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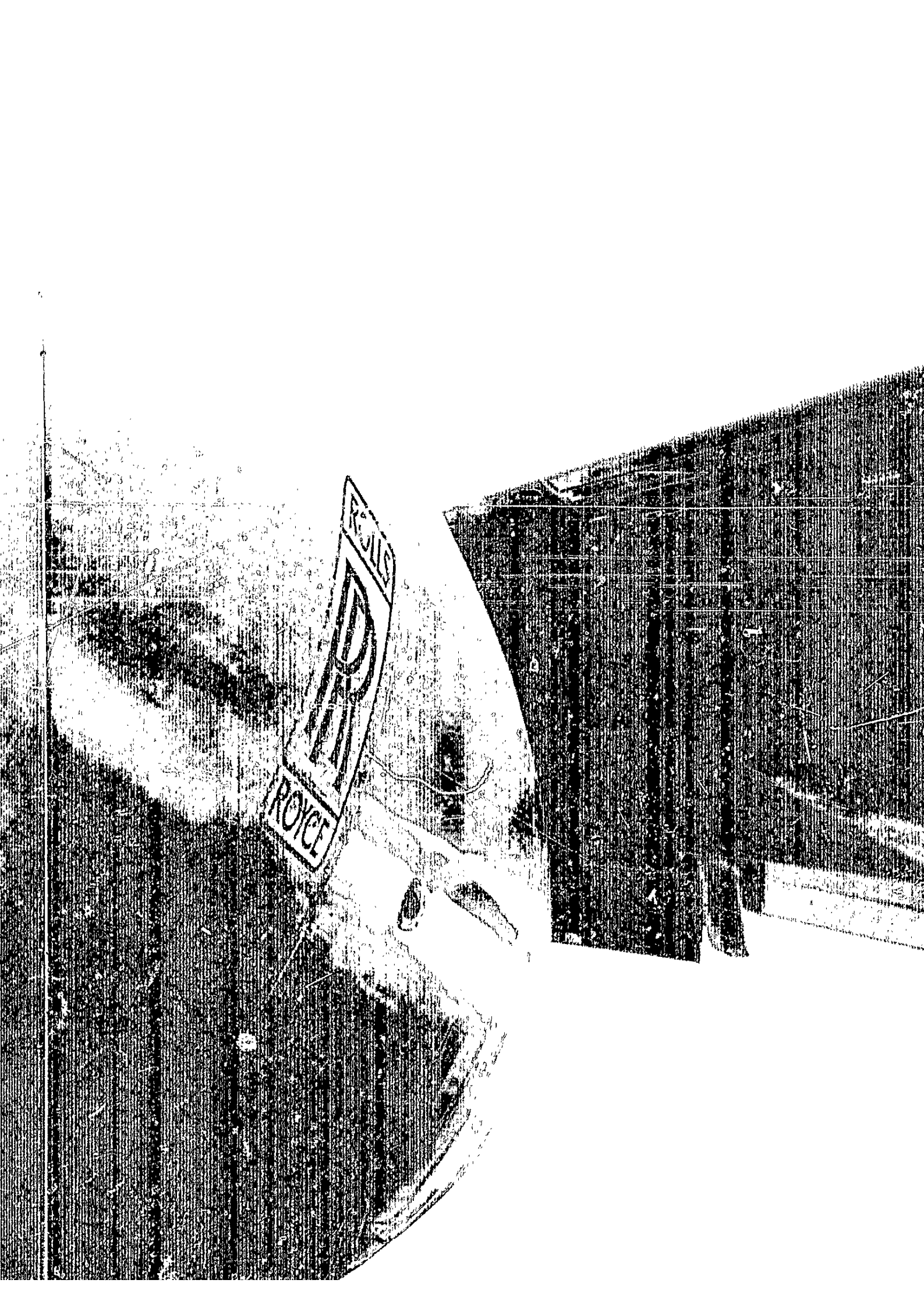
Rolls-Royce Limited Annual Report 1979

YEAR ENDED DECEMBER 31, 1979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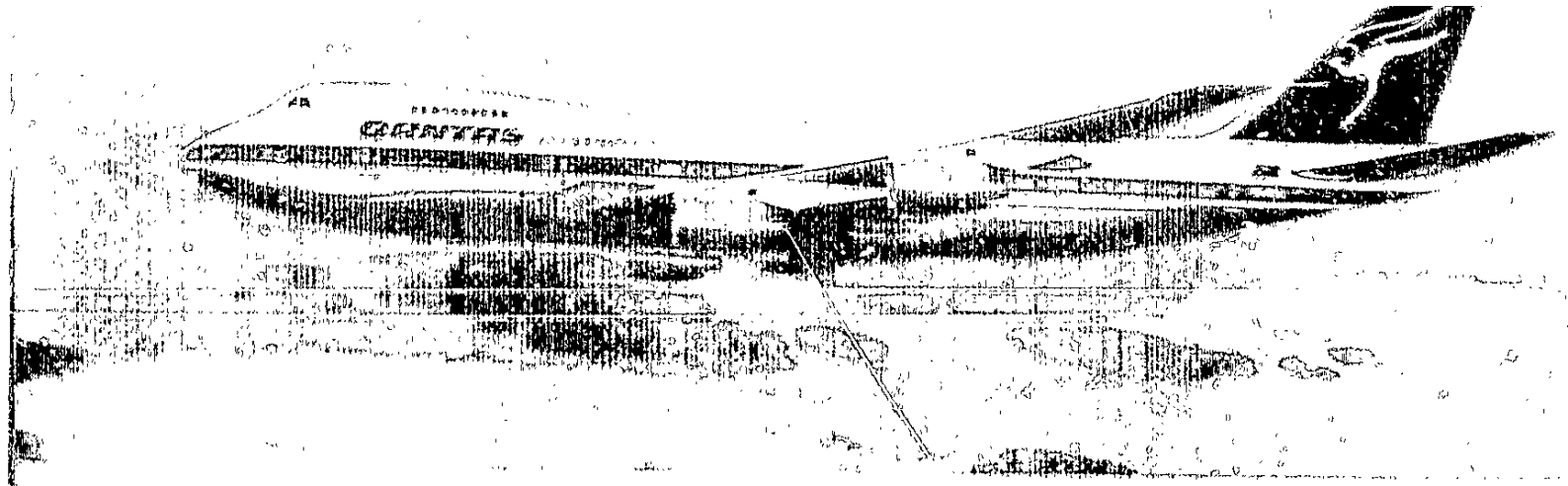

