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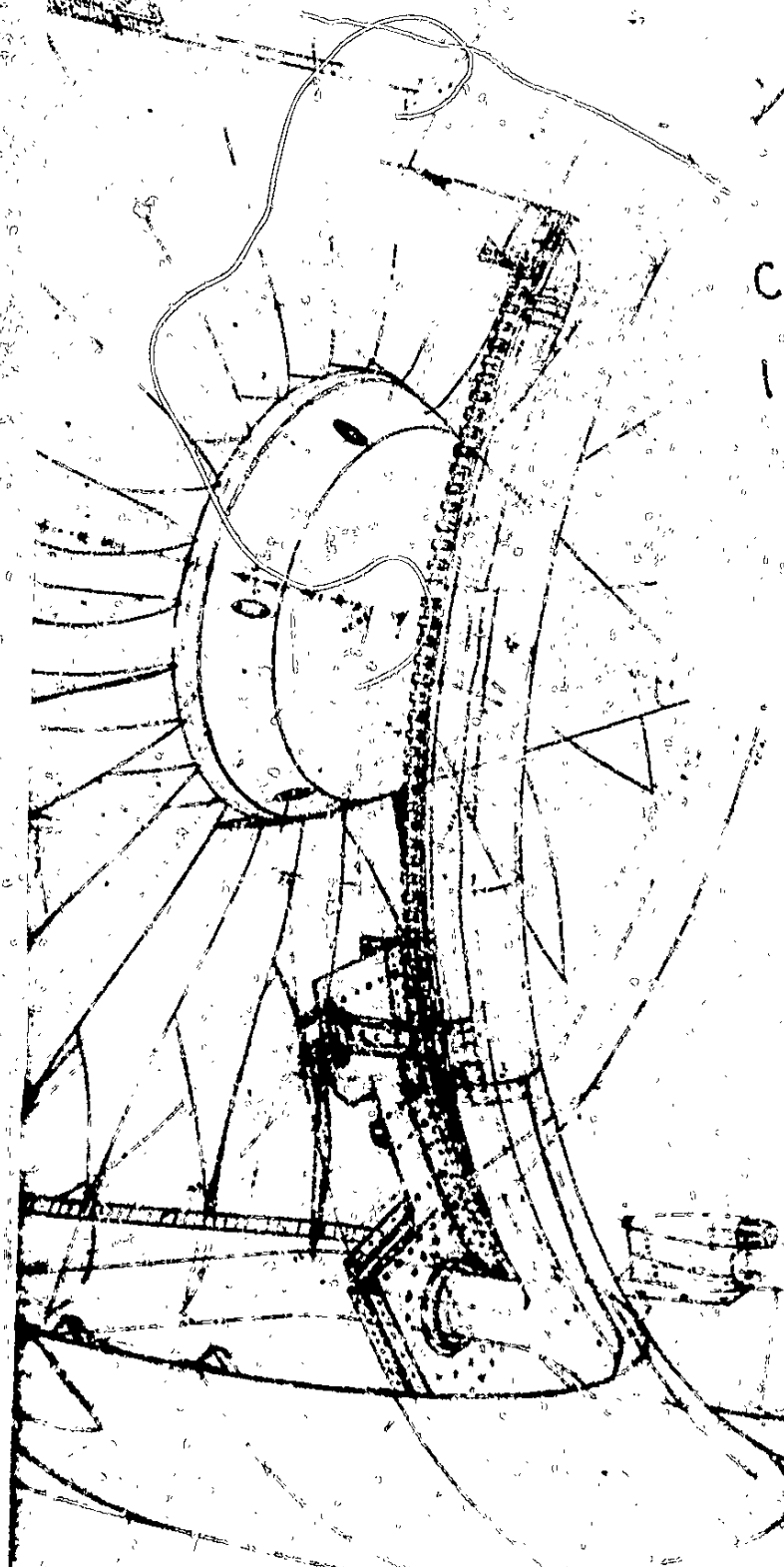
ROLLS-ROYCE LIMITED

Annual Report 1981



Company Number

1003142

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Cover picture:
A constructional line drawing of an RB211-535E4 engine.

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Chairman's statement

Turnover in 1981 at £1 443 million was 15 percent higher than the previous year. In the face of an increasingly difficult market, military, civil and industrial businesses all contributed to maintaining output in real terms. Direct exports from the United Kingdom were £610 million, an increase of 10 percent over 1980.

The trend towards higher efficiency and better profitability, apparent last year, has continued. Before financial expenses — up £12 million from 1980 — the Company traded at a profit of £64 million (1980 £12 million). At the pre-tax level, profit for 1981 was £18 million against a loss of £22 million in the previous year.

Considerable management effort has been applied during 1981 to the restructuring of the Company's operations. As a result, the number of people employed decreased by 5 900 during the year, and a comparable decrease is expected during the course of 1982. The severance terms have been voluntary, and the net cost of the restructuring programme has been shown in the profit and loss account as an extraordinary item. After meeting this restructuring cost there was a loss for the year of £3 million against £27 million in 1980.

Short-term bank loans and overdrafts ended the year at a high level, most of which was brought forward from 1980. However, on January 12, 1982, a newly-formed subsidiary, Rolls-Royce Capital Inc., commenced the sale of commercial paper which will raise up to US $250 million during the course of this year.

The current cost accounts, produced in accordance with UK accounting practice, also showed an improving trend.

There are two important external factors that have to be met in the next few years. The recession in the airline industry, to which reference was made last year, has deepened and may go on longer than was anticipated. The effects have been felt by all suppliers to the aerospace industry, including the aircraft manufacturers. For Rolls-Royce the cancellation, after meeting current orders, of the TriStar L1011 programme marks the end of a long association during which the Company was the sole supplier of engines to a very efficient aeroplane.

The second pressure on the Company is the intensified competition between engine manufacturers for greater fuel efficiency. Increased resources are being devoted to research and development.

Development of an improved version of the RB211-535, the E4, was initiated in 1981. The Boeing 757 airliner, which made its maiden flight in February, has been selected with Rolls-Royce engines by British Airways, Eastern Air Lines, Monarch Air Lines, Transbrasil, Air Florida and LACSA.

We are continuing to improve the RB211-524 D4 engine which was most recently selected by Malaysian Airline System for its two new Boeing 747 aeroplanes. The total number of RB211 airline customers is now 23.

We continue with the policy of upgrading existing engines, including the Spey, Dart, Viper and Gem. There are approximately 15 000 of these four types of engines currently in service.

Early in 1982, two RJ500 demonstrator engines ran successfully, one at Rolls-Royce and one in Japan. The RJ500 is a fuel-efficient advanced technology engine which is being developed to power smaller aeroplanes of approximately 150 seats. We are increasing the spend on the technology of this class of engine.

Spares business fell appreciably short of budget as a result of various air forces reducing the number of hours flown and a running down of inventories by civil airlines due to increasing financial pressures.

The military and related business continued satisfactorily during the year. The RB199 engine in the collaborative Tornado aircraft is performing well in service and, although production volumes have been rephased, the business represents a substantial workload on the factories. During the year, the Royal Air Force and the United States Marine Corps selected the McDonnell-Douglas AV-8B version of the Harrier, which will give the Company an increasing workload on the

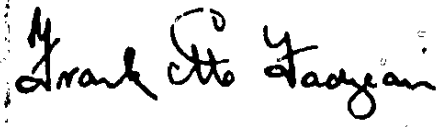
8 JUL 1982

Pegasus engine during the mid-1980s. The Hawk trainer, powered by the Adour, has been chosen by the United States Navy as the only contender to receive funding for the next phase in the selection process.

The industrial business continued to win new orders. The Japanese Defence Agency selected the marine version of the Spey as the basis of a new destroyer design for their Navy. In the oil and gas sector, first orders were received for the RB211 in Alaska and, in the power generation field orders were received for operations in the Middle East.

There were no significant industrial problems during the year. The achievements by Rolls-Royce personnel at all levels were outstanding. The Company's record of delivering engines on time was maintained and spares delivery performance, which deteriorated in 1980 during the growth of output, has been restored to high levels.

