support of the Company's products in overseas countries.

Results for the year

Turnover for the year was £1 258m (1979 £848m), including direct exports of £554m (1979 £348m).

The loss before taxation was £22.4m (1979 loss £58.0m).

Inflation accounting

The current cost accounts and notes on Pages 30 to 32 have been prepared in accordance with Statement of Standard Accounting Practice No. 16.

Share capital

The whole of the issued share capital of the Company was transferred from the National Enterprise Board to Her Majesty's Government on August 12, 1980 to whom, during 1980, the Company issued 94 million shares of £1 each at par, for working capital purposes.

Funding

On January 21, 1980 the Company entered into an unsecured loan agreement with a syndicate of London-based banks. Under this agreement, the Company has borrowed US$315m of term loans with repayment by equal instalments in the years 1987–1990.

Fixed assets

Expenditure on fixed assets during the year amounted to £44m (1979 £50m), mainly in respect of machine tools and test facilities at aero-engine factories.

A professional valuation of Group properties was obtained during the year. Details are given in Note 7 to the accounts.

Employees

The weekly average number of employees working wholly or mainly in the United Kingdom was 58 800 (1979, 57 800). Their aggregate remuneration was £395m (1979 £310m). Approximately 3 200 (1979, 2 900) were employed overseas.

Donations

No political donations were made by the Company or its subsidiaries. Charitable donations amounted to £59 700 (1979 £67 600).

Directors

The Directors listed on Page 17 were in office throughout 1980, except for the following changes:

Lord Keith of Castleacre resigned from the Board on January 22, 1980; Mr Raymond Whitfield resigned on March 25, 1980 and Sir Denis Spotswood resigned on June 30, 1980.

Mr Alan Newton and Mr Trevor Salt were appointed to the Board on July 23, 1980.

None of the directors of the Company at December 31, 1980 had, during the year, any interests in the shares or debentures of the Company or any of its subsidiaries.

Auditors

A resolution to re-appoint the auditors, Coopers & Lybrand, will be proposed at the annual general meeting.

By order of the Board *Anthony Warrington, Secretary*
April 7, 1981

Anthony Warrington

Board of directors

as at April 7, 1981

Chairman
Lord McFadzean of Kelvinside

Managing Directors
Dennis Head CBE
Donald Pepper*
Ashley Raeburn CBE*

Directors
Sir George Burton CBE
Sir St John Elstub CBE
Samuel Higginbottom CBE
Peter Molony
Alan Newton
Trevor Salt
Sir Peter Thornton KCB
Air Chief Marshal Sir Neil Wheeler GCB CBE DSO DFC AFC

*Vice Chairmen

Secretary
Anthony Warrington

Registered office
65 Buckingham Gate,
London SW1

Auditors
Coopers & Lybrand
Abacus House, Gutter Lane,
London EC2

Solicitors
Freshfields
Grindall House, 25 Newgate Street,
London EC1

Bankers
National Westminster Bank Limited
15 Bishopsgate,
London EC2

Barclays Bank Limited
54 Lombard Street,
London EC3

Accounting policies

Basis of consolidation
The accounts on Pages 18 to 29 are prepared on the historic cost basis, modified to include the revaluation of land and buildings.

Turnover
Turnover excludes value added tax and comprises:

(i) Amounts invoiced to customers.

(ii) Estimated sales values, where prices have not been agreed with customers.

(iii) Income from licences and management fees.

Exchange rates
Foreign currencies are translated into sterling on the following bases:

(a) Turnover and profits at the average rates for the year, any difference on exchange being adjusted in arriving at the consolidated results.

(b) Assets and liabilities at the exchange rates ruling at the year end, the effect of changes in exchange rates during the year on the opening net assets of overseas subsidiary companies being disclosed separately in the consolidated profit and loss account; where forward exchange contracts have been entered into, the applicable average forward exchange rate has been used.

Taxation

(i) *Parent Company and United Kingdom subsidiaries*

United Kingdom corporation tax at the rate for the year is provided on the profits adjusted for taxation purposes.

No provision is made in respect of the liability for deferred taxation except where there is a reasonable probability that such liability will arise in the foreseeable future. In those circumstances provision is made, calculated on the liability method.

(ii) *Overseas subsidiaries*

Overseas taxation is provided on the profits adjusted for taxation purposes including provision for deferred taxation.

The close company provisions of the Income and Corporation Taxes Act 1970 do not apply.

Research and development
Capital expenditure on research laboratories and plant is written off over its expected working life. All other research and development expenditure borne by the Company is charged in the year of expenditure.