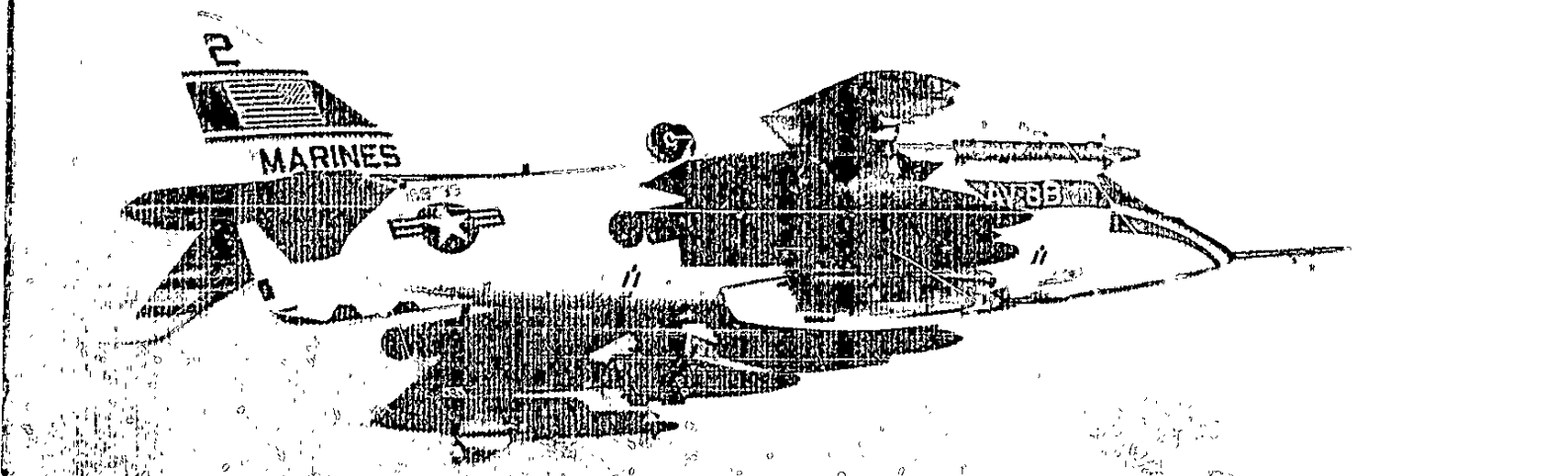
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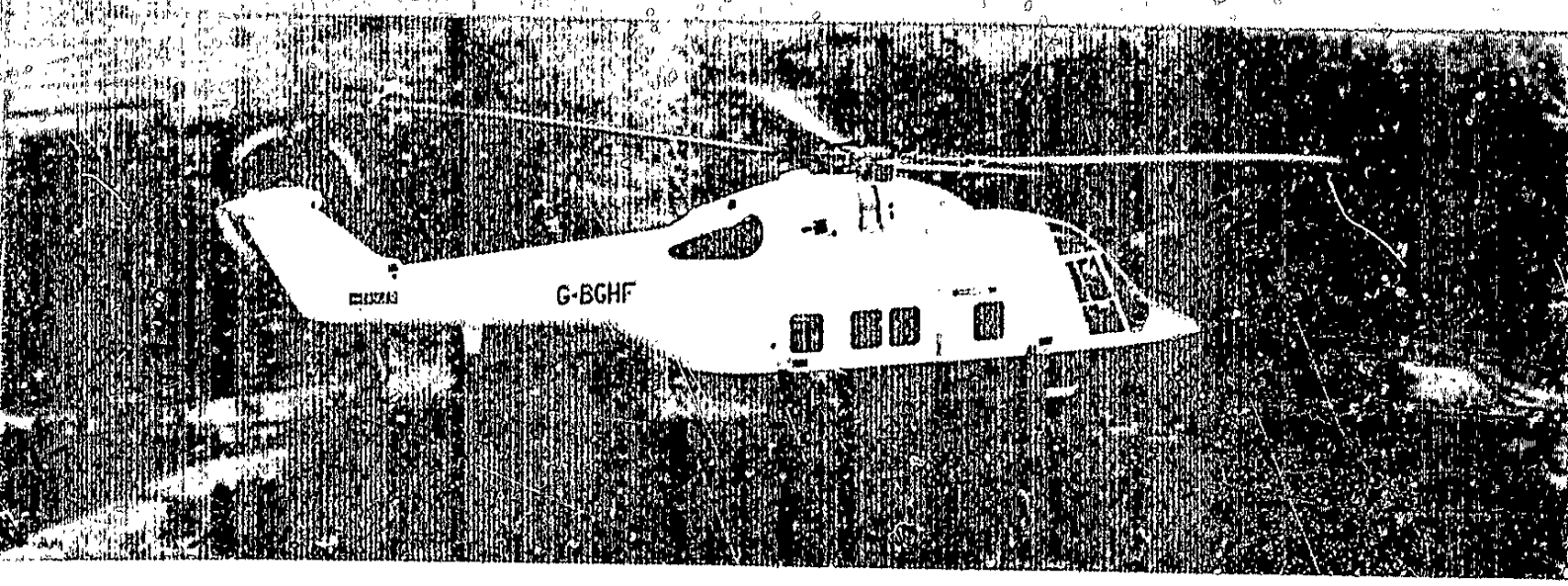
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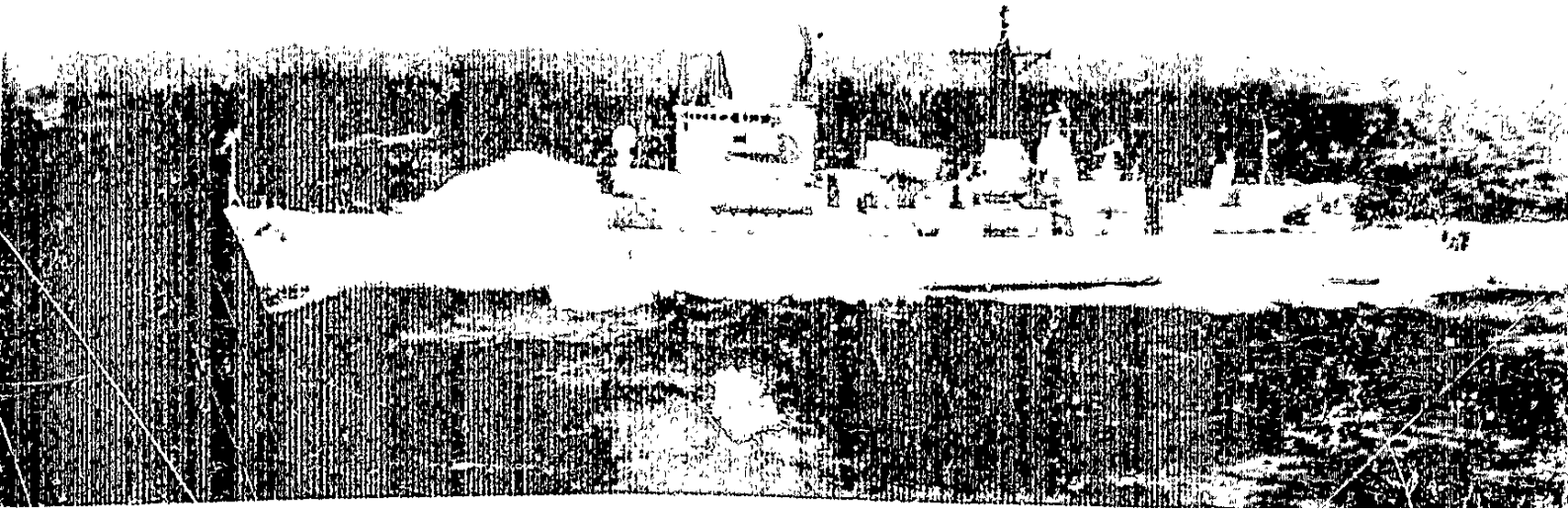


Contents

Chairman's statement

The financial results of the Company in 1979 were very disappointing. There were several ingredients, but the most important was the effect of the continued weakness of the US dollar against sterling. The large civil engines which Rolls-Royce produces are supplied to American airframes. Because of US dominance in civil aviation, both as producer and customer, these engines are usually priced in US dollars and escalated according to American indices. There is also a considerable lead time between the negotiation of a contract and the delivery of the final engine under it.

The assumptions underlying the rates of exchange used by the Company in calculating its offers were accepted as reasonable both by the National Enterprise Board and the Government Departments concerned. In the event, inflation rates have risen at a higher pace than was expected and more sharply in the United Kingdom than in the USA. Far from reflecting the differential rates of inflation, the pound appreciated against the US dollar. Consequently, orders which were expected to be profitable when they were taken are now likely to be unprofitable. The extent of the swing will depend on inflation rates, which are not within the Company's control, and on the exchange rates at which the US dollar income will be sold for sterling.

These factors affected our trading results for 1979. They also required additions to the provision for future losses, thus turning what would otherwise have been a small profit into the reported pre-tax loss of £58m. It is, however, estimated that the current year's financial results will show an improvement over 1979, and we hope to return to profitability in 1981.

The abolition of exchange controls at the end of 1979 has widened the opportunities open to the Company for covering exchange risks. Increasing use of the forward facilities will reduce substantially the future impact of unpredictable fluctuations on the Company's accounts.

In addition to the exchange rate problem the Company was adversely affected by the engineering dispute last autumn. It lasted eleven weeks and the Company's factories were forced to close for three of these. As a result of a great effort by many people we have subsequently been able to make good much of the shortfall in our major delivery and development programmes. But the dispute not only increased the Company's loss by £15m; like all disputes it had an adverse effect on our reputation. Although our present order book is very substantial, the maintenance of a high level of activity and employment requires the continuation into the future of our sales successes of the recent past. But it is not only in price that we have to be competitive. Customers must also have confidence in our engines, in our ability to produce them at the right time and in our capacity to sustain a high and efficient level of product support.

We are now benefiting from the expansion in world civil aviation which began in 1978. Although the US has witnessed a downturn in passenger growth in recent months, the need to re-equip in order to introduce fuel-efficient aircraft and to meet increasing environmental restrictions will help to cushion any reduction in demand.

These market developments have coincided with a growing customer confidence in the RB211. As escalating oil prices result in fuel forming a higher proportion of airline total costs, the relative importance of fuel consumption increases. As it is the only aircraft now in service with engines built by all three manufacturers, the Boeing 747 provides a useful basis for comparison. Those equipped with the current versions of the RB211-524 are demonstrably the most fuel efficient, while the engine also shows superior characteristics in maintenance costs, performance deterioration and ability to withstand foreign object damage. We have active engineering programmes designed to maintain our lead.

As a result of the increased sales of the RB211 and of major growth in output of the RB199 (the European collaborative military engine for the Tornado aircraft) the Company is greatly increasing its total production output over the next two years. For example, between 1979 and 1982, RB211 engine production is planned to treble. The build-up of inventory required by the growing engine programme has increased the Company's financial requirements. Since the end of 1979, we have negotiated a private borrowing facility of about US$300m. Subject to the possibility of some further borrowing from the private sector, arrangements have been made with Her Majesty's Government to meet the Company's current requirements.

The required increase in output is a considerable task but, based on past production achievements, it is one which the Company should be able to meet. However, if we are to remain competitive with the other engine manufacturers, further increases in productivity are essential; the rising work load enhances the opportunity for achieving it.

Our current range of military engines – which includes RB199, Adour and Pegasus – and the associated spares business, represented half of the Company's sales during the year. Military engines are of the greatest importance to the Company and will continue to be so in the future. The RB199 and Adour engines are the outcome of collaboration with other European engine manufacturers, and the Company will continue to give high priority to this sector of its business.