The productivity improvements which have been, and will continue to be, made in the Company's operations have, of course, both immediate and long-run effects. The extent to which they will flow through in the form of a continuation of the improved profitability performance is heavily dependent on the demand trend for our products. At least in the short run, the outlook for military business is more promising than on the civil side. Indeed a continuation or, even worse, an intensification of the adverse effects of the recession on the civil airline industry, already in a difficult financial position both in the USA and internationally, could result in orders for new equipment being further postponed.



McFadzean of Kelvinside

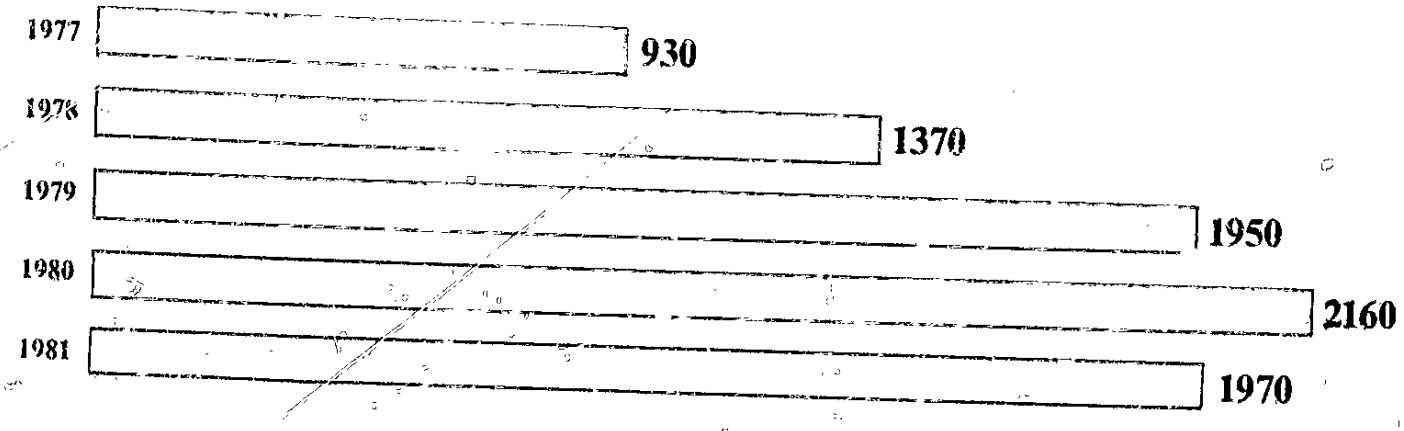
April 7, 1982

Opposite page:
Military aircraft power — an RB199 on reheat test. This engine powers Tornado aircraft for the air forces of Great Britain, Italy and West Germany. It is being developed for later versions and for new combat aircraft.

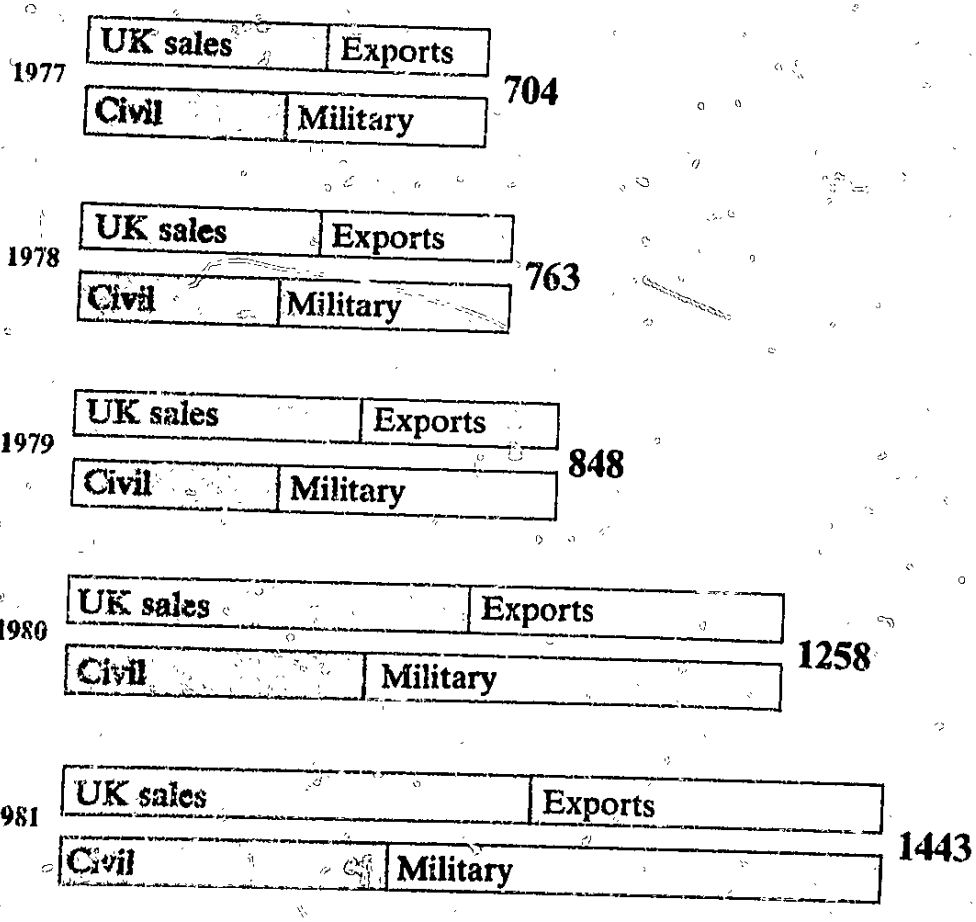
Five-year review

	1981 £m	1980 £m	1979 £m	1978 £m	1977 £m
Turnover	**1 443**	1 258	848	763	704
Direct exports from UK, included above	**610**	550	350	340	290
Profit (loss) before financial expenses	**64**	12	(47)	23	32
Financial expenses	**(46)**	(34)	(11)	(11)	(11)
Profit (loss) before taxation	**18**	(22)	(58)	12	21
Taxation	**(3)**	(1)	(3)	(2)	(2)
Profit (loss) after taxation	**15**	(23)	(61)	10	19
Attributable to minority shareholders	**(1)**	(2)	—	—	—
Extraordinary item (net restructuring costs, 1981)	**(17)**	(2)	(2)	(3)	(4)
Net profit (loss) attributable to Rolls-Royce Limited	**(3)**	(27)	(63)	7	15
Net assets employed					
Current assets	**1 065**	940	687	544	484
Current liabilities	**574**	594	492	289	233
Net current assets	**491**	346	195	255	251
Property and plant	**303**	299	136	108	97
	794	645	331	363	348
Financed by					
Share capital	**458**	328	234	203	196
Reserves	**121**	124	6	69	62
	579	452	240	272	258
Loans	**209**	187	90	90	89
Minority interests in subsidiaries	**6**	6	1	1	1
	794	645	331	363	348