Her Majesty's Government makes contributions towards the cost of some of the Company's research and development. In such cases arrangements are made for the Company to pay levies in respect of future sales.

Inventories
Inventories are valued at cost of material, labour and relevant manufacturing overheads, less provisions for obsolete and surplus items and provisions to reduce the cost to estimated realisable value where necessary.

Progress payments received are deducted from inventories up to the limit of the relevant work in progress. Other advance payments and deposits are included in accounts payable and provisions.

Depreciation of property and plant
Depreciation is provided on the original cost of property and plant and is calculated on the straight line basis over the estimated lives, which are: freehold buildings and long-term leases 20 years; short-term leases – period of lease; plant and equipment 5–14 years. Depreciation is not provided on the cost of land.

Revised asset lives of land and buildings have been estimated by the Company's professional valuers and those of plant and machinery have been estimated by the Company. The lives on average exceed those set out above. The historic cost accounts continue to be based upon the asset lives previously adopted.

Provisions
In accordance with Statement of Standard Accounting Practice No. 9, provisions are made for any anticipated losses on current contracts and projects.

Warranties and guarantees
Provision is made for likely future expenditure on warranties and guarantees relating to sales up to the year end. The sum set aside for this purpose is included under accounts payable and provisions.

Report of the auditors

To the members of Rolls-Royce Limited

We have audited the accounts on Pages 18 to 32 in accordance with approved auditing standards. The accounts on Pages 18 to 29 have been prepared under the historical cost convention and the supplementary accounts on Pages 30 to 32 have been prepared under the current cost convention as described in the Statement of Standard Accounting Practice No. 16.

In our opinion the accounts on Pages 18 to 29 give a true and fair view of the state of affairs of the Company and the Group at December 31, 1980 and of the results and source and application of funds of the Group for the year then ended and comply with the Companies Acts 1948 to 1980.

In our opinion the supplementary current cost accounts on Pages 30 to 32 have been properly prepared in accordance with the policies and methods described in Notes 1 to 5 to give the information required by Statement of Standard Accounting Practice No. 16.

London
April 7, 1981

Coopers & Lybrand
Chartered Accountants

Profit and loss account

for the year ended December 31, 1980

	Notes	Consolidated 1980 £m	1979 £m
Turnover		**1258.4**	847.9
Profit (loss) before interest	1	**10.6**	(46.4)
Net interest paid	2	**(33.0)**	(11.6)
(Loss) before taxation		**(22.4)**	(58.0)
Taxation	4	**(0.2)**	(2.4)
(Loss) after taxation		**(22.6)**	(60.4)
Attributable to minority shareholders		**(2.2)**	(0.4)
Exchange difference on net assets of overseas subsidiary companies		**(2.2)**	(2.1)
Net (loss) attributable to Rolls-Royce Limited		**(27.0)**	(62.9)

Company 1979 £m	**1980 £m**			**Consolidated 1980 £m**	1979 £m
		Reserves			
52.9	**(11.0)**	Opening reserves		**6.5**	69.4
(63.9)	**(33.7)**	Net (loss) for the year		**(27.0)**	(62.9)
—	**139.4**	Surplus arising on revaluation of land and buildings	7	**144.4**	—
(11.0)	**94.7**	Closing reserves		**123.9**	6.5

The notes on Pages 23 to 29 form part of these accounts.

Balance sheets

at December 31, 1980

Company 1979 £m	Company 1980 £m		Notes	Consolidated 1980 £m	Consolidated 1979 £m
		Net assets employed			
631.4	**870.1**	Current assets	5	**939.6**	687.1
467.8	**558.1**	Current liabilities	6	**593.5**	492.3
163.6	**312.0**	Net current assets		**346.1**	194.8
127.5	**276.7**	Property and plant	7	**298.7**	136.7
20.2	**17.9**	Subsidiary companies	8	**—**	—
311.3	**606.6**			**644.8**	331.5
		Financed by			
234.0	**328.0**	Share capital	9	**328.0**	234.0
(11.0)	**94.7**	Reserves (Page 20)		**123.9**	6.5
223.0	**422.7**			**451.9**	240.5
88.3	**183.9**	Loans	10	**187.4**	89.5
—	**—**	Minority interests in subsidiary companies		**5.5**	1.5
311.3	**606.6**			**644.8**	331.5

McFadzean of Kelvinside
P J Molony } Directors

The notes on Pages 23 to 29 form part of these accounts.

