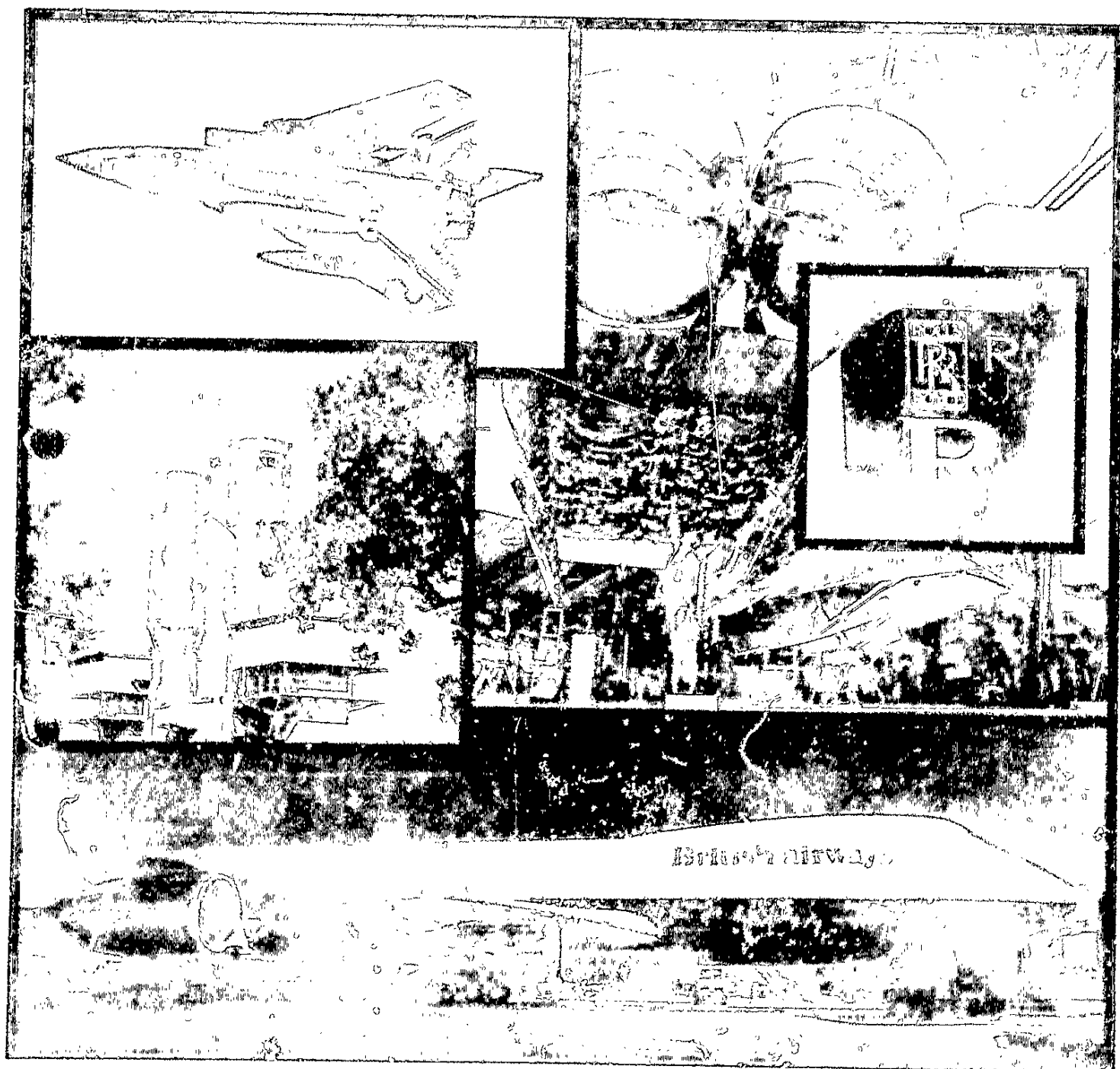