Orders on hand at end of year – £m



Sales analysis – £m

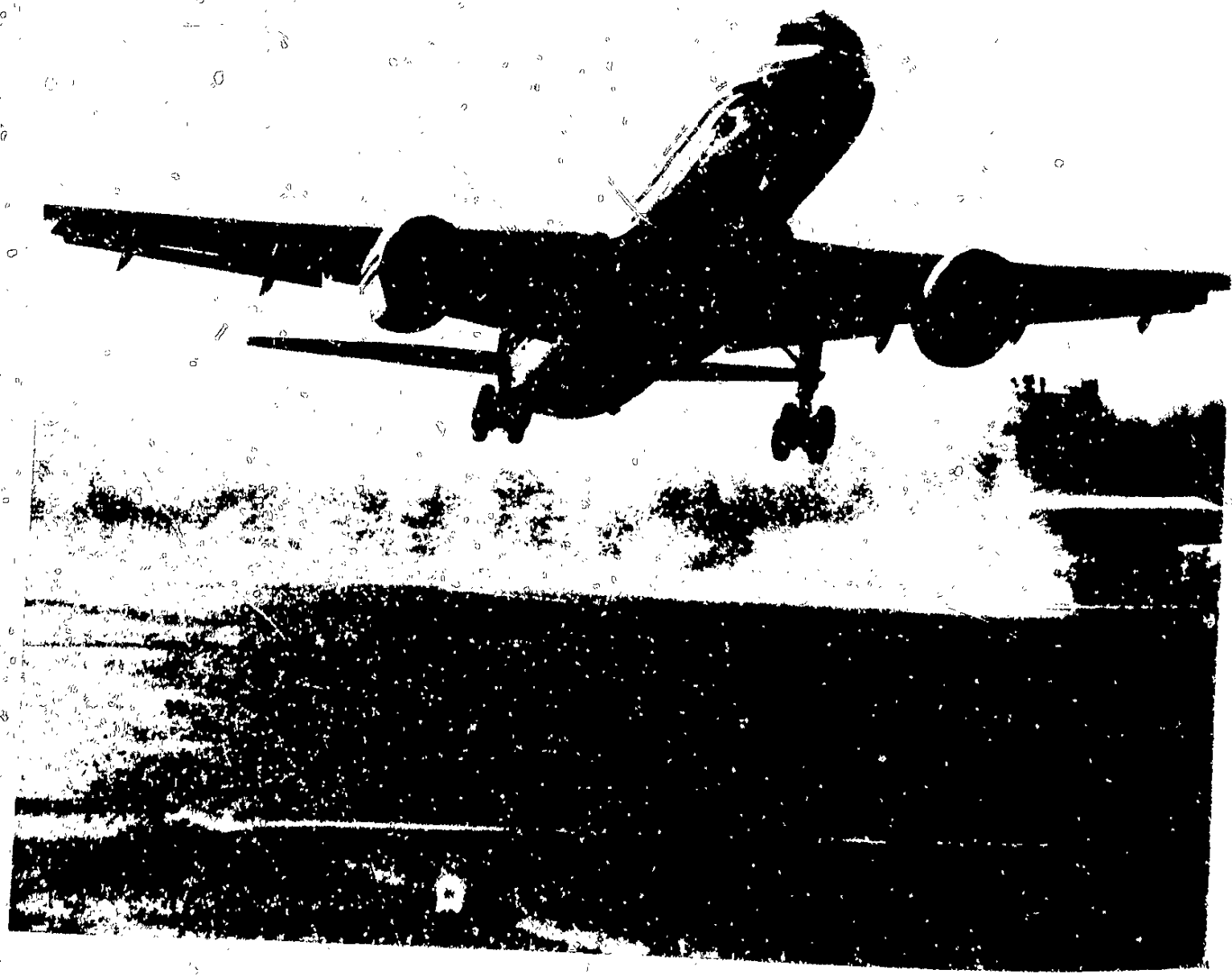


Commercial aircraft power — *the new short medium range Boeing 757 airliner is powered by the Rolls-Royce -535 family of fuel-efficient medium thrust engines.*

Flight certification of the aircraft is now in progress. The first customers in 1983 are British Airways, Eastern Air Lines and Monarch Airlines.

The advanced performance -535E4 engine will be available during 1984. This engine incorporates technological advances which provide an increase in thrust capability combined with a further improvement in fuel economy of 10 per cent.

Designed initially for the Boeing 757 the increased thrust capability of the -535E4 makes it suitable for larger 3- and 4-engine aircraft.



Rolls-Royce has pioneered much of the high technology of materials and design in today's advanced gas turbine engines and the computer controlled manufacturing systems which produce them.

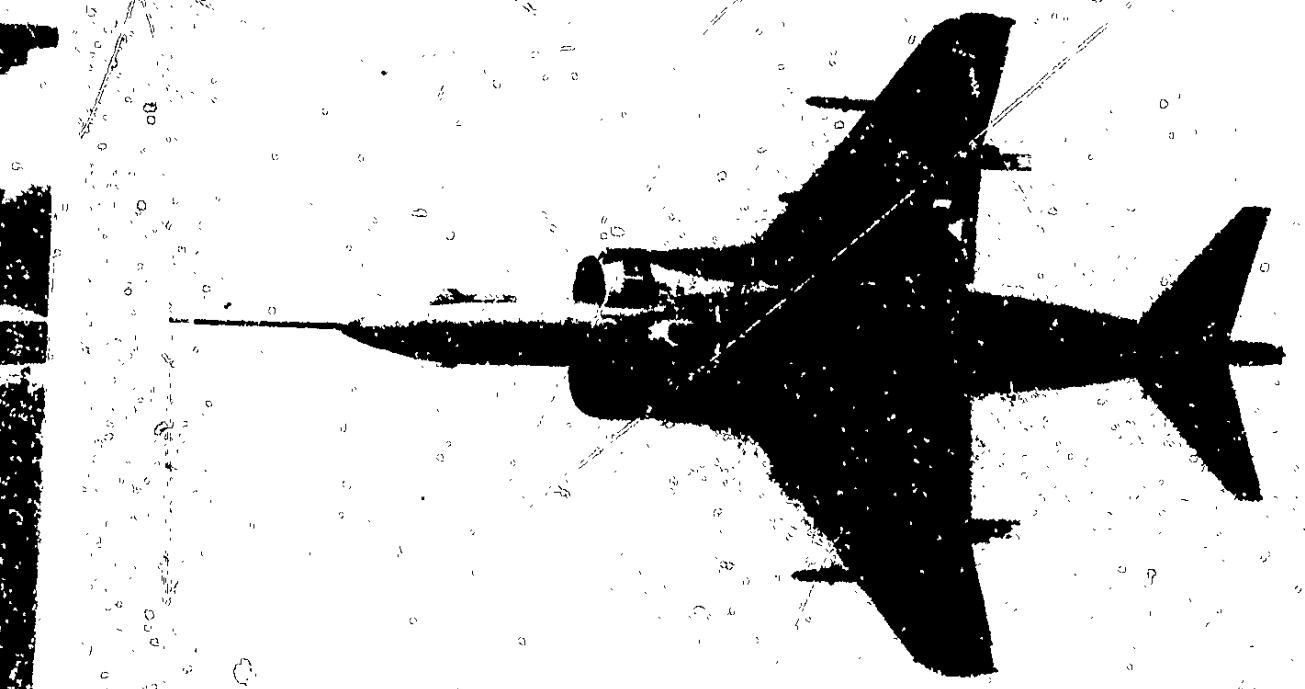
This technology has been in such areas as wide chord fan design, blade tip clearance control devices, oxide dispersion strengthened materials, ceramics, high-temperature titanium alloys, composite and transply materials.