In other areas of the Company's operations sales of industrial and marine engines were affected by last year's national engineering dispute, but the Company won an important new order for the supply of Olympus-powered SK60 generating equipment to the Egyptian Electricity Authority. The Company's nuclear business has continued to develop satisfactorily.

Rolls-Royce has great talent at all levels; there is also an increasing confidence in the future – particularly in the volume of business that we can attain in the civil aviation field. The RB211 family provides competitive engines to meet requirements from the new Boeing 757 medium-range aircraft through the Lockheed TriStar to the largest foreseeable long-range Boeing 747. In addition, we have a good range of military engines and considerable international opportunities in that sector. The Company's disappointing financial performance in 1979 should not be permitted to mask these basic facts.

Finally, I take this opportunity of recording our thanks to Lord Keith for the great contribution he made to the Company and, in particular, its commercial aero engine business, throughout the 1970s.

Sir Frank McFadzean

Board of directors

as at April 1, 1980

Chairman
Sir Frank McFadzean

Vice-Chairmen
Donald Pepper
Ashley Raeburn CBE

Directors
Sir George Burton CBE
Sir St John Elstub CBE
Dennis Head CBE
Samuel Higginbottom
Peter Molony
Marshal of the Royal Air Force Sir Denis Spotswood GCB CBE DSO DFC
Sir Peter Thornton KCB
Air Chief Marshal Sir Neil Wheeler GCB CBE DSO DFC AFC

Secretary
John Southam

Registered office
65 Buckingham Gate,
London SW1

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

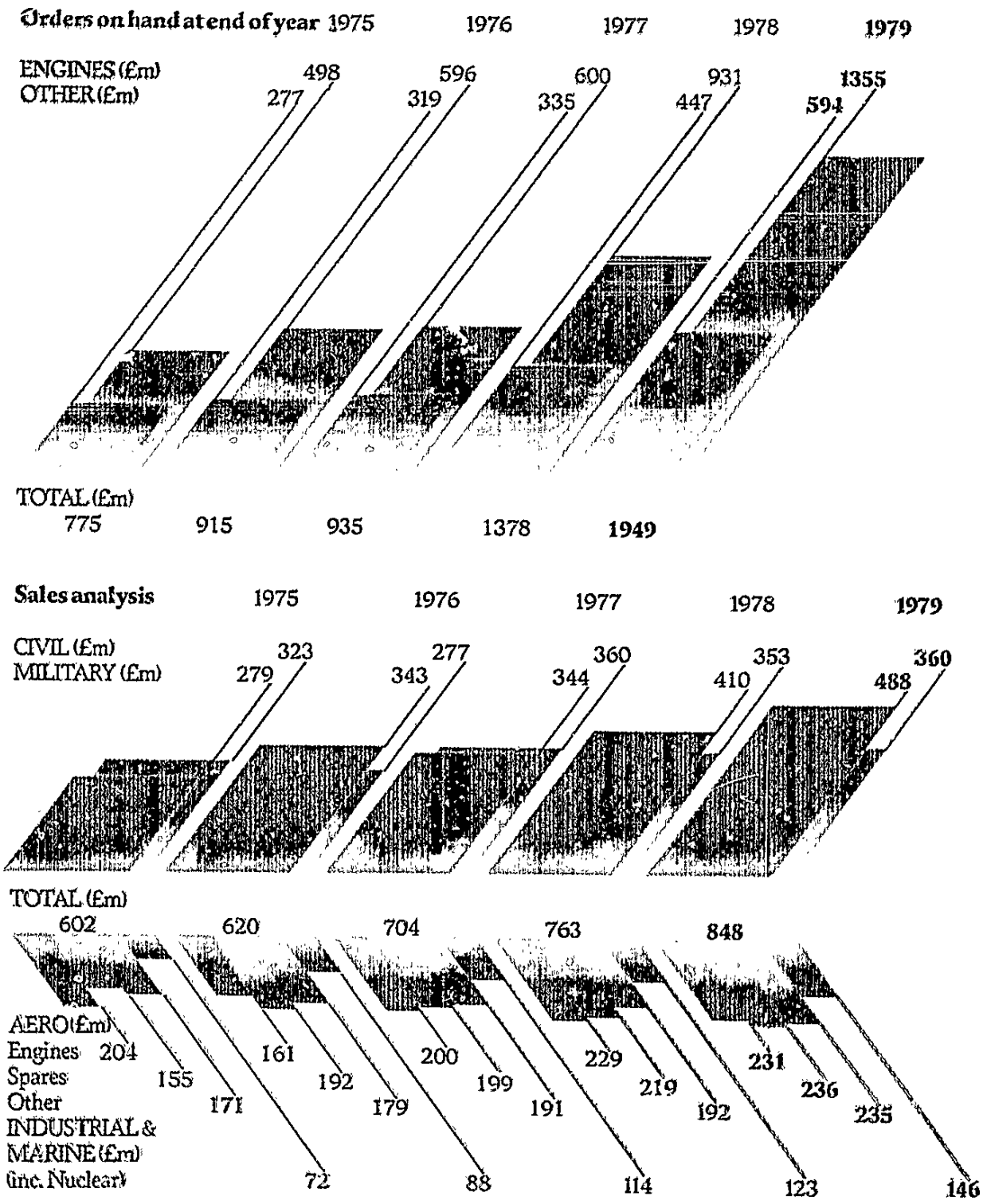
Bankers
National Westminster Bank Limited
15 Bishopsgate,
London EC2