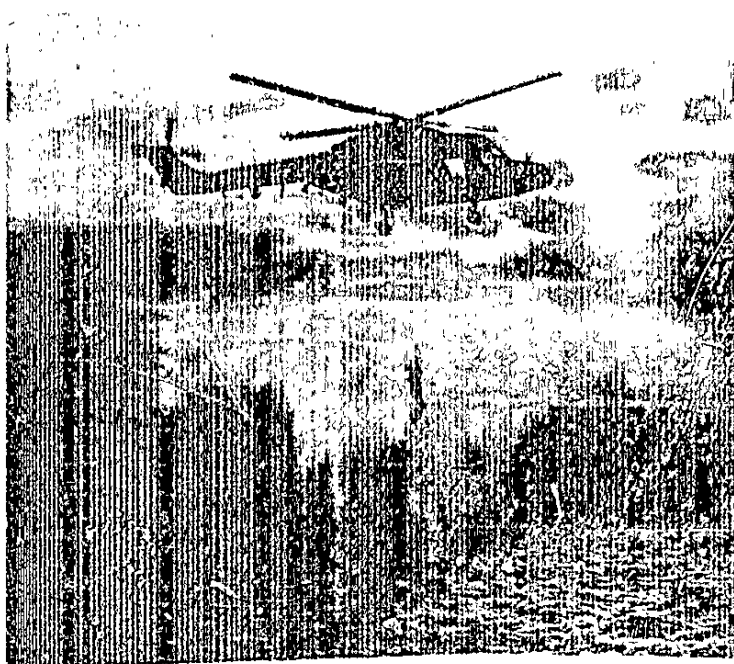
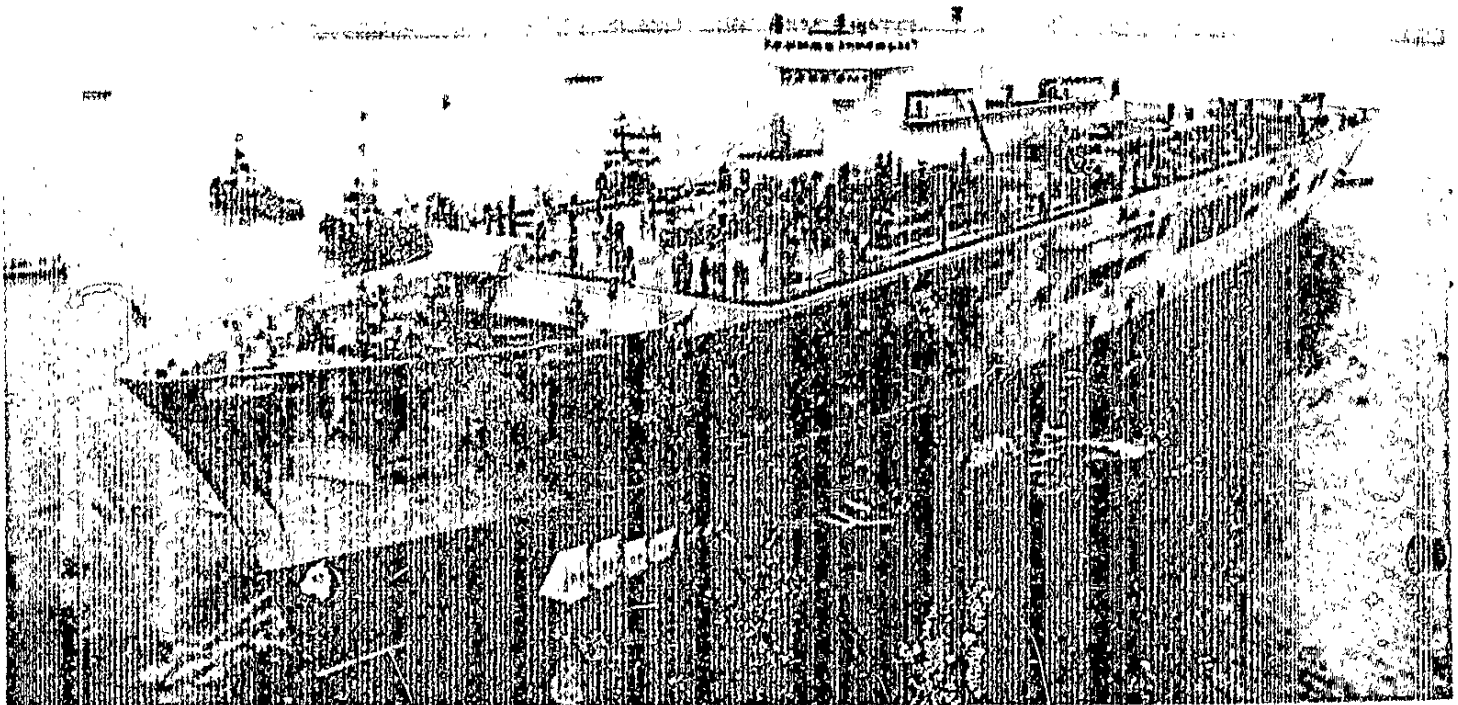