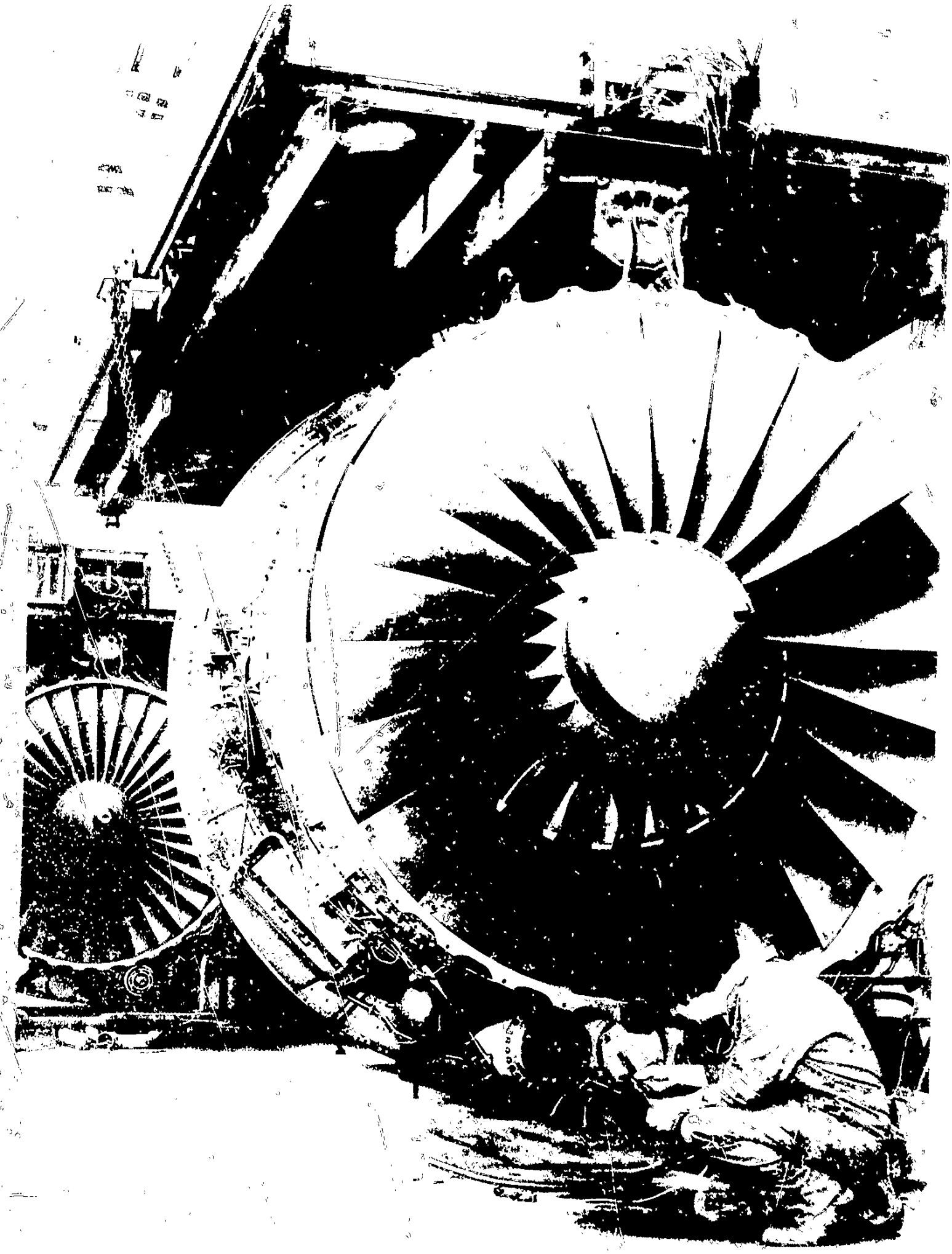
Behind the technology are sophisticated facilities for high-speed photography; laser anemometry, holography and spectroscopy; X-ray equipment which can look into engines running at full power; dynamic measurement probes; radio isotope fluid tracers and cold-neutron radiography.

Below.
The Pegasus vectored thrust turbofan powers all variants of the Harrier family of V/STOL aircraft including the AV-8B advanced Harrier which has been selected by the Royal Air Force and the United States Marine Corps. Over 500 Pegasus engines have now been delivered.

Development of the engine to provide higher thrust and increased operational flexibility continued throughout 1981.

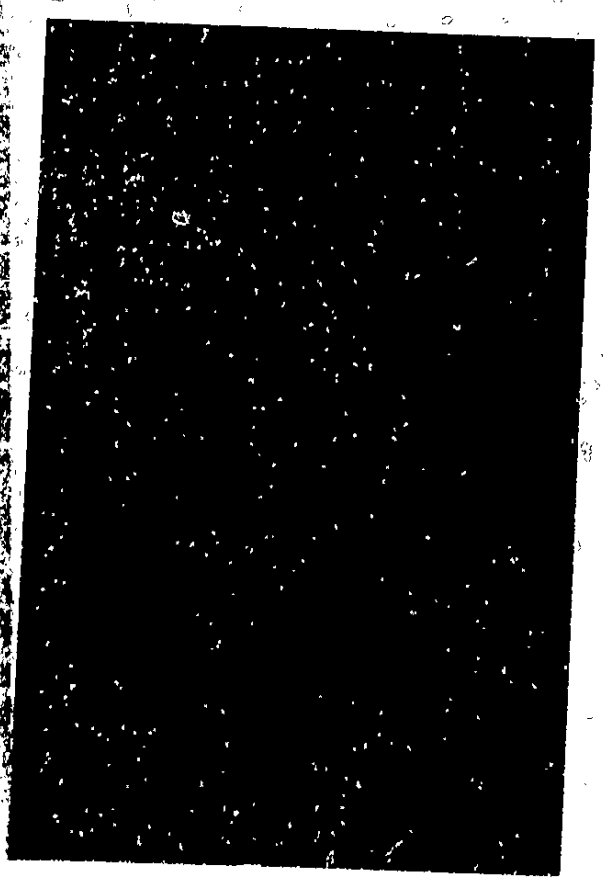
Work continued on the development of the Plenum Chamber Burning technique as a feature for vectored thrust engines to power future supersonic V/STOL aircraft proposals.





Opposite page:
One of the technological features of the advanced 535E4 engine is the wide chord fan which contributes 2½% of the 10% improvement in engine fuel consumption. Blades of this type have been under evaluation in RB211 engines since 1975 and have demonstrated significant improvements in efficiency, aeromechanical stability and resistance to foreign object damage compared with conventional blades. The number of blades required (foreground) is 25% less than the older design (background).

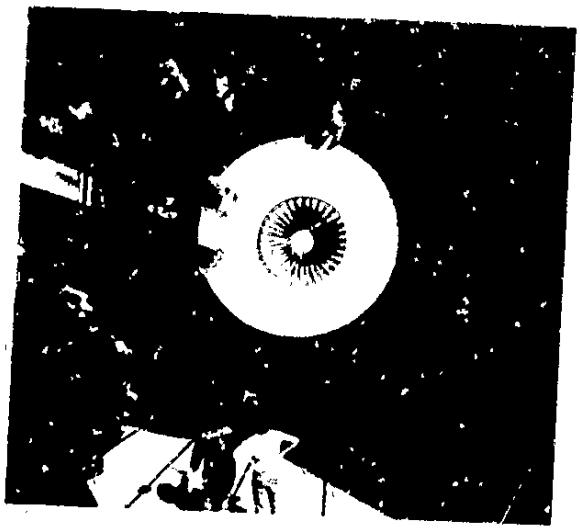
Below:
CAD/CAM (computer aided design and manufacture) is extensively used by Rolls-Royce. Computer design profiles (left) for a wide-chord fan blade are transmitted in digital form into the manufacturing process which automatically produces correctly shaped blades (right).