Source and application of funds

for the year ended December 31, 1980

	Consolidated 1980 £m	1979 £m
Source of funds		
(Loss) before taxation	(22.4)	(58.0)
Depreciation	24.6	19.9
	2.2	(38.1)
Issue of shares for cash	94.0	31.0
Loans (net)	97.9	(0.4)
	194.1	(7.5)
Application of funds		
Increase in:		
Inventories, net of progress payments	184.3	147.1
Accounts receivable	77.7	40.9
Accounts payable and provisions	(81.6)	(128.0)
	180.4	60.0
Capital expenditure	43.9	49.6
Other items	(0.4)	2.5
	223.9	112.1
Change in net liquid funds		
Decrease in cash balances	(9.5)	(44.7)
Increase in bank loans and overdrafts	(20.3)	(74.9)
	(29.8)	(119.6)

The notes on Pages 23 to 29 form part of these accounts.

Notes to the accounts

1 Profit (loss) before interest and after charging

	1980 £m	1979 £m
Research and development (net)	78.9	52.5
Depreciation	24.6	19.9
Hire of plant and equipment	13.2	10.5
Audit fees and expenses	0.3	0.3

2 Net interest paid

On loans in excess of five years	19.8	4.0
On short-term indebtedness	16.3	13.5
	36.1	17.5
Less interest received	3.1	5.9
	33.0	11.6

3 Emoluments of directors and senior employees

The emoluments of directors, charged before arriving at profit (loss) before interest, were:

	1980 £	1979 £
Chairman	60 805	—
Other directors:		
Fees	7 500	7 800
Other emoluments, including pension contributions	413 750	343 500
Compensation for loss of executive office	85 000	—

Included in other emoluments are payments to Hill Samuel & Co Limited of £15 000 (1979 £60 000) representing a contribution to the former Chairman's (Lord Keith of Castleacre) salary paid to him by that bank.

The emoluments of Directors (other than the Chairman) and senior employees working wholly or mainly in the United Kingdom, excluding pension contributions, fell within the ranges below:

Emoluments £	Number of Directors 1980	Number of Directors 1979	Number of Senior employees 1980	Number of Senior employees 1979
Nil to 5 000	2	3		
5 001 to 10 000	1	2		
15 001 to 20 000	4	—		
20 001 to 25 000	—	—	54	26
25 001 to 30 000	1	2	17	4
30 001 to 35 000	—	—	3	2
35 001 to 40 000	1	2	—	—
40 001 to 45 000	—	2	—	—
45 001 to 50 000	2	—	—	—
50 001 to 55 000	1	—	—	—

4 Taxation

	1980 £m	1979 £m
The taxation charge is made up as follows:		
United Kingdom corporation tax	(1.9)	0.7
Overseas taxation	2.1	1.7
Net charge in consolidated profit and loss account	**0.2**	2.4

(i) United Kingdom corporation tax has been calculated at 52 percent.
(ii) Stock relief has been calculated in accordance with the Finance Bill 1981, using the Inland Revenue's provisional index factor of 9.3 percent.
(iii) No potential deferred taxation liability exists at December 31, 1980. Deferred taxation of £1.1m (1979 £2.9m) has been provided by certain subsidiary companies.

At December 31, 1980 the deferred taxation position is:

Company 1979 £m	Company 1980 £m		Consolidated 1980 £m	Consolidated 1979 £m
58.7	**73.9**	Accelerated capital allowances	**78.6**	60.9
(116.8)	**(129.9)**	Other timing differences	**(129.9)**	(116.8)
158.2	**177.0**	Stock relief	**180.0**	160.9
(144.0)	**(172.0)**	Losses and charges carried forward	**(172.5)**	(145.0)
—	**39.0**	Unrealised gains on revalued properties (see Note 7)	**39.4**	—

5 Current assets

Company 1979 £m	Company 1980 £m		Consolidated 1980 £m	Consolidated 1979 £m
		Inventories:		
69.0	**110.6**	Raw materials	**114.5**	71.6
276.4	**357.7**	Work in progress, jigs and tools	**380.1**	285.6
255.7	**356.7**	Finished parts and engines	**376.4**	274.7
601.1	**825.0**		**871.0**	631.9
(170.3)	**(223.8)**	Progress payments against inventories	**(228.2)**	(173.4)
430.8	**601.2**		**642.8**	458.5
189.8	**268.9**	Accounts receivable	**291.2**	213.5
10.8	—	Bank balances and deposits	**5.6**	15.1
631.4	**870.1**		**939.6**	687.1