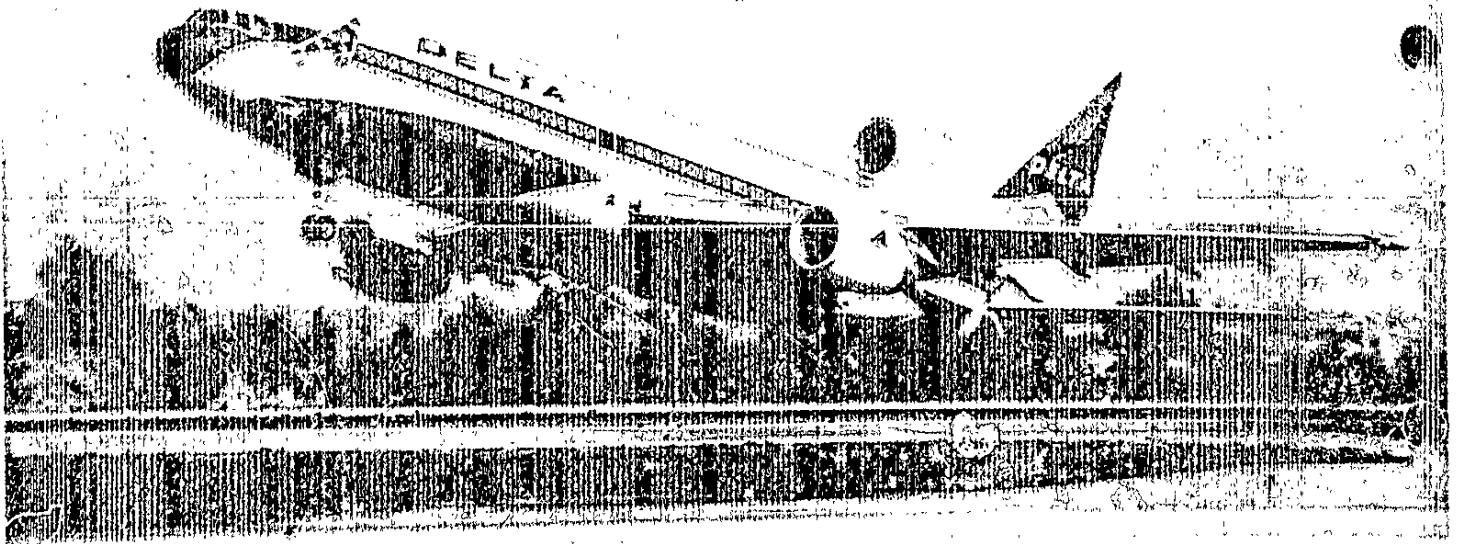