Solicitors
Freshfields
Grindall House, 25 Newgate Street,
London EC1

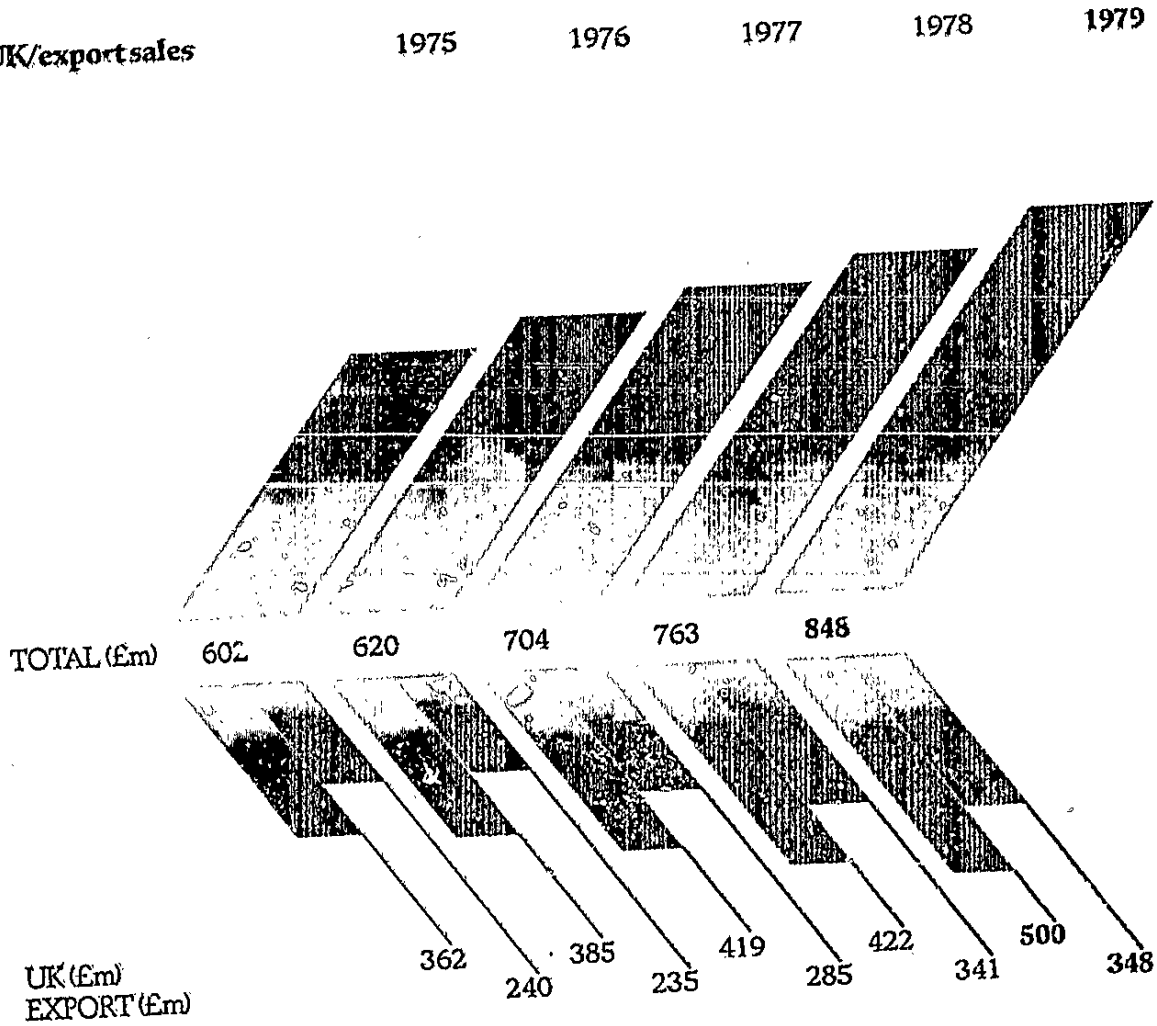
Five-year review

	1979 £m	1978 £m	1977 £m	1976 £m	1975 £m
Turnover	848	763	704	620	602
Direct exports from UK	41%	45%	40%	38%	40%
Trading profit (loss) before interest	(47)	23	32	(16)	7
Interest receivable	6	3	3	3	2
	(41)	26	35	(13)	9
Interest payable	(17)	(14)	(14)	(12)	(7)
Profit (loss) before taxation	(58)	12	21	(25)	2
Taxation	(3)	(2)	(2)	(2)	(2)
Profit (loss) after taxation	(61)	10	19	(27)	–
Extraordinary items	(2)	(3)	(4)	3	2
Net profit (loss) retained	(63)	7	15	(24)	2
Assets employed					
Current assets	687	544	484	466	415
Current liabilities	492	289	233	259	232
Net current assets	195	255	251	207	183
Property and plant	136	108	97	96	88
	331	363	348	303	271
Financed by					
Share capital	234	203	196	175	137
Reserves	6	69	62	47*	71*
	240	272	258	222	208
Loans	90	90	89	80	62
Minority interest in subsidiaries	1	1	1	1	1
	331	363	348	303	271

Restated in accordance with the accounting policy on deferred taxation set out on Page 19.


Orders on hand at end of year 1975 1976 1977 1978 1979
ENGINES (£m) 498 596 600 931 1355
OTHER (£m) 277 319 335 447 594
TOTAL (£m)
775 915 935 1378 1949
Sales analysis 1975 1976 1977 1978 1979
CIVIL (£m) 323 277 360 353 360
MILITARY (£m) 279 343 344 410 488
TOTAL (£m)
602 620 704 763 848
AERO (£m)
Engines 204 161 200 229 231
Spares 155 192 199 219 236
Other 171 179 191 192 235
INDUSTRIAL & MARINE (£m) (inc. Nuclear) 72 88 114 123 146

UK/export sales



Principal products and their applications

Aircraft operated by 240 airlines, 105 armed forces and over 700 corporate users are powered by Rolls-Royce gas turbine engines. Derivatives of some of those engines are used world-wide for electricity generation, oil and gas pumping and marine propulsion. The following are the Company's principal engines and their applications. It excludes many earlier engines which remain in use.

RB211
Boeing 747SP and 747-200 and 747-100* airliners (RB211-524)
Boeing 757 airliner* (RB211-535)
Lockheed L1011 TriStar-1 and -100 airliners (RB211-22B)
Lockheed L1011 TriStar-200 and -500 airliners (RB211-524)
Gas and oil industry *(pumping and process applications)*

SPEY
British Aerospace One-Eleven airliner
British Aerospace Trident airliner
Fokker F28 Fellowship airliner
Gulfstream American Gulfstream II and III* executive aircraft
Aeritalia AMX attack aircraft*
British Aerospace Buccaneer strike aircraft
British Aerospace Nimrod maritime patrol aircraft
McDonnell Douglas Phantom F-4K & F-4M strike fighters
Vought A-7D Corsair II attack aircraft *(engine jointly manufactured as TF41 with Detroit Diesel Allison Division of General Motors)*
Gas and oil industry *(pumping applications)*

ADOUR (Co-operative programme with Turbomeca France)
British Aerospace Hawk trainer/close support aircraft
Mitsubishi F-1 close support fighter
Mitsubishi T-2 supersonic trainer
SEPECAT Jaguar strike aircraft

PEGASUS
British Aerospace Harrier and Sea Harrier V/STOL close support aircraft
McDonnell Douglas AV-8A Harrier
McDonnell Douglas AV-8B Advanced Harrier*
McDonnell Douglas Matador (Harrier)

RB199 (Co-operative programme with MTU Germany and Fiat Italy)
Panavia Tornado all-weather combat aircraft

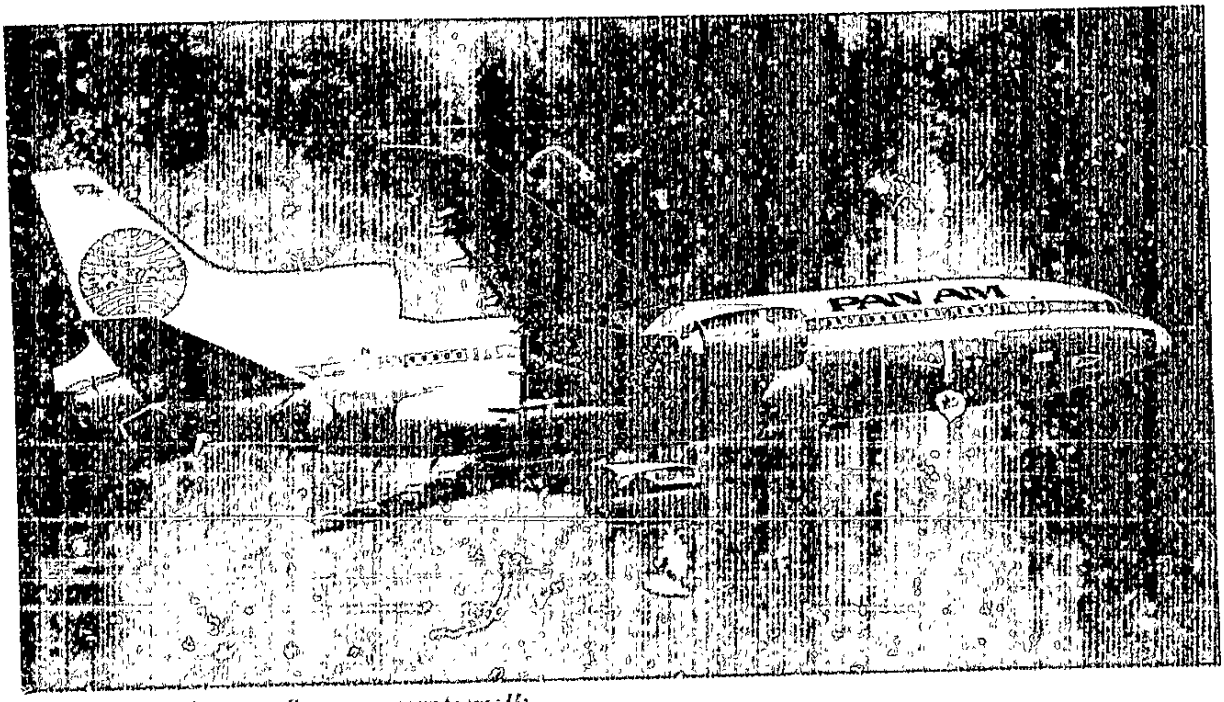
OLYMPUS
British Aerospace/Aerospatiale Concorde supersonic airliner (Olympus 593)
British Aerospace Vulcan B2 bomber
Electrical power generation
Marine boost propulsion

DART
British Aerospace Argosy cargo aircraft
British Aerospace Viscount airliner
British Aerospace 748 airliner
Fokker F27 and FH227 airliner
Handley Page Herald airliner
NAMC YS-11 airliner
General Dynamics Convair 600 airliner
Gulfstream American Gulfstream I executive aircraft
Breguet Alize anti-submarine aircraft

VIPER
British Aerospace HS125 executive aircraft
Piaggio Douglas PD808 executive aircraft
Aermacchi MB326 trainer/ground attack aircraft
Aermacchi MB339 trainer/ground attack aircraft
British Aerospace Jet Provost trainer aircraft
British Aerospace Strikemaster light attack aircraft
GAF Jindivik target drone
HAL Kiran training and counter insurgency aircraft
SOKO G2-A Galeb trainer aircraft
SOKO J-1 Jastreb light attack aircraft
SOKO Orao/IAR 93 tactical fighter

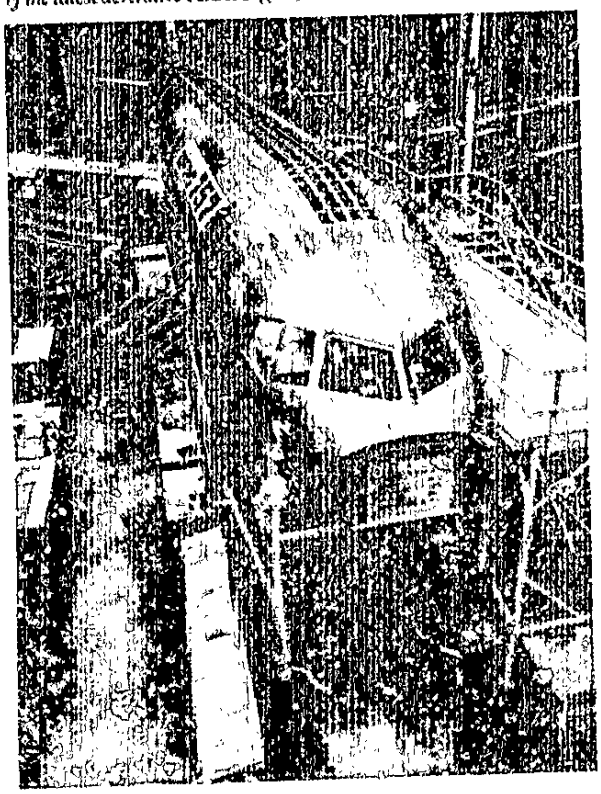
AVON
Aerospatiale Caravelle airliner
British Aerospace Comet 4 airliner
British Aerospace Canberra strike/photo reconnaissance aircraft
British Aerospace Hunter fighter
British Aerospace Lightning fighter
North American (Rockwell) Sabre fighter
Saab Lansen fighter
Saab Draken all-weather reconnaissance and attack aircraft
Gas and oil industry *(pumping and process applications)*
Electrical power generation

*Not yet in service.