6 Current liabilities

Company 1979 £m	Company 1980 £m		Consolidated 1980 £m	Consolidated 1979 £m
389.8	460.1	Accounts payable and provisions	491.1	409.5
78.0	98.0	Bank loans and overdrafts	99.4	79.1
—	—	Taxation	3.0	3.7
467.8	558.1		593.5	492.3

7 Property and plant

	Land and buildings Freehold £m	Land and buildings Long lease £m	Land and buildings Short lease £m	Plant and equipment £m	Total £m
Consolidated					
Cost or valuation:					
January 1, 1980 (cost)	42.8	2.9	2.2	279.9	**327.8**
Exchange adjustments	(0.6)	—	—	(0.7)	**(1.3)**
Additions	3.6	0.3	0.3	39.7	**43.9**
Other adjustments	30.2	1.6	2.6	(34.4)	**—**
Disposals	—	—	(0.1)	(7.7)	**(7.8)**
Revaluation adjustment at December 31, 1980	89.6	6.1	1.9	—	**97.6**
At December 31, 1980	165.6	10.9	6.9	276.8	**460.2**
Accumulated depreciation:					
January 1, 1980	24.3	2.1	1.0	163.7	**191.1**
Exchange adjustments	(0.2)	—	—	(0.7)	**(0.9)**
Provided during year	1.4	0.1	—	23.1	**24.6**
Other adjustments	17.8	1.0	1.3	(20.1)	**—**
Disposals	—	—	—	(4.5)	**(4.5)**
Adjustment on revaluation	(43.3)	(3.2)	(2.3)	—	**(48.8)**
At December 31, 1980	—	—	—	161.5	**161.5**
Net book value at December 31, 1980	165.6	10.9	6.9	115.3	**298.7**
Net book value at December 31, 1979	18.5	0.8	1.2	116.2	**136.7**

	Land and buildings			Plant and equipment	Total
	Freehold £m	Long lease £m	Short lease £m	£m	£m
Company					
Cost or valuation:					
January 1, 1980 (cost)	37.0	1.0	2.1	266.0	306.1
Additions	3.0	0.3	0.3	31.0	34.6
Other adjustments	30.2	1.6	2.6	(34.4)	—
Disposals	—	—	(0.1)	(5.7)	(5.8)
Revaluation at December 31, 1980	87.9	4.7	1.9	—	94.5
At December 31, 1980	158.1	7.6	6.8	256.9	429.4
Accumulated depreciation:					
January 1, 1980	21.9	0.7	1.0	155.0	178.6
Provided during year	1.1	0.1	—	21.7	22.9
Other adjustments	17.8	1.0	1.3	(20.1)	—
Disposals	—	—	—	(3.9)	(3.9)
Adjustment on revaluation	(40.8)	(1.8)	(2.3)	—	(44.9)
At December 31, 1980	—	—	—	152.7	152.7
Net book value at December 31, 1980	158.1	7.6	6.8	104.2	276.7
Net book value at December 31, 1979	15.1	0.3	1.1	111.0	127.5

Group properties were revalued at December 31, 1980. Specialised properties, including certain of the Group's major manufacturing sites, have been revalued on a depreciated replacement cost basis and the remainder by reference to their open market value on an existing use basis. In the United Kingdom the valuation was carried out by Gerald Eve & Co. and Fuller Peiser, Chartered Surveyors. Overseas properties were valued by independent local valuers.

The total surplus arising on revaluation amounted to £146.4m (£97.6m plus £48.8m above), of which £2.0m is attributable to minorities. The balance of £144.4m has been transferred to reserves.

No deferred taxation provision is required in respect of the surplus since there is no present intention to dispose of any of the properties.

The original cost of assets fully written off, but still in use, amounts to £109m (1979 £111m).

8 Subsidiary companies

	Company	
	1980	1979
	£m	£m
Shares, less amounts written off	18.9	18.9
Amounts owing from subsidiaries	19.7	13.5
Amounts owing to subsidiaries	(20.7)	(12.2)
	17.9	20.2

Investments in subsidiary companies are carried in the Company's books at the net book value of the assets and liabilities at May 22, 1971, with subsequent additions at cost less post-acquisition losses.