# Rolls-Royce Limited Annual Report 1977

1977/78







**Top** Delta Air Lines, which has a large fleet of RB211-22B powered medium-range Lockheed TriStars, recently became the first US airline to order the RB211-524 powered long-range TriStar-500.

**Middle** Launch of the Royal Navy's first anti-submarine cruiser, HMS Invincible, powered by four RB15-R5, a Marine Olympus engine, Puma, Sea Harriers, Sea King Helicopters and Sea Dart missiles are all Rolls-Royce powered.

**Left** A Gem-powered search and rescue Lynx helicopter of the Royal Netherlands Navy.

# Rolls-Royce Limited

---



## Contents

---

	Page
Notice of annual general meeting	2
Board of directors	3
Statement by the chairman	4
Report of the directors	5
Report of the auditors	7
Consolidated profit and loss account	8
Consolidated balance sheet	9
Parent company balance sheet	10
Consolidated funds flow	11
Accounting policies	12
Notes to the accounts	14
Value added statement	20

# Rolls-Royce Limited

---



## Notice of Annual General Meeting

---

Notice is hereby given that the seventh Annual General Meeting of Rolls-Royce Limited will be held at 65 Buckingham Gate on Thursday the 18th day of May 1978 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 31st December 1977.
- 2 To re-appoint Coopers & Lybrand, the retiring auditors, and to authorise the directors to fix their remuneration.

By order of the Board  
H. E. Trevan-Hawks, Secretary  
21st April 1978.

65 Buckingham Gate  
London SW1E 6AT

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**

---

### **Board of Directors**

---

<b>Chairman</b>	Sir Kenneth Keith
<b>Vice-Chairmen</b>	Donald Pepper Marshal of the Royal Air Force Sir Denis Spotswood, GCB, CBE, DSO, DFC
<b>Directors</b>	Sir George Burton, CBE Sir St John Elstob, CBE John Gardner Dennis Head Samuel Higginbottom Sir Arthur Knight Ashley Raeburn, CBE Sir Peter Thornton, KCB Raymond Whitfield

---

<b>Secretary</b>	H. E. Trevan-Hawke
<b>Registered Office</b>	65 Buckingham Gate London SW1E 6AT
<b>Auditors</b>	Coopers & Lybrand Abacus House, Cutler Lane Cheapside, London EC2V 8AH
<b>Bankers</b>	National Westminster Bank Limited 15 Bishopsgate, London EC2P 2AP
<b>Solicitors</b>	Freshfields Grindall House, 25 Newgate Street London EC1A 7LH



## Statement by the Chairman

The Company's trading position improved in 1977 although the results still reflect the slow increase in passenger and freight traffic throughout World Carriers and the consequent reluctance of the airlines to order new wide body aircraft in any quantity, preferring to order aircraft similar to those already in their fleets. However, airline traffic did build up to some degree in 1977 and most airlines are again showing more profitable business results. 1978 promises to be the year in which airlines start to order replacements for their present fleets and to enlarge their capacity to handle the likely increase in traffic in the early eighties. RR are well placed to get a share of this work. The RB211-22, of which over 550 have now been delivered, has a steadily improving in-service record and the -524, which went into service last summer with British Airways in the 747 and Saudi Airlines in the 1011, is performing well up to expectations. Development of this engine along the lines of increased thrust and decreased fuel consumption is proceeding to plan and will enable the engine to continue to be fully competitive against the GE CF-6 and P & W JT9 families for the developments of the present wide body fleets under consideration.

Much discussion had taken place in 1977 on the new aircraft designs likely to be needed to match the airline requirements from the early eighties onwards. No design as yet is finalised although Boeing with their 757 and 767 models are near a launch date. RR are continuing with the design and development of the intermediate engine referred to in the last Annual Report (now designated RB211-535) with the aim of it being chosen as the lead power plant for the 757 and a version of the RB211-22 would be suitable for the 767.

All this work is reflected in continuing high Research and Development charges, which amounted to £63m in the year.

While civil engines represent about 60% of the total Aero Engine Division activity, military engines are also of vital importance to the Company. Orders for the RB199 which powers the Anglo-German-Italian Tornado aircraft were raised to over 400 during the year. The first export order for the Hawk powered by the Adour (more than 1,300 of which engines have now been delivered) was obtained from the Finnish Government and a contract was signed with the Arab Organization for Industrialization, to build the Gem engine for the Lynx helicopter under licence in Egypt.