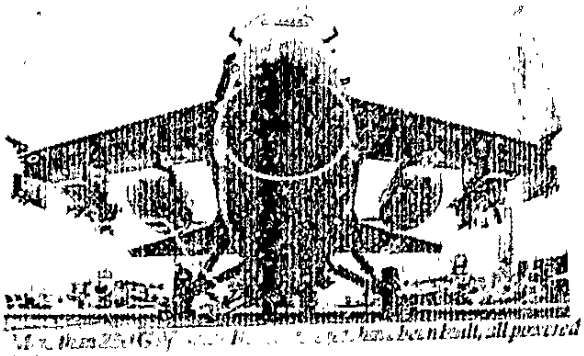


Pan American World Airways will use engines manufactured by Rolls-Royce in 1980 for the first time.

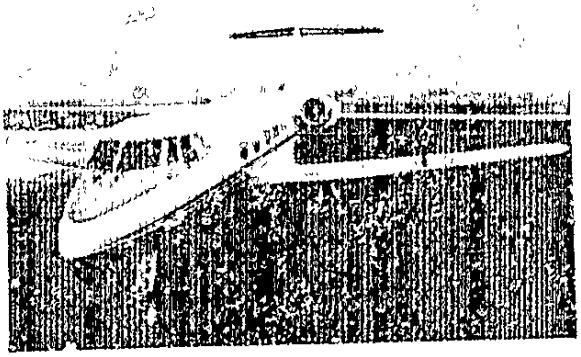
When the first Boeing 757 flies in early 1982 it will be powered by two of the latest derivative RB211 engine, the RB211-535

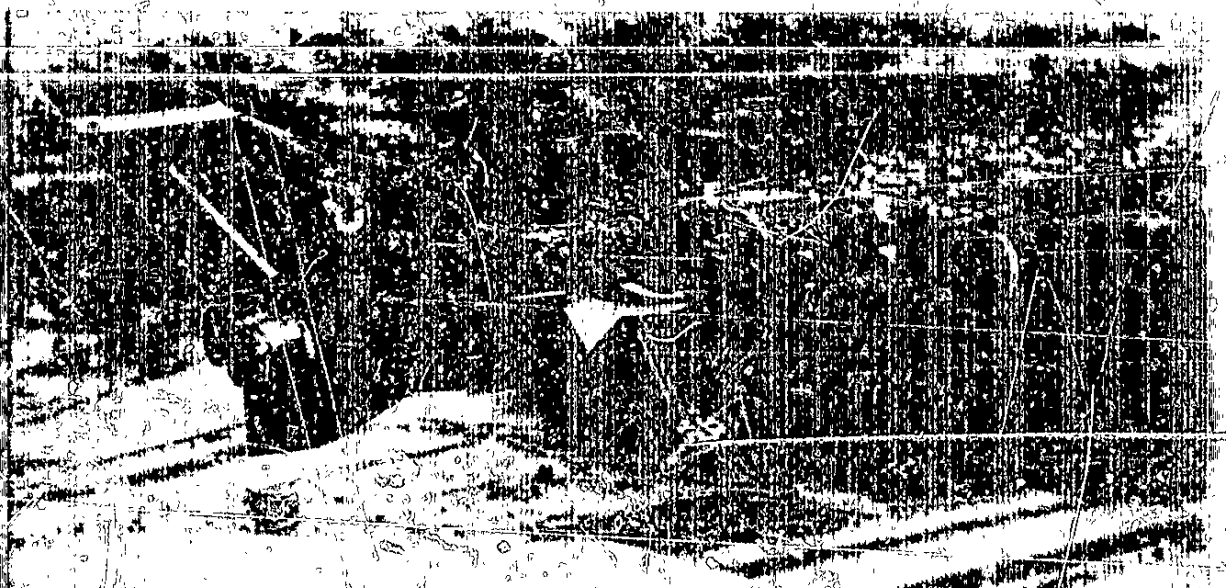


A Vought Corsair II, A-7D and A-7E versions of the Corsair are powered by Spey engines manufactured under licence in the USA.



More than 250 Grumman A-6 Intruders have been built, all powered by Spey engines



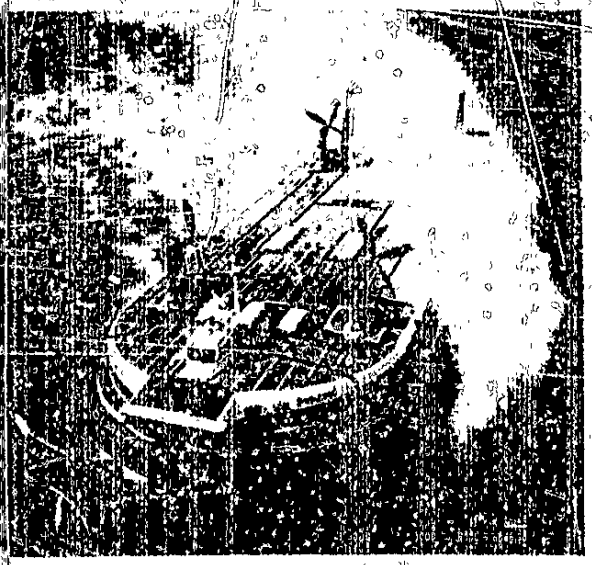


The European Panavia Tornado all-weather combat aircraft [illegible] Mach 2

ORPHEUS
Fiat G.91 strike aircraft
HAL Ajeet lightweight combat and trainer aircraft
HAL Marut fighter
Fiat TF-A trainer aircraft

CONWAY
British Aerospace Victor 2 tanker aircraft
British Aerospace VC10 and Super VC10 airliners
McDonnell Douglas DC-8-40 airliner
Boeing 707-420 airliner

Most [illegible] MCV [illegible] in regular service [illegible] Britain and France [illegible] Super VC10s are powered by [illegible] marine Conway engines



PROTEUS
British Aerospace Britannia airliner
Electrical power generation
Hovercraft propulsion
Marine propulsion

ODIN RAMJET
British Aerospace Sea Dart missile

THOR RAMJET
British Aerospace Bloodhound missile

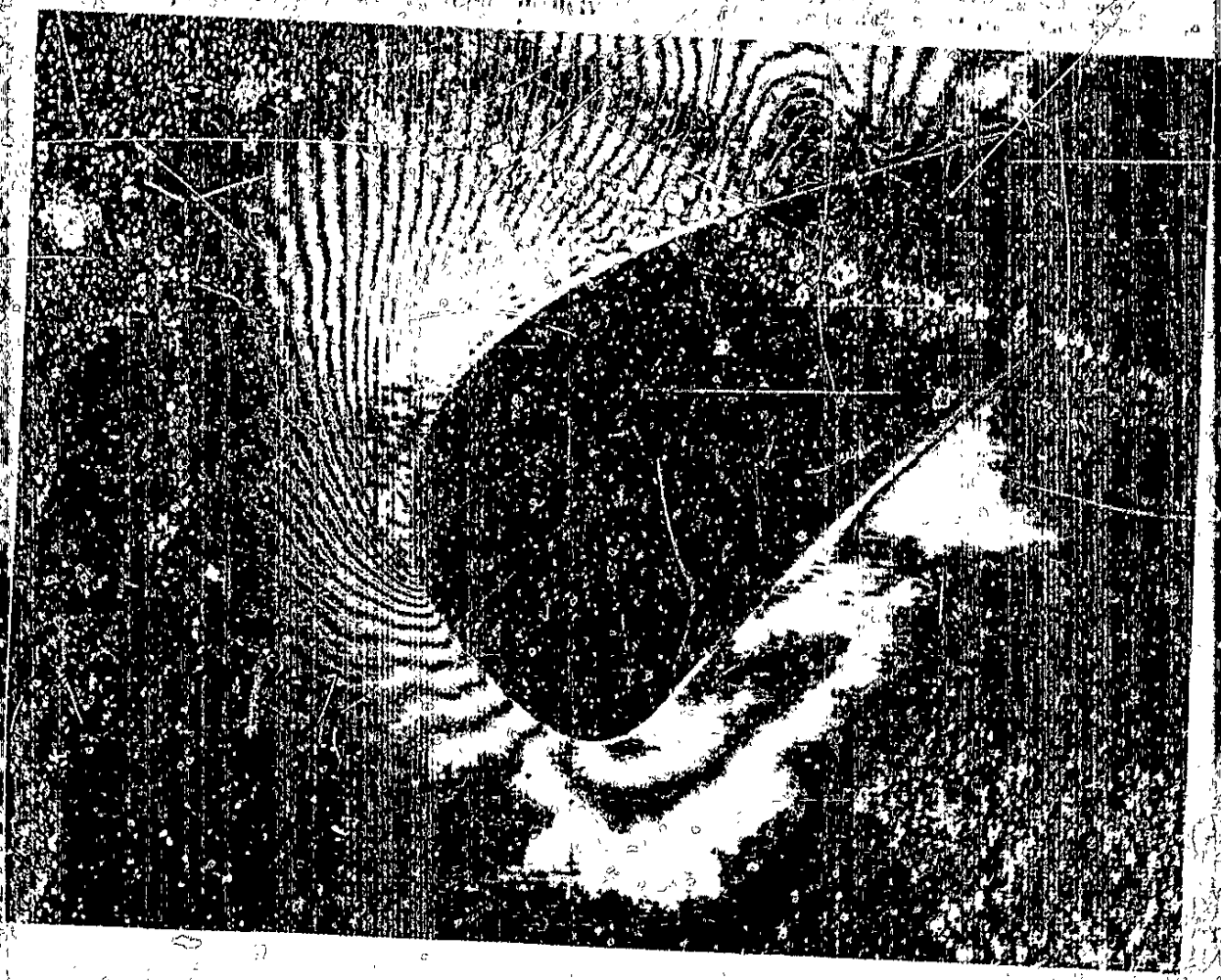
GNOME
Agusta-Bell 204B helicopter
Westland Wessex helicopter
Westland Whirlwind helicopter
Westland Sea King and Commando helicopters
Hovercraft propulsion