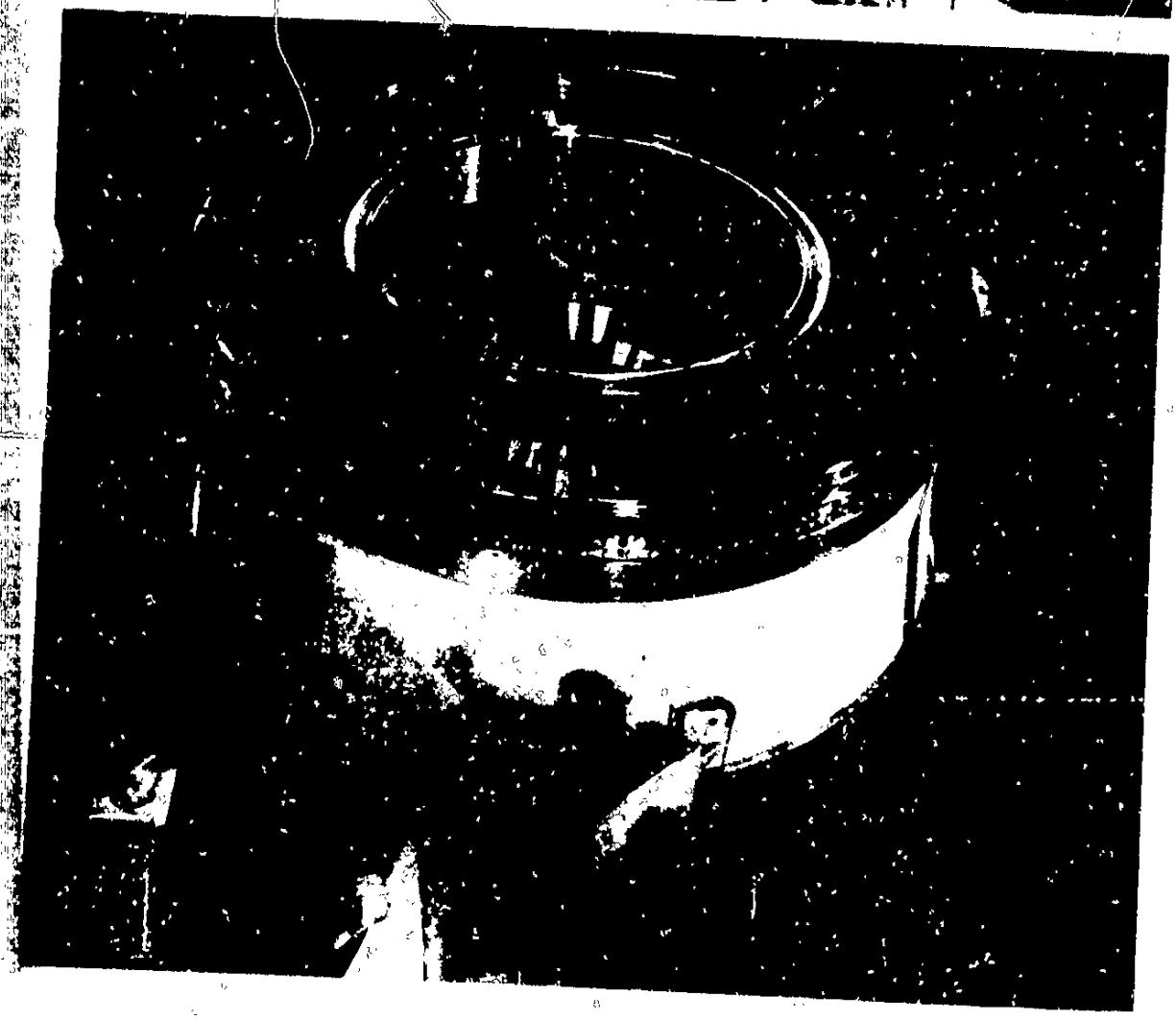
Opposite and right.
Lasers are finding increasing applications both in advanced engineering and manufacturing activities. Non intrusive laser optical techniques such as holography and anemometry are now used extensively for quantitative aerodynamic and vibration analyses in rotating components. Complementary laser spectroscopic techniques for the measurement of gas temperatures throughout engines are also under evaluation and development.

Below:
One of the most sophisticated automated X-ray wavelength and energy dispersive analysers in the world used to study the composition of advanced materials.

Right:
Certification testing of the -535 engine to meet CAA and FAA airworthiness integrity requirements included simultaneous ingestion of eight birds, under simulated engine take-off conditions.

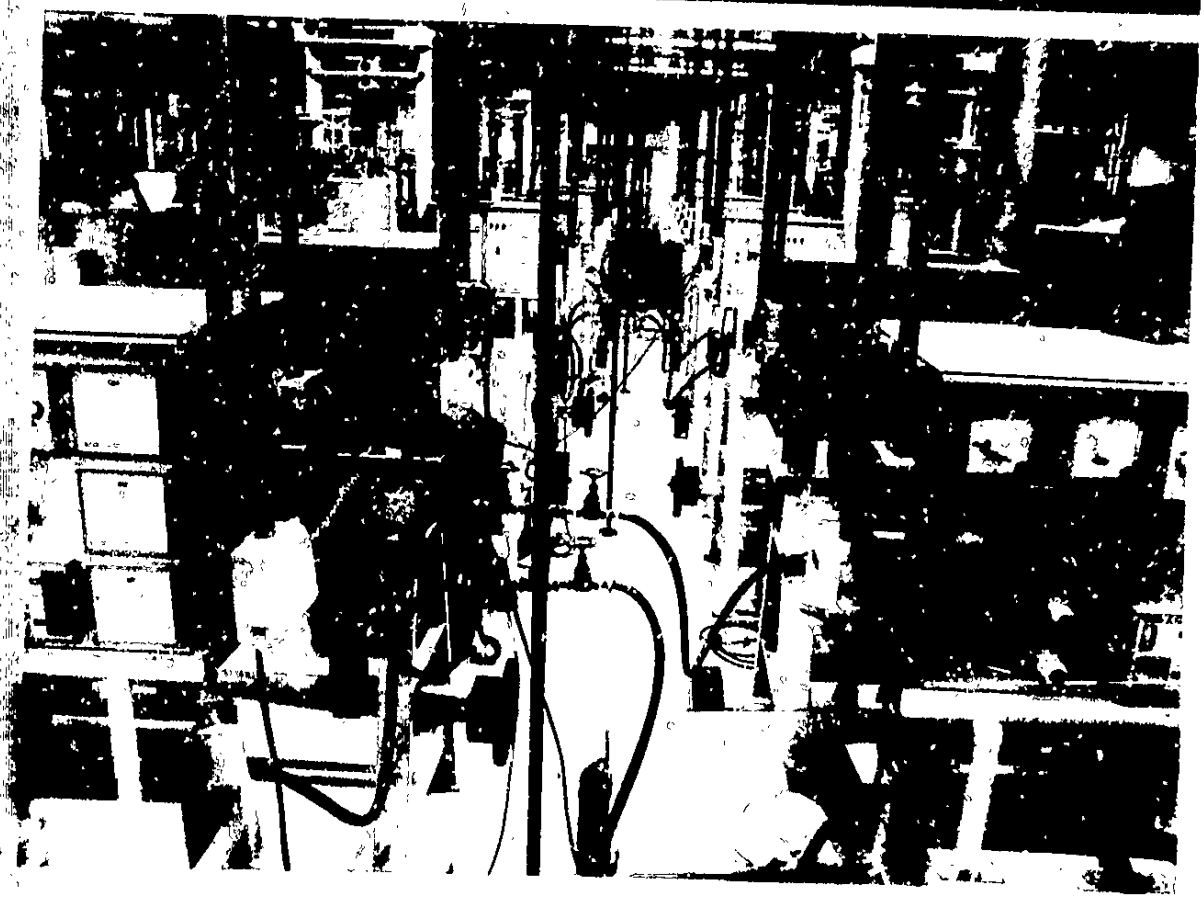


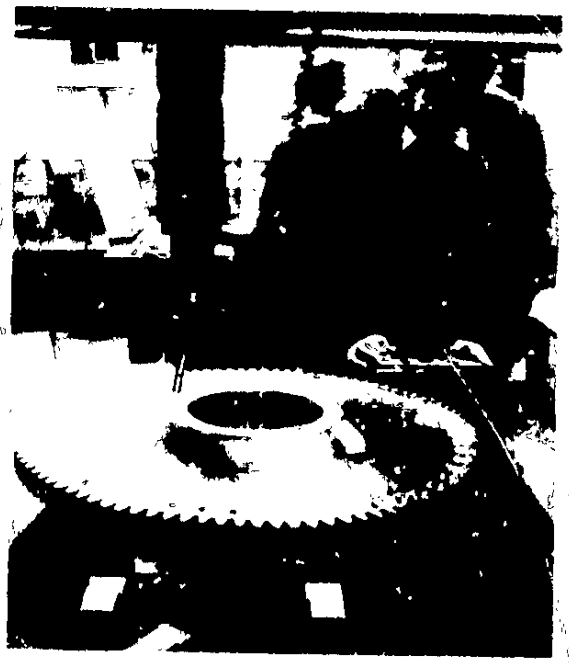
Below:
The lightweight Kevlar fibre-wrapped fan containment system in production for the -535C engine has been developed further for the -535E4 engine. The development and application of lighter and more efficient materials and structures is being constantly extended.