The Industrial and Marine Division continues to expand. During the year the UK Ministry of Defence has awarded Rolls-Royce a full development contract for the SM 1A, a new 15,000 HP marine gas turbine based upon the Industrial Spey which is already in service. Development of a 50 MW gas turbine generating set based on the Olympus engine used in the Concorde was also authorised. Generating sets using this engine should be available in the early eighties and should meet the need for equipment of substantially higher power rating than at present available.

1977 was the end of Stage 2 and the start of Stage 3 of the Government's incomes policy. There has been general understanding by our employees that the restrictions are unavoidable, and there have been no major pay disputes. However, the successive policies have progressively eroded the Company's ability to maintain proper pay differentials. For the future, we must look to the Government to minimise inflation, including expectations which are themselves inflationary, whilst achieving the maximum scope for the reward of skill, responsibility and effort. This is vital for a company such as Rolls-Royce operating in an international high-technology market.

While the overall picture shows some improvement, sales are still likely to remain relatively depressed in the important civil engine area for the next two years, but the improvements in airline traffic point to a considerable increase in demand for new equipment from the early eighties onwards and RR are in a position to obtain a good share of the resulting orders.

Kenneth Keith

## **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. The other subsidiaries are mainly concerned with providing sales and service support for the Company's products in overseas countries.

### **Results for the Year**

Turnover for the year was £704m (1976 £620m) of which £318m (1976 £276m) represented exports from the United Kingdom, including direct exports of £285m (1976 £235m).

The Company earned a profit before tax of £16.6m (1976 loss £21.9m) after writing off research and development expenditure of £63.3m (1976 £57.2m) and a net profit after tax and after minority interests of £14.7m (1976 loss £24.2m). All of this has been retained in the business.

Cash inflow from the year's operations was £9.8m (1976 outflow £75.9m).

### **Inflation Accounting**

The accounts have not been adjusted for inflation but any such adjustment would significantly reduce the Company's profitability as shown by these Accounts, which are prepared on the basis of historic costs.

### **The National Enterprise Board**

During 1977 the National Enterprise Board provided the Company with additional working capital of £30m, involving the issue of 21m shares of £1 each at par and five year loans of £9m.

### **Fixed Assets**

There were no material changes in the Company's fixed assets in 1977.

The professional valuation of the Company's land and buildings as at 31st December 1975 has been reviewed and amended at the end of 1977 and shows a value of approximately £65m, compared with the £14m shown in the accounts.

### **Employees**

The total number of employees at 31st December 1977 was 59,216 (1976 60,985), 56,646 (1976 58,539) working wholly or mainly in the United Kingdom and 2,570 (1976 2,446) overseas.

The weekly average number of persons employed by the Company and its subsidiaries working wholly or mainly in the United Kingdom was 57,071 (1976 59,758). Their aggregate remuneration was £221.8m (1976 £217.5m).

### **Donations**

No donations of a political nature were made by the Company or its subsidiaries in the United Kingdom. Charitable donations amounted to £15,768 (1976 £20,772).



## **Report of the Directors continued**

---

### **Directors**

The directors listed on page 3 were in office throughout 1977 except Sir Peter Thornton, appointed 1st October 1977, Mr Ashley Raeburn, appointed 1st January 1978 and Mr Samuel Higginbottom, appointed 14th March 1978.

None of the directors of the Company at 31st December 1977 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 general meeting.

By order of the Board

**H. E. Trevan-Hawke, Secretary**  
30th March 1978.

## **Rolls-Royce Limited**

---

## **Report of the Auditors**

---

To the Members of Rolls-Royce Limited

In our opinion the accounts set out on pages 8 to 19 give a true and fair view of the state of the Company's affairs at 31st December 1977 and of its profit 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.