Rolls-Royce Finance Limited, a wholly owned subsidiary, has not been consolidated. The Company, through this subsidiary, has entered into arrangements for the financing of purchases by certain customers. The circumstances relating to these arrangements are such that the subsidiary operates under restrictions imposed by lenders. The control of the subsidiary by Rolls-Royce Limited is significantly impaired and, in the opinion of the Directors, it would be misleading to consolidate it. The following information is provided with regard to Rolls-Royce Finance Limited:

	1980	1979
	£m	£m
a) Net assets at December 31	3.5	3.5
b) The net aggregate amount attributable to Rolls-Royce Limited of profits, dealt with in the accounts of the Parent Company:		
(i) net profit for the year	0.6	nil
(ii) accumulated profits	nil	nil
c) Amounts owing to Parent Company	1.6	1.6
d) Amounts due from:		
Fellow subsidiary	5.1	5.1
Parent Company	nil	nil

At December 31, 1980, Deeside Titanium Limited was a wholly owned subsidiary company, but control effectively ceased on February 2, 1981. The company has not been consolidated but has been treated as an associated company.

9 Share capital

	Consolidated and Company	
	1980	1979
	£m	£m
Authorised	400.0	400.0
Issued:		
At beginning of year		
234 million ordinary shares of £1 each fully paid	234.0	203.0
Further issue during 1980		
94 million ordinary shares of £1 each fully paid	94.0	31.0
At end of year	328.0	234.0

The Company ceased to be a subsidiary of the National Enterprise Board on August 12, 1980 when its issued share capital was transferred to Her Majesty's Government.

10 Loans

Company 1979 £m	Company 1980 £m		Consolidated 1980 £m	Consolidated 1979 £m
		Unsecured:		
62.0	26.0	National Enterprise Board repayable 1981–83	26.0	62.0
25.0	156.7	Bank loans repayable 1985–90	156.7	25.0
87.0	182.7		182.7	87.0
		Secured:		
1.3	1.2	Loans repayable up to 1998, with interest rates 7½%–10½%	4.3	2.4
—	—	Others	0.4	0.1
1.3	1.2		4.7	2.5
88.3	183.9		187.4	89.5

Arrangements are presently being made to refinance loans repayable to the National Enterprise Board.

11 Principal subsidiary and associated companies

	Percentage of equity
Subsidiary companies	
Registered in England:	
Deeside Titanium Limited (at December 31, 1980 100%)	20
Rolls-Royce and Associates Limited (25% A shares 100% B shares)	43
Rolls-Royce (Far East) Limited	100
Rolls-Royce Finance Limited	100
Rolls-Royce (France) Limited	100
Rolls-Royce (India) Limited	100
Rolls-Royce Leasing Limited	100
Sawley Packaging Company Limited	100
Incorporated overseas:	
Australia – Rolls-Royce of Australia Pty. Limited	100
Brazil – Motores Rolls-Royce Limitada	100
Canada – Rolls-Royce Holdings North America Limited	100
– Bristol Aerospace Limited	100*
– Rolls-Royce (Canada) Limited	100*
U.S.A. – Rolls-Royce Inc.	100

*Interests in companies marked * are held by Rolls-Royce Holdings North America Limited.*

Associated companies	
Registered in England:	
Rolls-Royce and Japanese Aero Engines Limited (100% A shares)	50
Rolls-Royce Turboméca Limited (100% B shares)	50
Turbo-Union Limited (40% ordinary shares 37.5% A shares)	40
Incorporated overseas:	
Cooper Rolls Inc.	50

The results of associated companies are not consolidated in these accounts, except to the extent of dividends received, as the results are not material.

12 Pension funding

The several pension schemes of the Company and its subsidiaries are administered by trustees and the assets of the funds invested by them independently of the finances of the group. The schemes are funded by annual contributions at rates based upon three yearly professional valuations designed to provide for future pensions, including amounts based upon past service, over the period of employment.

13 Future capital expenditure

Company 1979 £m	Company 1980 £m		Consolidated 1980 £m	Consolidated 1979 £m
56.5	**41.8**	Capital expenditure authorised but not spent at end of year	**47.5**	58.3
37.7	**26.5**	of which there has been committed	**31.8**	39.2

14 Contingent liabilities

Company 1979 £m	Company 1980 £m		Consolidated 1980 £m	Consolidated 1979 £m
6.5	**6.3**	Guarantees, customs bonds and other matters estimated at	**6.8**	8.0

The Company has indemnified the Receiver of R-R Realisations Limited against liabilities under agreements (other than the RB211-22 agreements) entered into by him relating to any part of the undertaking and assets of R-R Realisations Limited acquired by the Company in 1971. The Company has also indemnified R-R Realisations Limited, its Receiver and Manager, and its Joint Liquidators against certain of the product liability risks associated with products and services of R-R Realisations Limited, which risks are insured by the Company under its normal insurance arrangements. No significant costs are expected to fall on the Company.