GEM
Westland Lynx helicopter
Westland WG 30 helicopter

NIMBUS
Westland Scout helicopter
Westland Wasp helicopter

TURMO (joint manufacture with Turbomeca France)
Aerospatiale/Westland Puma helicopter

ASTAZOU (joint manufacture with Turbomeca France)
Aerospatiale/Westland Gazelle helicopter
[illegible]

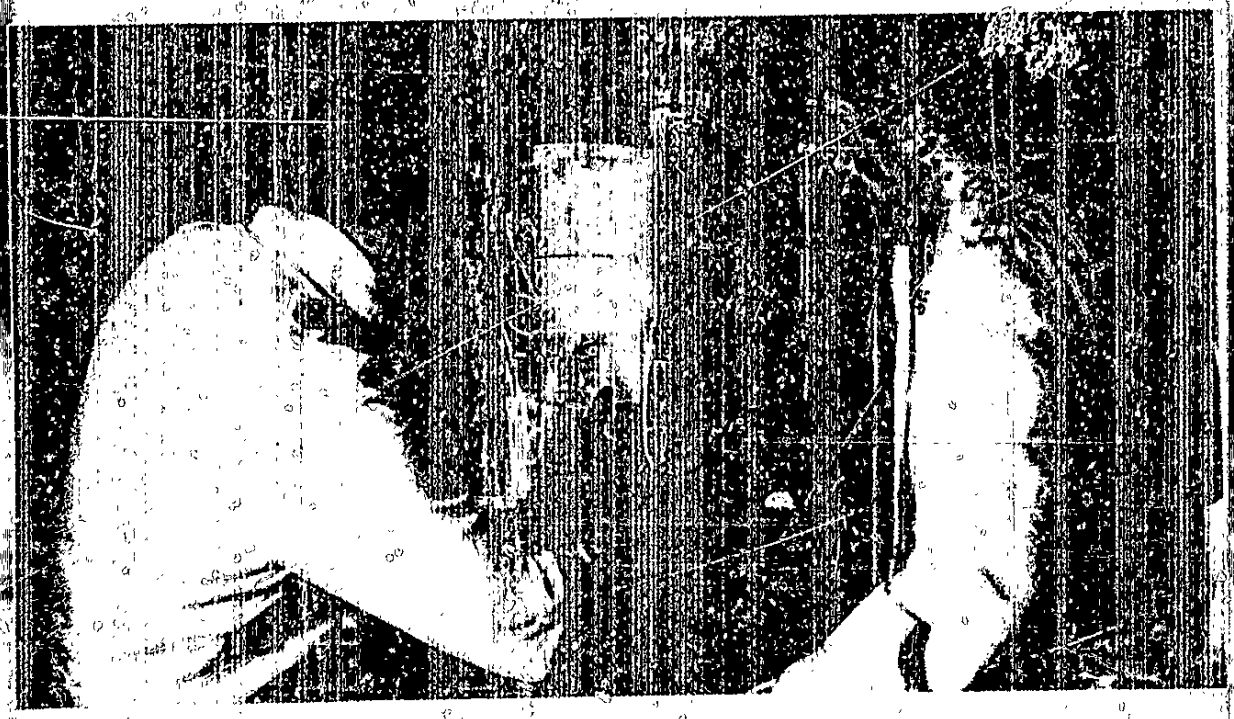


The RB211 [illegible] Trent [illegible] [illegible] and [illegible]

The current competitiveness of the RB211 engine with its significantly better fuel consumption, better reliability, better durability and resistance to ingestion, could not have been achieved without adequate advanced engineering programmes. Our current programmes are aimed at improving these standards still further. With today's high fuel prices, the reduction of fuel consumption is the prime target. We are confident that our current advantage in fuel consumption can be maintained for many years to come.

The remainder of our advanced engineering programmes are aimed at improvements to our other engines, including RB199, Pegasus, Adour and Gem and carrying out the preparatory work to demonstrate the technology standard for the RJ500 which is our collaborative project with three Japanese firms for a highly efficient engine in the 22,000lb thrust class.

[illegible]



Following the success in obtaining substantial civil engine orders in a growing world market, the Company had a rising workload throughout the year and a growing firm order book.

In addition there was a substantial workload arising from our engine development programmes, the most important of these being the RB199, the RB211-524 and the certification programme for the RB211-535.

The Company has increased the number of employees directly concerned with production output, and is bringing into use capital investment aimed at increasing efficiency.

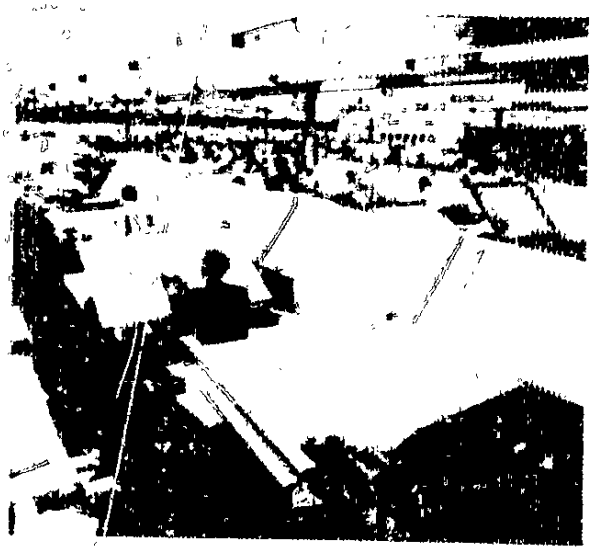
In Sunderland, construction began on an extension which increases the existing factory area by more than 50 per cent. The new facility comes into operation during 1980. Investments in the Scottish factories also lead to an increase there of direct production workers.