London  
3rd April 1978

**Coopers & Lybrand**  
Chartered Accountants



# Consolidated Profit and Loss Account

for the year ended 31st December 1977

	Notes	1977 £m	1976 £m
<b>Turnover</b>		703.9	620.2
<b>Profit/(Loss) before Taxation</b>	1	15.6	(21.9)
<b>Taxation</b>	3	(1.7)	(2.1)
<b>Profit/(Loss) after Taxation</b>		14.9	(24.0)
<b>Minority Interests in Subsidiary Companies</b>		(0.2)	(0.2)
<b>Net Profit/(Loss) Retained</b>		14.7	(24.2)

## Retained Profits and Reserves

		1977 £m	1976 £m
<b>Retained Profits</b>			
At 1st January – as previously reported		—	29.3
– as restated		7.0	—
Deferred taxation adjustment	3	—	1.9
		7.0	31.2
<b>Profit/(Loss) for year</b>		14.9	(29.3)
Parent Company		(0.2)	5.1
Subsidiary Companies		14.7	(24.2)
		21.7	7.0
<b>Capital Reserve (Parent and Consolidated)</b>			
At 1st January – as previously reported		—	9.4
– as restated		40.5	—
Deferred taxation adjustment	3	—	31.1
		40.5	40.5
<b>Total Retained Profits and Reserves</b>		62.2	47.5

The notes on pages 12 to 19 form part of these accounts  
The auditors' report is on page 7

# Consolidated Balance Sheet

at 31st December 1977

	Notes	1977 £m	1976 £m
<b>Net Assets Employed</b>			
Current Assets	4	483.6	466.2
Current Liabilities	5	179.9	202.6
		<u>303.7</u>	<u>263.6</u>
Net Current Assets	6	96.9	96.3
Property and Plant		<u>400.6</u>	<u>359.9</u>
	7	52.6	56.7
Deferred Liabilities		<u>348.0</u>	<u>303.2</u>
 <b>Financed by</b>			
Share Capital	8	196.0	175.0
Retained Profits and Reserves		62.2	47.5
		<u>258.2</u>	<u>222.5</u>
Loans and Other Funding	9	88.7	79.7
Minority Interests in Subsidiary Companies		1.1	1.0
		<u>348.0</u>	<u>303.2</u>

The notes on pages 12 to 19 form part of these accounts  
The auditors' report is on page 7



# Parent Company Balance Sheet

at 31st December 1977

	Notes	1977 £m	1976 £m
<b>Net Assets Employed</b>			
Current Assets	4	436.5	416.4
Current Liabilities	5	157.2	175.8
		<u>279.3</u>	<u>240.6</u>
Net Current Assets			
Property and Plant	6	87.1	86.2
Subsidiary Companies	11	11.5	10.6
		<u>377.9</u>	<u>337.4</u>
Deferred Liabilities	7	50.6	55.0
		<u>327.3</u>	<u>282.4</u>
<b>Financed by</b>			
Share Capital	8	196.0	175.0
Retained Profits and Reserves		45.7	30.8
		<u>241.7</u>	<u>205.8</u>
Loans and Other Funding	9	85.6	76.6
		<u>327.3</u>	<u>282.4</u>

Kenneth Keith } Directors  
John Gardner }

*James L. ...*  
*John Gardner*

The notes on pages 12 to 19 form part of these accounts  
The auditors' report is on page 7

## **Consolidated Funds Flow**

	1977 £m	1976 £m
<b>Source of Funds</b>		
Profit/(Loss) before taxation	16.6	(21.9)
Depreciation	16.3	15.9
Tax repayment	—	9.3
	<u>32.9</u>	<u>3.3</u>
<b>Application of Funds</b>		
Capital expenditure	18.7	23.4
Taxation payments	1.8	1.9
Increase/(decrease) in net current assets (see note below)	(0.4)	55.8
Other items	3.0	(1.9)
	<u>23.1</u>	<u>79.2</u>
<b>Net Cash Inflow/(Outflow) from Operations</b>	<u>9.8</u>	<u>(75.9)</u>
<b>Capital Funds from the National Enterprise Board</b>		
Shares	21.0	38.0
Loans	9.0	17.0
	<u>30.0</u>	<u>55.0</u>
<b>Increase/(Decrease) in Group Cash</b>	<u>29.8</u>	<u>(20.9)</u>

**Note**

The increase/(decrease) in net current assets, as shown below, excludes movements in Group cash and current taxation.