Right.
Turbine blades being tested in a thermal fatigue rig

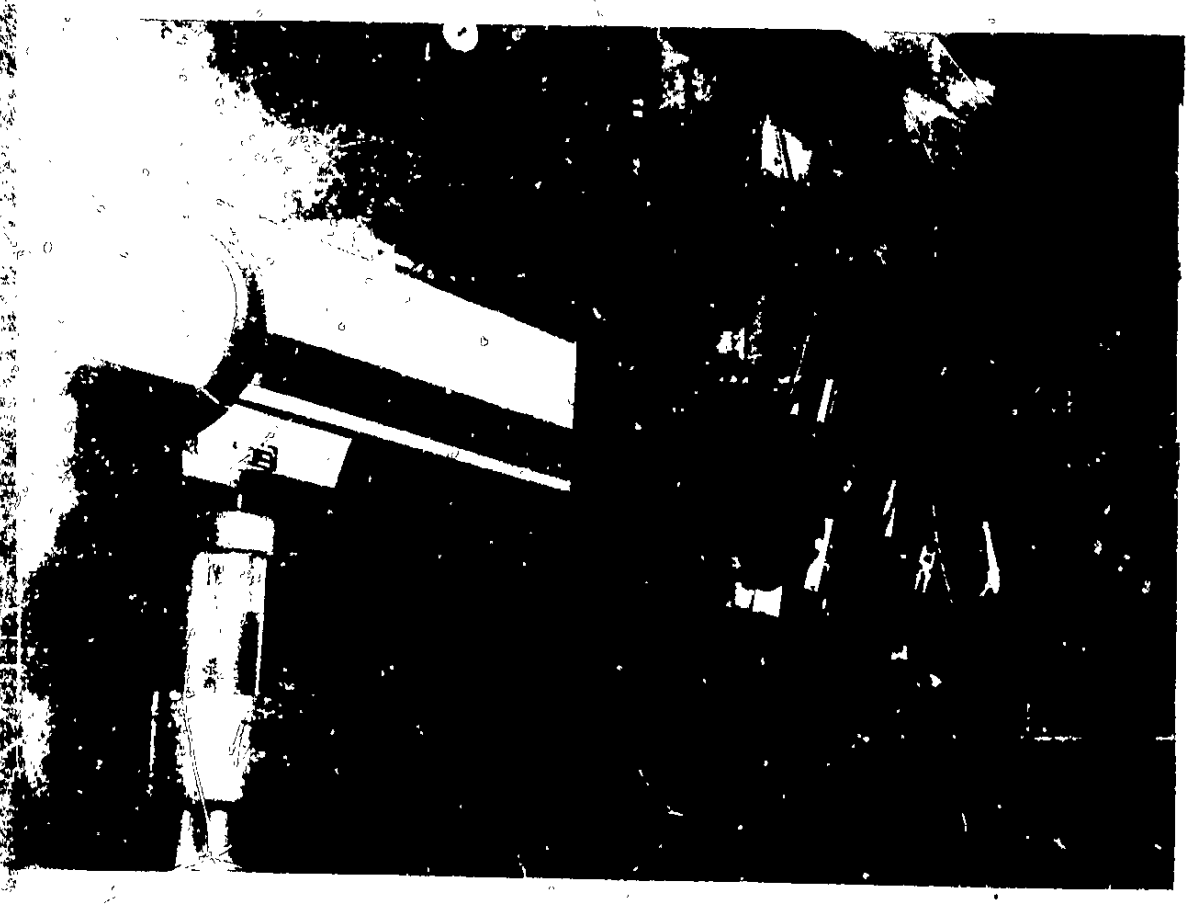
Below:
The high temperature and stress conditions imposed by modern engines require the application of sophisticated high strength and corrosion resistant materials. The development and understanding of new materials such as directionally solidified, single-crystal and oxide dispersion strengthened metal alloys, and ceramics, form essential features of our technology programmes. The photograph shows one of the most extensive mechanical test facilities in Europe.

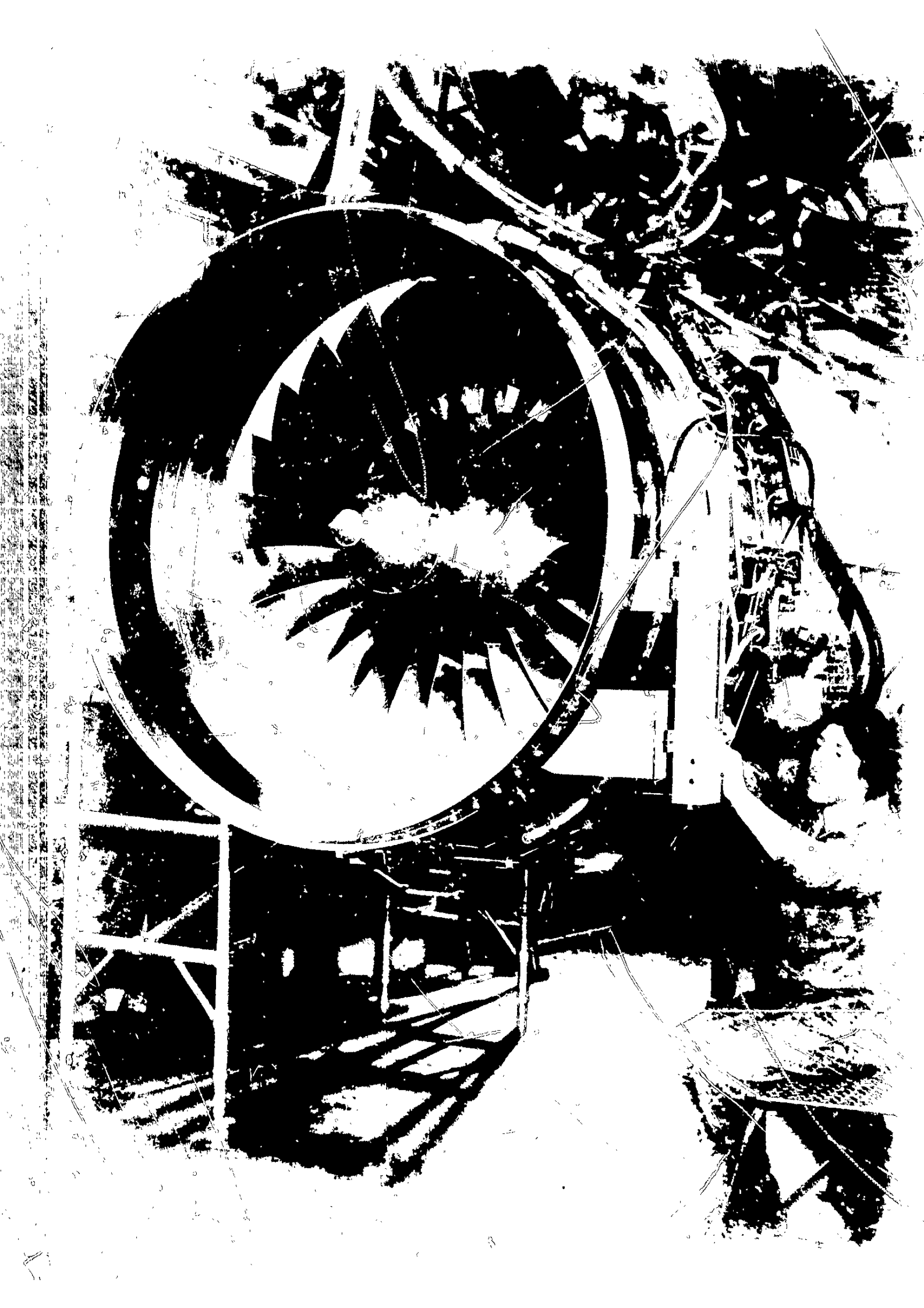




Left
Ultrasonic testing during manufacture proves there are no flaws in the material.

Below
One stage of a robotic line for creep feed grinding of turbine blades.





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 443m (1980 £1 258m), including direct exports of £610m (1980 £550m).

The profit before taxation was £18m (1980 loss £22m).

Share capital

On August 12, 1981 the authorised share capital of the Company was increased from £400m to £600m.

During 1981 the Company issued 130 million shares of £1 each, at par, for working capital purposes.