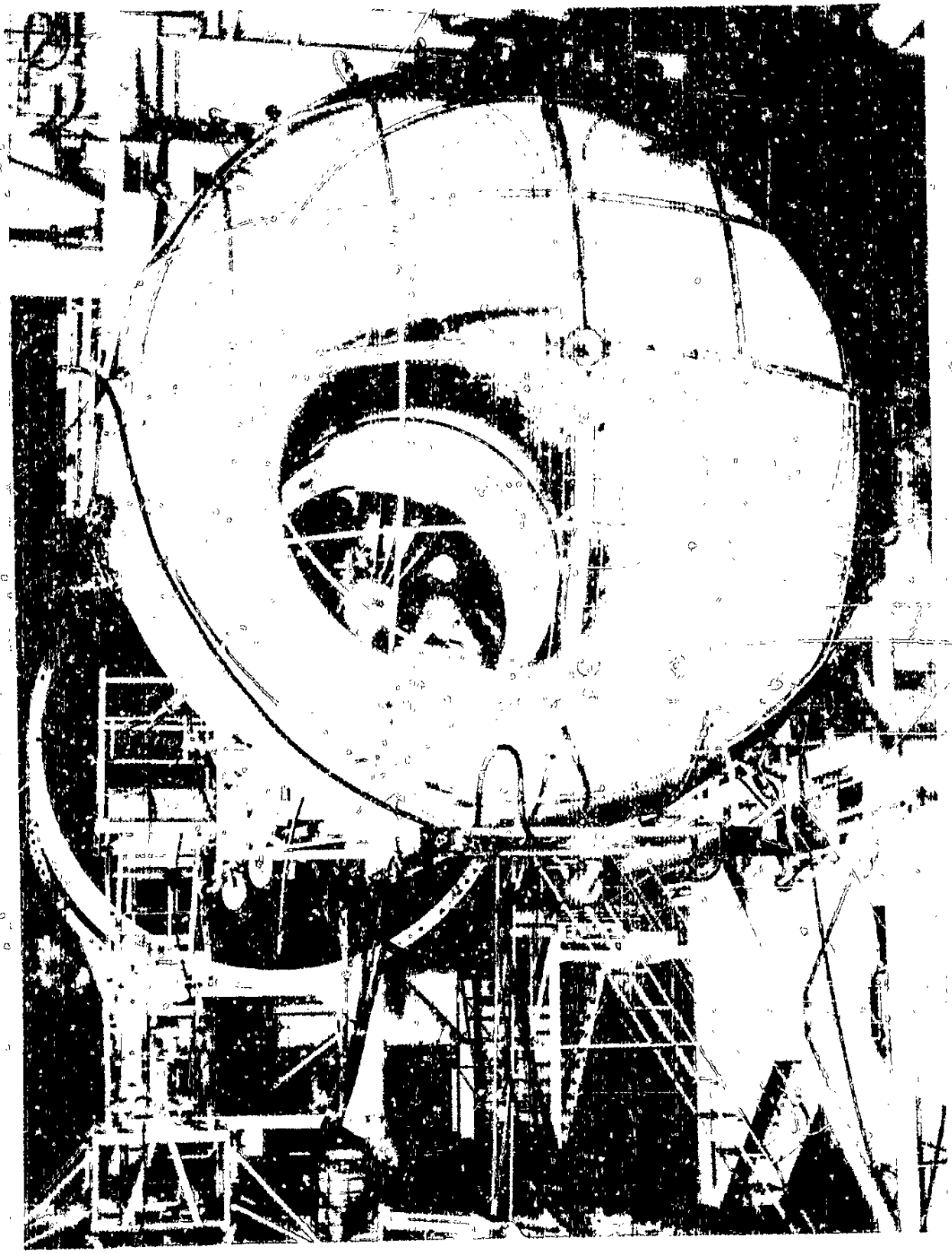
During 1979 the Company announced plans to establish an engineering facility and a machining operation in the US. The engineering facility was opened at the beginning of 1980 in Atlanta, Georgia, and the machining plant in Miami, Florida will be operational at the beginning of 1981.

The national engineering dispute in the autumn of 1979 had a considerable effect on output and led to the complete closure of the factories for three weeks. The recovery of our committed programmes after resumption of work has been good.

In line with the increased workload, negotiations have been successfully concluded with trade union employee representatives on the basis of achieving higher pay through increased productivity. The aim continues to be to improve productivity as our workload increases.

The [illegible] of the engine [illegible] [illegible] important [illegible] world wide [illegible] up to 3 [illegible] of UK employees [illegible] over 1 [illegible] [illegible] years





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 presents 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 £848m (1978 £763m), including direct exports of £343m (1978 £341m).

The loss before taxation was £58.4m (1978 profit £11.7m).

Share capital

During 1979 the Company obtained additional working capital by issuing 31 million shares of £1 each at par to the National Enterprise Board.

On November 28, 1979 the authorised share capital of the Company was increased from £250m to £400m.

When the Industry Bill, currently before Parliament, is enacted the Secretary of State for Industry will be empowered to acquire the shares of the Company from the National Enterprise Board.

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 is in a position to borrow £75m (with an option to convert to dollars) and US$150m of term loans with repayment by equal instalments in the years 1987 through 1990. The majority of bank loans and overdrafts outstanding at the end of 1979 were refinanced by drawings under this loan agreement.

Fixed assets

Expenditure on fixed assets during the year amounted to £[illegible]m (1978 £30m) mainly in respect of machine tools and test facilities at aero engine factories.

The professional valuation of the Company's land and buildings as at December 31, 1975 has been updated to the end of 1979 and suggests a value £70m greater than the figure shown in the accounts.

Employees

The weekly average number of employees working wholly or mainly in the United Kingdom was 57,500 (1978 56,600). Their aggregate remuneration was £310m (1978 £252m). Approximately 2,900 (1978 2,800) were employed overseas.

Donations

No political donations were made in the United Kingdom by the Company or its subsidiaries. Charitable donations amounted to £67,690 (1978 £21,400).

Directors

The directors listed on page 6 were in office throughout 1979, except for the following changes.

Sir Kenneth Keith, now Lord Keith of Castleacre, was Chairman throughout the whole of 1979 and resigned from the Board on January 22, 1980.

Sir Frank McFadzean, who joined the Board on September 3, 1979, was appointed Chairman on January 22, 1980.

Sir Neil Wheeler and Mr Peter Molony were appointed to the Board on October 11 and February 27, 1979 respectively and Mr Raymond Whitfield resigned from the Board on March 25, 1980.

None of the directors of the Company at December 31, 1979 had, during the year, any interests in the shares or debentures of the Company, its fellow subsidiaries or its parent company the National Enterprise Board.

Auditors

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

By order of the Board *John Southam, Secretary*
April 1, 1980

Accounting policies

Basis of consolidation

The accounts are prepared on the historic cost basis.

Turnover

Turnover excludes value added tax and comprises:

(i) Amounts invoiced to customers where production of final prices have been agreed on executed orders, completed contracts, actual deliveries on uncompleted contracts and work done on development contracts.

(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:

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

(ii) 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.

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, at the current rate of corporation tax.

(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 to the Company.

Research and development

Capital expenditure on research laboratories, equipment and plant is written off over a period of 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 royalties 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.

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 20½ years; short-term leases – period of lease; plant and equipment 5–14 years. Depreciation is not provided on the cost of land.

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 current liabilities.

Consolidated profit and loss account

For the year ended December 31, 1979

	Notes	1979 £m	1978 £m
Turnover		847.9	763.0
Profit (loss) before taxation	1	(58.4)	11.7
Taxation	3	2.4	1.7
Profit (loss) after taxation		(60.8)	10.0
Exchange difference on net assets of overseas subsidiary companies		(2.1)	(2.8)
Net profit (loss) retained		(62.9)	7.2
Retained profits and reserves			
Net profit (loss) retained for the year:			
Parent company		(63.9)	7.3
Subsidiary companies		1.0	(0.1)
		(62.9)	7.2
Opening reserves	4	69.4	62.2
Total retained profits and reserves		6.5	69.4

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

at December 31, 1979

Company 1978 £m	Company 1979 £m		Notes	Consolidated 1979 £m	Consolidated 1978 £m
		Net assets employed			
491.9	631.4	Current assets	5	687.1	543.8
261.6	467.8	Current liabilities	6	492.3	288.6
230.3	163.6	**Net current assets**		194.8	255.2
100.3	127.5	Property and plant	7	136.7	108.3
13.7	20.2	Subsidiary companies	8	–	–
344.3	311.3			331.5	363.5
		Financed by			
203.0	234.0	Share capital	9	234.0	203.0
53.0	(11.0)	Retained profits and reserves		6.5	69.4
256.0	223.0			240.5	272.4
88.3	88.3	Loans	10	89.5	89.9
–	–	Minority interests in subsidiary companies		1.5	1.2
344.3	311.3			331.5	363.5

F S McFadzean
P J Molony
Directors

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

	1979 £m	1978 £m
Source of funds		
Profit/(loss) before taxation	(58.4)	[illegible]
Depreciation	19.9	[illegible]
	(38.5)	[illegible]
Issue of shares to the National Enterprise Board	31.0	30.0
	(7.5)	55.1
Application of funds		
Increase (decrease) in net current assets:		
Increase in inventories	190.9	44.6
Increase in progress payments from customers	(43.5)	(35.8)
Increase in accounts receivable	40.9	3.8
Increase in accounts payable and provisions	(128.0)	(55.3)
	60.0	(32.7)
Capital expenditure	49.6	30.3
Other items	2.5	0.2
	112.1	(2.5)
Increase (decrease) in net liquid funds		
Increase (decrease) in cash balances	(44.7)	37.6
Increase in bank loans and overdrafts	(74.9)	-
	(119.6)	37.6

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

1 Profit (loss) before taxation

	1979 £m	1978 £m
The profit (loss) is stated after charging (crediting)		
Current cost of sales and development costs	52.5	73.5
Credit in respect of regional support costs		
income of prior years	(2.1)	(30.8)
Depreciation	19.9	16.4
Hire of plant and equipment	10.5	11.2
Auditors' fees and expenses	0.3	0.3
Interest payable on short term indebtedness	13.5	11.8
Interest payable on loans in terms of five years	4.0	1.9
Interest receivable	(5.0)	(2.9)
Minority interests in subsidiaries	0.4	0.2

2 Emoluments of directors and senior employees

	1979 £	1978 £
The emoluments of directors charged before arriving at the profit (loss) before taxation, were:		
Fees	7,800	7,150
Other emoluments, including pension contributions	343,500	302,300

The emoluments of directors and senior employees working wholly or mainly in the United Kingdom, excluding pension contributions, fell within the ranges below:

Directors £	1979 Number	1978 Number
Nil to 5,000	3	3
5,001 to 10,000	2	1
15,001 to 20,000	1	1
20,001 to 25,000	1	1
25,001 to 30,000	1	1
30,001 to 35,000	2	1
35,001 to 40,000	2	2
40,001 to 45,000	1	–
45,001 to 50,000	1	1
55,001 to 60,000		1
	£	£
Including: Payment to Hill Samuel & Co. Limited representing a contribution towards Sir Kenneth (now Lord) Keith's salary paid to him by that Bank	60,000	49,600

Senior employees £	Number	Number
20,001 to 25,000	26	8
25,001 to 30,000	4	4
30,001 to 35,000	2	–

3 Taxation

	1979 £m	1978 £m
The taxation charge is made up as follows:		
United Kingdom corporation tax	0.7	0.4
Overseas taxation	1.7	1.3
Net charge in consolidated profit and loss account	2.4	1.7

(i) United Kingdom corporation tax has been calculated at 52%.
(ii) The charge for taxation for the year has not been reduced as the net result of accelerated capital allowances, stock appreciation relief and other timing differences (1978 reduction £5.9m).
(iii) No potential deferred taxation liability exists at December 31, 1979. Deferred taxation has been provided by certain overseas subsidiary companies and by a UK company which is not eligible for group relief from the Parent Company.