	1977 £m	1976 £m
Increase in Inventories	3.3	53.0
(Increase)/decrease in Progress Payments from Customers	3.3	(13.3)
Increase/(decrease) in Accounts Receivable	(7.0)	11.4
Decrease in Accounts Payable	—	4.7
	<u>(0.4)</u>	<u>55.8</u>

The notes on pages 12 to 19 form part of these accounts  
The auditors report is on page 7



## Accounting Policies

The accounts are prepared on the historic cost basis.

### Basis of Consolidation

The Consolidated Profit and Loss Account and the Consolidated Balance Sheet incorporate the accounts of the Company and its subsidiaries after eliminating unrealised profits on intra-group sales and minority interests.

The results of associated companies are not included except to the extent of dividends received, as neither the results, nor the net assets concerned, are material.

### Turnover

Turnover comprises:

- (i) Amounts invoiced to customers (excluding Value Added Tax) where provisional or final prices have been agreed on executed orders, completed contracts, actual deliveries on uncompleted contracts and work done on development contracts.
- (ii) Conservatively 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 and the net loss on exchange deducted from profit on consolidation.
- (ii) Assets and liabilities at the exchange rates ruling at the year end.
- (iii) The effect of changes in exchange rates during the year on the opening assets and liabilities of overseas subsidiary companies is shown in note 1.

### 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.

This constitutes a change from the accounting policy in previous years when full provision for deferred tax was made. The comparative figures for 1976 have been restated on the basis of the new policy (see note 3).

- (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.

## **Accounting Policies continued**

---

### **Research and Development**

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

Her Majesty's Government bears, or makes contributions by way of launching aid 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 for reducing 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 a straight line basis related to the estimated life of the fixed assets and the original cost to the Company or its predecessor.

### **Provisions**

Provisions are made, on the basis of information at present available, for all anticipated future losses on current contracts and projects, and for bad and doubtful debts.

### **Warranties and Guarantees**

Provision is made for likely future expenditure on warranties and guarantees related to sales up to the year end. The sum set aside for this purpose is included under Deferred Liabilities.





## Notes to the Accounts

### 1 Profit/(Loss) before Taxation

The profit/(loss) is arrived at after charging (crediting):

	1977 £m	1976 £m
Research and development	32.1	26.0
RB211 family	24.2	24.6
Other aero projects	7.0	6.6
Industrial applications	63.3	57.2
Depreciation	16.3	15.9
Hire of plant and machinery	9.2	7.3
Audit fees and expenses (1977 £327,000 1976 £278,000)	0.3	0.3
Emoluments of directors (Note 2)	0.2	0.2
Interest payable on short-term indebtedness	12.9	12.2
Interest payable on loans in excess of five years	0.8	0.4
Interest receivable	(2.8)	(3.2)
Provisions established in prior years no longer required	(14.2)	—
Special tooling write-off	5.6	—
Exchange loss/(gain) on opening net assets of overseas subsidiaries	3.9	(3.1)

### 2 Directors' and Senior Employees' Emoluments

The emoluments of directors, charged before arriving at the profit/(loss) before taxation, were:

	1977 £	1976 £
Fees	5,500	4,086
Management, including pension contributions	196,480	234,506

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

Directors	Tax £	Net Income £	Number	
			1977	1976
£	£	£		
Nil to 2,500	400	2,100	5	4
7,501 to 10,000	3,200	6,800	—	1
10,001 to 12,500	4,600	7,900	—	1
15,001 to 17,500	7,900	9,600	—	1
17,501 to 20,000	9,700	10,300	—	3
25,001 to 27,500	15,800	11,700	3	2
30,001 to 32,500	19,900	12,600	—	—
35,001 to 37,500	24,100	13,400	2	—
Including			£	£
Chairman			36,099	31,150
Highest paid director				
Senior Employees			Number	
£				
10,001 to 12,500	4,600	7,900	65	28
12,501 to 15,000	6,100	8,900	31	17
15,001 to 17,500	7,900	9,600	12	15
17,501 to 20,000	9,700	10,300	3	5
20,001 to 22,500	11,600	10,900	2	1
25,001 to 27,500	15,800	11,700	2	—

Net income is based upon United Kingdom tax payable at the upper limit of each range at the 1977/78 tax rates and assumes that the recipient is a married man without children and with no other source of income or reliefs.