Funding

Towards the end of 1981 Rolls-Royce Capital Inc., a wholly owned subsidiary, entered into agreements with a number of international banks to launch a commercial paper programme in the United States. The programme was launched on January 12, 1982 and, when fully issued will provide the Company with up to $250 million of short-term funds which are used as a hedge against dollar income or are covered forward into sterling. The issue is guaranteed by the Secretary of State for Industry.

Property and plant

Expenditure on property and plant during the year amounted to £28m (1980 £44m), mainly in respect of machine tools at aero-engine facilities.

The professional valuation of the Company's land and buildings at December 31, 1980 has been updated to the end of 1981 and suggests a value £8m greater than the figure shown in the accounts.

Employees

The weekly average number of employees working wholly or mainly in the United Kingdom was 56 000 (1980, 58 800). Their aggregate remuneration was £423m (1980 £403m).

The number of United Kingdom employees at the end of the year was 52 900.

Disabled persons

The Company's policy is to consider all applicants for employment or advancement on their merits and where an individual has some disability, to make every effort to accommodate that disability.

Donations

No political donations were made by the Company or its subsidiaries. Charitable donations amounted to £55 200 (1980 £59 700).

Directors

The directors listed on Page 17 were in office throughout 1981, apart from Mr Ralph Robins and Sir Francis Tombs who were appointed to the Board on March 9, 1982. None of the directors of the Company at December 31, 1981 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 6, 1982

Board of directors

as at April 6, 1982

Chairman
Lord McFadzean of Kelvinside

Directors
Sir George Burton CBE
Sir St John Elstub CBE
Dennis Head CBE†
Samuel Higginbottom CBE
Peter Molony
Alan Newton
Donald Pepper*
Ashley Raeburn CBE*†
Ralph Robins
Trevor Salt
Sir Peter Thornton KCB
Sir Francis Tombs
Air Chief Marshal Sir Neil Wheeler GCB CBE DSO DFC AFC

**Vice Chairmen* †*Managing directors*

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 PLC
15 Bishopsgate,
London EC2

Barclays Bank PLC
54 Lombard Street,
London EC3

Accounting policies

The accounts on Pages 18 to 29 are prepared on the historic cost basis, modified to include the revaluation of land and buildings at December 31, 1980.

Turnover and trading profit

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.

Trading profit is taken at the time of sale; in the case of long-term contracts, profit is arrived at by reference to the estimated overall contract profitability.

Exchange rates

(i) *Subsidiaries*

Foreign currencies are translated into sterling on the following bases:

(a) Turnover and profit at the average rates ruling 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 differences on translating the opening net assets of overseas subsidiaries being taken into account in arriving at the consolidated results.

(ii) *Parent Company*

Assets and liabilities in foreign currencies are translated into sterling at the exchange rates ruling at the year end; 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, where necessary, provisions to reduce cost to estimated realisable value.

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

(i) *Properties*

Depreciation is provided on the valuation of properties adopted at December 31, 1980 and is calculated on the straight-line basis over estimated lives which, with effect from January 1, 1981, have been revised to levels agreed with the Group's professional valuers. Depreciation is not provided on the valuation of land.

The estimated lives are:

(a) freehold buildings
10 to 45 years (average 28 years)

(b) leasehold buildings
lower of valuers' estimate or period of lease.

(ii) *Plant*

Depreciation is provided on the original cost of plant and is calculated on the straight-line basis over estimated lives in the range 5 to 14 years.

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.

Provisions

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

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 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, 1981 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 1981.

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 6, 1982

Coopers & Lybrand
Chartered Accountants

Profit and loss account

for the year ended December 31, 1981

	Notes	Consolidated 1981 £m	Consolidated 1980 £m
Turnover	2	**1 443**	1 258
Profit before financial expenses		**64**	12
Financial expenses	4	**(46)**	(34)
Profit (loss) before taxation		**18**	(22)
Taxation	5	**(3)**	(1)
Profit (loss) after taxation		**15**	(23)
Attributable to minority shareholders		**(1)**	(2)
Extraordinary item (net restructuring costs, 1981)		**(17)**	(2)
Net (loss) attributable to Rolls-Royce Limited		**(3)**	(27)

Company 1980 £m	Company 1981 £m		Consolidated 1981 £m	Consolidated 1980 £m
		Reserves		
(11)	**95**	Opening reserves	**124**	7
(33)	**(17)**	Net (loss) for the year	**(3)**	(27)
139	—	Surplus arising on revaluation of land and buildings	—	144
95	**78**	Closing reserves	**121**	124

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

Balance sheets

at December 31, 1981

Company 1980 £m	Company 1981 £m		Notes	Consolidated 1981 £m	Consolidated 1980 £m
		Net assets employed			
870	975	Current assets	7	1 065	940
558	534	Current liabilities	8	574	594
312	441	Net current assets		491	346
277	271	Property and plant	9	303	299
18	27	Subsidiary companies	10	—	—
607	739			794	645
		Financed by			
328	458	Share capital	11	458	328
95	78	Reserves	6	121	124
423	536			579	452
184	203	Loans	12	209	187
—	—	Minority interests in subsidiary companies		6	6
607	739			794	645

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, 1981

	Consolidated 1981 £m	1980 £m
Source of funds		
Profit (loss) before taxation	18	(22)
Depreciation	27	24
	45	2
Issue of shares for cash	130	94
Loans (net)	22	98
	197	194
Application of funds		
Change in net current assets:		
Increase in inventories, net of progress payments	114	184
(Decrease) increase in accounts receivable	(23)	78
Decrease (increase) in accounts payable and provisions	69	(82)
	160	180
Capital expenditure	28	44
Extraordinary item (net restructuring costs, 1981)	17	2
Other items	5	(2)
	210	224
Change in net liquid funds		
Increase (decrease) in cash balances	34	(10)
(Increase) in bank loans and overdrafts	(47)	(20)
	(13)	(30)

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

Notes to the accounts

1. Profit before taxation is after charging

	1981 £m	1980 £m
Depreciation	27	24
Charges for leased assets	11	3
Hire of plant and equipment	10	10
Auditors' remuneration (1981 £0.5m; 1980 £0.3m)		

2. Financial expenses

On loans in excess of five years	27	20
On short-term indebtedness	16	16
	43	36
Less interest received	2	3
	41	33
Financing costs of leased assets (included in Note 1 above)	5	1
	46	34

3. Emoluments of directors and senior employees

The emoluments of directors, charged before arriving at profit before financial expenses, were:

	1981 £	1980 £
Chairman	61 600	60 800
Other directors:		
Fees	15 600	7 500
Other emoluments, including pension contributions	402 800	413 750
Compensation for loss of executive office	—	85 000

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 1981	Number of directors 1980	Number of senior employees 1981	Number of senior employees 1980
Nil to 5 000	2	2		
5 001 to 10 000	1	1		
15 001 to 20 000	—	4		
20 001 to 25 000	—	—	90	54
25 001 to 30 000	1	1	29	17
30 001 to 35 000	—	—	9	3
35 001 to 40 000	2	1	1	—
40 001 to 45 000	1	—	—	—
45 001 to 50 000	—	2	—	—
50 001 to 55 000	3	1	—	—

4. Taxation

The taxation charge is made up as follows:	1981 £m	1980 £m
United Kingdom corporation tax	—	(1)
Overseas taxation	3	2
	3	1

Deferred taxation of £2m (1980 £1m) has been provided by certain overseas subsidiary companies.

A potential deferred taxation liability of £39m has not been provided in respect of the surplus arising on the revaluation of land and buildings as there is no present intention to dispose of any land and buildings. No other potential deferred taxation liability exists at December 31, 1981.

5. Extraordinary item

During 1981 the Company commenced a major restructuring of its operations. The actions will be substantially completed by the end of 1982. The net restructuring costs, including the cost of redundancy and voluntary termination, are being treated as a separate item in the profit and loss accounts for those two years.