Current cost profit and loss account

for the year ended December 31, 1980

	Notes	Consolidated 1980 £m
Turnover		1 258
Profit before interest on the historic cost basis		11
Less current cost operating adjustments	2	(115)
Current cost operating (loss)		(104)
Gearing adjustment	3	30
Net interest paid		(33)
Current cost (loss) before taxation		(107)
Taxation		(1)
Current cost (loss)		(108)
Attributable to minority shareholders		(2)
Exchange difference on net assets of overseas subsidiary companies		(2)
Current cost (loss) attributable to Rolls-Royce Limited		(112)
Reserves		
Reserves at the beginning of the year		7
Current cost (loss) for the year		(112)
Movements on current cost reserve		363
Movement on other reserves		144
Closing reserves		402

Current cost balance sheet

as at December 31, 1980

		£m
Net assets employed		
Property and plant	4	546
Net current assets		377
		923
Financed by		
Share capital		328
Current cost reserve	5	363
Other reserves		39
		730
Loans		187
Minority interests in subsidiary companies		6
		923

Notes to the current cost accounts

1 Accounting policies

The accounting policies adopted in the current cost accounts are similar to those set out on Pages 18 and 19.

The current cost accounts on Page 30 comply with the Statement of Standard Accounting Practice No. 16. 1980 is the first year for which the Company has prepared current cost accounts and no corresponding figures for 1979 are readily available.

The current cost operating loss before interest and taxation arises from the ordinary activities of the business. It is determined after allowing for the impact of price changes on the funds needed to maintain the net operating assets of the business but takes no account of the manner in which these assets are financed.

The current cost loss attributable to Rolls-Royce Limited is the deficit after allowing for the impact of price changes on the funds needed to maintain the shareholders' proportion of net operating assets and after adjustment has been made for gearing.

Fixed assets are included in the balance sheet at their current cost, net of depreciation.

2 Current cost operating adjustments

The net charge is made up as follows:

	£m
Working capital	98
Depreciation	17
	115

Working capital, which comprises the net total of current assets and current liabilities (excluding bank borrowings), has been adjusted by means of published indices to reflect the effect of changes in input prices of goods and resources used during the year.

3 Gearing adjustment

A proportion of the net operating assets is financed by borrowing, the repayment of which is fixed in monetary amount, irrespective of price changes on the proportion of assets so financed. The gearing adjustment, as applied in the Group current cost profit and loss account, abates the current cost operating adjustments by the average gearing proportion in the year.

4 Fixed assets and depreciation

The current cost of fixed assets has been determined as follows:
Land and building at professional valuation (Note 7, Page 26)
Plant and equipment by the application of suitable indices to historic costs, or by internal valuation

The net current cost of fixed assets at December 31, 1980 was:

	Gross £m	Depreciation £m	Net £m
Land and buildings	183	—	183
Plant and machinery	797	434	363
	980	434	546

For current cost accounting purposes it is considered appropriate to adopt asset lives which, in respect of land and buildings, have been estimated by the Company's professional valuers and average 28 years. Those for plant and equipment have been estimated at 5–25 years.

5 Current cost reserve

The movements on the current cost reserve in 1980 include adjustments relating to prior years, and are as follows:

	£m
Unrealised surpluses arising on revaluation:	
Property and plant	247
Inventory	31
	278
Realised current cost adjustments	85
Current cost reserve at December 31, 1980	363

Notice of the annual general meeting

Notice is hereby given that the tenth annual general meeting of Rolls-Royce Limited will be held at 65 Buckingham Gate on Wednesday, June 3, 1981, at 12.30 p.m. for the following purposes:

1. To receive the report of the directors and the audited accounts for the year ended December 31, 1980.

2. To re-appoint Coopers & Lybrand, the retiring auditors, and to authorise the directors to fix their remuneration.

By order of the Board *65 Buckingham Gate, London SW1*

Anthony Warrington, Secretary
April 27, 1981

Anthony Warrington

A member entitled to attend and vote at the above meeting is entitled to appoint a proxy to attend and, on a poll, to vote in his stead. A proxy need not be a member of the Company. To be effective, proxies must be received at 65 Buckingham Gate not less than 48 hours before the time fixed for holding the meeting.

ROLLS-ROYCE LIMITED

65 Buckingham Gate, London SW1

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