The deferred taxation position is:

Company 1978 £m	Company 1979 £m		Consolidated 1979 £m	Consolidated 1978 £m
43.3	58.7	Accelerated capital allowances	60.9	45.3
(64.5)	(116.8)	Provisions, reserves	(116.8)	(64.5)
79.3	158.2	Stock appreciation relief	160.9	81.0
(65.1)	(144.0)	Losses and charges carried forward	(145.0)	(65.8)
(7.0)	(43.9)		(40.0)	(4.0)
–	–	Provided in the accounts	2.9	1.9

4. Opening reserves

The opening reserves at December 31, 1978 included a capital reserve of £40.5m. This reserve represented the excess of the book value of the net assets acquired from the Receiver of R–R Realisations Limited over the purchase price. These assets have now been substantially depreciated and the capital reserve is therefore no longer unavailable for distribution.

5 Current assets

Company 1978 £m	Company 1979 £m		Consolidated 1979 £m	Consolidated 1978 £m
		Inventories		
35.3	67.9	Raw materials	70.5	37.2
201.2	317.5	Work in progress	325.7	209.5
178.2	215.7	Finished parts and engines	235.7	194.3
414.7	601.1		631.9	441.0
(125.7)	(170.3)	Progress payments against inventories	(173.4)	(129.6)
289.0	430.8		458.5	311.4
149.8	189.8	Accounts receivable	213.5	172.6
53.1	10.8	Bank balances and deposits	15.1	59.8
491.9	631.4		687.1	543.8
15.0	16.0	Amounts due from overseas customers on deferred terms included in accounts receivable	18.5	18.9

6 Current liabilities

Company 1978 £m	Company 1979 £m		Consolidated 1979 £m	Consolidated 1978 £m
261.6	389.8	Accounts payable and provisions	409.5	281.5
–	78.0	Bank loans and overdrafts	79.1	4.2
–	–	Taxation	3.7	2.9
261.6	467.8		492.3	288.6

7 Property and plant

	Land and buildings				
	Freehold £m	Long lease £m	Short lease £m	Plant and equipment £m	**Total £m**
Consolidated					
Original cost:					
At January 1, 1979	39.8	3.9	2.6	236.3	**282.6**
Exchange adjustments	(0.2)	–	–	(0.4)	**(0.6)**
Additions	2.5	0.4	0.3	46.4	**49.6**
Disposals etc.	0.7	(1.4)	(0.7)	(2.4)	**(3.8)**
At December 31, 1979	42.8	2.9	2.2	279.9	**327.8**
Accumulated depreciation:					
At January 1, 1979	22.4	2.4	1.6	147.9	**174.3**
Exchange adjustments	(0.1)	–	–	(0.4)	**(0.5)**
Provided during year	1.3	0.2	0.1	18.3	**19.9**
Disposals etc.	0.7	(0.5)	(0.7)	(2.1)	**(2.6)**
At December 31, 1979	24.3	2.1	1.0	163.7	**191.1**
Net book value at December 31, 1979	18.5	0.8	1.2	116.2	**136.7**
Company					
Original cost:					
At January 1, 1979	33.9	2.2	2.5	223.9	**262.5**
Additions	2.4	0.1	0.3	44.5	**47.3**
Disposals etc.	0.7	(1.3)	(0.7)	(2.4)	**(3.7)**
At December 31, 1979	37.0	1.0	2.1	266.0	**306.1**
Accumulated depreciation:					
At January 1, 1979	20.0	1.1	1.6	139.5	**162.2**
Provided during year	1.2	0.1	0.1	17.5	**18.9**
Disposals, etc.	0.7	(0.5)	(0.7)	(2.0)	**(2.5)**
At December 31, 1979	21.9	0.7	1.0	155.0	**178.6**
Net book value at December 31, 1979	15.1	0.3	1.1	111.0	**127.5**

Property and plant acquired from R-R Realisations Limited is included at the original cost shown in the books of that company.

The original cost of assets now fully written off, but still in use, amounts to £111m (1978 £100m).

8 Subsidiary companies

	Company 1979 £m	1978 £m
Shares, less amounts written off	18.9	4.2
Amounts owing from subsidiaries	13.5	16.6
Amounts owing to subsidiaries	(12.2)	(7.1)
	20.2	13.7

Investments in subsidiary companies are 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 severe restrictions imposed by lenders. Consequently, 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:

	1979 £m	1978 £m
a) Net assets at December 31	3.5	3.5
b) The net aggregate amount attributable to Rolls-Royce Limited of profits less losses:		
(i) net profit for the year	nil	nil
(ii) accumulated profits	nil	nil
c) Amounts owing to Parent Company	1.6	–
d) Amounts due from:		
Fellow subsidiary	5.1	–
Parent company	–	3.5

9 Share Capital

	Consolidated and Company 1979 £m	1978 £m
Authorised at beginning of year	250.0	250.0
Increase on November 28, 1979	150.0	–
Authorised at end of year	400.0	250.0
Issued:		
At beginning of year		
203 million ordinary shares of £1 each fully paid	203.0	196.0
Further issue during 1979		
31 million ordinary shares of £1 each fully paid	31.0	7.0
At end of year	234.0	203.0

The Company is a wholly owned subsidiary of the National Enterprise Board, which is incorporated in Great Britain.

10 Loans

Company 1978 £m	Company 1979 £m		Consolidated 1979 £m	Consolidated 1978 £m
		Unsecured		
62.0	62.0	National Enterprise Board repayable 1980–83	62.0	62.0
25.0	25.0	Bank loans repayable 1985	25.0	25.0
87.0	87.0		87.0	87.0
		Secured:		
1.3	1.3	Loans repayable up to 1998, with interest rates 7½%–10%	2.4	2.4
–	–	Others	0.1	0.5
1.3	1.3		2.5	2.9
88.3	88.3		89.5	89.9

Arrangements are presently being made to refinance loans repayable to the National Enterprise Board in 1980, included above, amounting to £33m.

11 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*
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:	
Coberrow Limited (100% B shares)	23
Rolls-Royce Turbomeca Limited (100% B shares)	50
Turbo-Union Limited (40% ordinary shares 37.5% A shares)	40
Incorporated overseas:	
Arab British Engine Company	30
Cooper Rolls Inc.	50

The results of associated companies are not consolidated in these accounts except to the extent of dividends received, as neither the results, nor the net assets concerned, are 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 the future pensions, including amounts based upon past service, over the period of employment.

13 Future capital expenditure

Company 1978 £m	Company 1979 £m		Consolidated 1979 £m	Consolidated 1978 £m
47.5	56.5	Capital expenditure authorised but not spent at end of year	58.3	43.2
23.8	37.7	of which there has been committed	39.2	23.8

14 Contingent liabilities

Company 1978 £m	Company 1979 £m		Consolidated 1979 £m	Consolidated 1978 £m
6.6	6.5	Guarantees, customs bonds and other matters estimated at	8.0	7.0

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.

Report of the auditors

To the members of Rolls-Royce Limited

In our opinion the accounts set out on Pages 19 to 29 give a true and fair view of the state of affairs at December 31, 1979 and of the loss and source and application of funds for the year ended on that date, according to the historical cost convention, and comply with the Companies Acts 1948 and 1967.

Coopers & Lybrand
Chartered Accountants

London
April 1, 1980

Notice is hereby given that the ninth annual general meeting of Rolls-Royce Limited will be held at 65 Buckingham Gate on Wednesday, May 28, 1980, 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, 1979.

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*

John Southam, Secretary
May 2, 1980

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.

Crown Way Cardiff CF14 3UZ
www.companieshouse.gov.uk

NOTICE OF ILLEGIBLE DOCUMENTS

Companies House regrets that documents in this company's microfiche record have pages which are illegible.

This has been noted but unfortunately steps taken to rectify this were unsuccessful.

Companies House would like to apologise for any inconvenience this may cause.