6. Reserves

Company			Consolidated	
1980 £m	1981 £m		1981 £m	1980 £m
		Non distributable reserves		
—	139	Opening reserves	144	—
139	—	Surplus on revaluation of land and buildings	—	144
—	(3)	Depreciation charge attributable to revaluation surplus	(3)	—
139	136		141	144
		Distributable reserves		
(11)	(44)	Opening reserves	(20)	7
(33)	(17)	(Loss) for the year	(3)	(27)
—	3	Transfer to non distributable reserves of depreciation charge attributable to revaluation surplus	3	—
(44)	(58)		(20)	(20)
95	78	**Closing reserves**	121	124

7. Current assets

Company 1980 £m	Company 1981 £m		Consolidated 1981 £m	Consolidated 1980 £m
		Inventories:		
111	135	Raw materials	141	115
358	407	Work in progress, jigs and tools	431	380
356	409	Finished parts and engines	434	376
825	951		1 006	871
(224)	(242)	Progress payments against inventories	(249)	(228)
601	709		757	643
269	236	Accounts receivable	268	291
—	30	Bank balances and deposits	40	6
870	975		1 065	940

8. Current liabilities

Company 1980 £m	Company 1981 £m		Consolidated 1981 £m	Consolidated 1980 £m
460	388	Accounts payable and provisions	422	491
98	146	Bank loans and overdrafts	147	100
—	—	Taxation	5	3
558	534		574	594

9. Property and plant

Consolidated	Land and buildings: Freehold £m	Land and buildings: Long lease £m	Land and buildings: Short lease £m	Plant and equipment £m	Total £m
Cost or valuation:					
At January 1, 1981	165	11	7	277	460
Exchange adjustments	2	—	—	5	7
Additions at cost	6	1	—	21	28
Disposals	—	—	—	(4)	(4)
At December 31, 1981	173	12	7	299	491
Accumulated depreciation:					
At January 1, 1981	—	—	—	161	161
Exchange adjustments	—	—	—	2	2
Provided during year	6	—	1	20	27
Disposals	—	—	—	(2)	(2)
At December 31, 1981	6	—	1	181	188
Net book value at December 31, 1981	167	12	6	118	303
Net book value at December 31, 1980	165	11	7	116	299

	Land and buildings			Plant and equipment	Total
	Freehold £m	Long lease £m	Short lease £m	£m	£m
Cost or valuation at December 31, 1981:					
Cost	8	1	—	299	308
Valuation 1980	165	11	7	—	183
	173	12	7	299	491
Company					
Cost or valuation:					
At January 1, 1981	158	7	7	257	429
Additions at cost	5	—	—	15	20
Disposals	—	—	—	(3)	(3)
At December 31, 1981	163	7	7	269	446
Accumulated depreciation:					
At January 1, 1981	—	—	—	152	152
Provided during year	5	—	1	19	25
Disposals	—	—	—	(2)	(2)
At December 31, 1981	5	—	1	169	175
Net book value at December 31, 1981	158	7	6	100	271
Net book value at December 31, 1980	158	8	7	104	277
Cost or valuation at December 31, 1981:					
Cost	5	—	—	269	274
Valuation 1980	158	7	7	—	172
	163	7	7	269	446

The original cost of assets fully written off, but still in use and included in the figures above, amounts to £96m (1980 £109m).

10. Subsidiary companies

Company 1980 £m	1981 £m	
19	19	Shares, less amounts written off
20	24	Amounts owing from subsidiaries
(21)	(16)	Amounts owing to subsidiaries
18	27	

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 £m	1981 £m	
4	4	Net assets at December 31
		Net aggregate profits attributable to Rolls-Royce Limited, dealt with in the accounts of the Parent Company:
1	1	(i) net profit for the year
—	—	(ii) accumulated profits
1	1	Amounts owing to Parent Company
5	5	Amounts due from fellow subsidiary

11. Share capital

	Consolidated and Company 1981 £m	1980 £m
Authorised at beginning of year	400	400
Increase on August 12, 1981	200	—
Authorised at end of year	600	400
Issued at beginning of year		
328 million ordinary shares of £1 each fully paid	328	234
Further issue during 1981		
130 million ordinary shares of £1 each fully paid	130	94
Issued at end of year	458	328

12. Loans

Company 1980 £m	Company 1981 £m		Consolidated 1981 £m	Consolidated 1980 £m
		Unsecured:		
26	12	National Enterprise Board loans (repaid in 1982)		26
157	190	Bank loans repayable 1985-90 or earlier	190	157
183	202		202	183
		Secured:		
1	1	Loans repayable up to 1998, with interest rates 7½% to 10½%	7	4
184	203		209	187

13. Principal subsidiary and associated companies

	Percentage of equity
Subsidiary companies	
Registered in England:	
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*
USA – Rolls-Royce Inc.	100
– Rolls-Royce Capital 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 Turbomeca Limited (100% B shares)	50
Turbo-Union Limited (40% ordinary shares 37.5% A shares)	40
Deeside Titanium Limited	20
Incorporated overseas:	
Cooper Rolls, Incorporated	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.

14. 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.

15. Future capital expenditure

Company			Consolidated	
1980 £m	1981 £m		1981 £m	1980 £m
42	32	Capital expenditure authorised but not spent at end of year	36	48
27	14	of which there has been committed	15	32

16. Contingent liabilities

Company			Consolidated	
1980 £m	1981 £m		1981 £m	1980 £m
6	7	Guarantees, custom bonds and other matters estimated at	8	7

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, 1981

	Notes	Consolidated 1981 £m	1980 £m
Turnover		1 443	1 258
Profit before financial expenses on the historic cost basis		64	12
Less current cost operating adjustments	2	(88)	(115)
Current cost operating (loss)		(24)	(103)
Gearing adjustment	3	24	30
Financial expenses		(46)	(34)
Current cost (loss) before taxation		(46)	(107)
Taxation		(3)	(1)
Current cost (loss)		(49)	(108)
Attributable to minority shareholders		(1)	(2)
Extraordinary item (net restructuring costs, 1981)		(17)	(2)
Current cost (loss) attributable to Rolls-Royce Limited		(67)	(112)
Reserves			
Opening reserves		402	7
Current cost (loss) for the year		(67)	(112)
Movements on current cost reserve		69	363
Movement on other reserves		—	144
Closing reserves		404	402

Current cost balance sheet

at December 31, 1981

		£m	£m
Net assets employed			
Net current assets		534	377
Property and plant	4	543	546
		1 077	923
Financed by			
Share capital		458	328
Current cost reserve	5	432	363
Other reserves		(28)	39
		862	730
Loans		209	187
Minority interests in subsidiary companies		6	6
		1 077	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 operating loss 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.

Property and plant is included in the balance sheet at current cost, net of depreciation.

2. Current cost operating adjustments

The net charge is made up as follows:

	1981	1980
	£m	£m
Working capital	65	98
Depreciation	23	17
	88	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 current cost profit and loss account, abates the current cost operating adjustments by the average gearing proportion in the year.

4. Property and plant

The current cost of property and plant has been determined as follows:

(i) Land and buildings at the professional valuation at December 31, 1980, with 1981 additions at cost.

(ii) Plant and equipment by the application of suitable indices to historic cost, or by internal valuation.

The net current cost of property and plant at December 31, 1981 was:

	Gross	Depreciation	Net
	£m	£m	£m
Land and buildings	192	7	185
Plant and equipment	854	496	358
At December 31, 1981	1 046	503	543
At December 31, 1980	980	434	546

Asset lives of land and buildings are as advised by the Group's professional advisers and average 28 years. Asset lives of plant and equipment are estimated at 5 to 25 years.

5. Current cost reserve

	1981 £m	1980 £m
Opening reserve	**363**	—
Revaluation surpluses reflecting price changes:		
Property and plant	**16**	264
Working capital	**77**	129
Gearing adjustment	**(24)**	(30)
	69	363
Closing reserve	**432**	363
Of which:		
Unrealised	**283**	278
Realised	**149**	85
	432	363

Revaluation surpluses in 1980 include adjustments in respect of prior years.

Notice of the annual general meeting

Notice is hereby given that the eleventh annual general meeting of Rolls-Royce Limited will be held at 65 Buckingham Gate on Wednesday, May 26, 1982 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, 1981.

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 29, 1982

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