## Notes to the Accounts continued

	1977 £m	1976 £m
<b>3 Taxation</b>		
The tax charge is made up as follows:		
United Kingdom Corporation Tax:	0.3	—
Current year	1.4	2.1
Overseas Taxation	<u>1.7</u>	<u>2.1</u>
Net charge in Consolidated Profit and Loss Account		

- (i) A United Kingdom Corporation Tax rate of 52% has been used for 1977.
- (ii) No provision for deferred taxation has been made to the extent that there is a reasonable probability that no liability for tax will arise in the foreseeable future due to losses for taxation purposes carried forward and future investment plans.
- (iii) The comparative figures for 1976 have been restated to reflect the change in accounting policy stated in (ii) above and £33.0 million has been released from the deferred tax provision existing at 1st January 1976. Of this amount, £31.1 million was originally established by transfer from capital reserve and has been credited thereto and £1.9 million has been transferred to retained profits.
- (iv) Deferred taxation is set out in note 16.

	Parent		Consolidated	
	1977 £m	1976 £m	1977 £m	1976 £m
<b>4 Current Assets</b>				
Inventories	372.9	368.1	396.4	393.1
Progress Payments against Inventories	(89.6)	(95.4)	(93.8)	(97.1)
Accounts Receivable	136.4	143.1	158.8	165.8
Bank Balances and Deposits	16.8	0.6	22.2	4.4
	<u>436.5</u>	<u>416.4</u>	<u>483.6</u>	<u>466.2</u>
Inventories are analysed thus:				
Raw Material	31.1	38.7	33.2	40.9
Work in Progress	188.9	169.4	194.2	173.8
Finished Parts and Engines	150.1	149.7	165.1	166.3
Miscellaneous	2.8	10.3	3.9	12.1
	<u>372.9</u>	<u>368.1</u>	<u>396.4</u>	<u>393.1</u>
Amounts due from overseas customers on deferred terms included in Accounts Receivable	<u>13.5</u>	<u>9.5</u>	<u>18.5</u>	<u>13.3</u>

	£m	£m	£m	£m
<b>5 Current Liabilities</b>				
Accounts Payable and Provisions	157.2	157.5	175.2	175.2
Bank Loans and Overdrafts	—	18.3	4.2	26.2
Taxation	—	—	0.5	1.2
	<u>157.2</u>	<u>175.8</u>	<u>179.9</u>	<u>202.6</u>

## Notes to the Accounts continued

	Land and Buildings Freehold £m	Long Lease £m	Short Lease £m	Plant and Equipment £m	1977 Total £m
<b>6 Property and Plant</b>					
<b>Consolidated</b>					
Original cost:	36.2	3.6	2.3	211.9	254.0
At 1st January	(1.0)	—	—	(2.6)	(3.6)
Exchange Adjustments	1.8	0.3	0.3	16.3	18.7
Additions	—	—	—	(3.6)	(3.6)
Disposals	—	—	—	—	—
At 31st December	37.0	3.9	2.6	222.0	265.5
Accumulated depreciation:					
At 1st January	20.7	2.0	1.5	133.5	157.7
Exchange Adjustments	(0.5)	—	—	(1.5)	(2.0)
Provided during year	1.1	0.2	0.2	14.8	16.3
Disposals	—	—	—	(3.4)	(3.4)
At 31st December	21.3	2.2	1.7	143.4	168.6
Net book value at 31st December	15.7	1.7	0.9	78.6	96.9
<b>Parent</b>					
Original cost:	30.0	2.2	2.2	195.1	229.5
At 1st January	0.7	—	0.3	15.3	16.3
Additions	—	—	—	(3.7)	(3.7)
Disposals	—	—	—	—	—
At 31st December	30.7	2.2	2.5	206.7	242.1
Accumulated depreciation:					
At 1st January	17.8	0.9	1.5	123.1	143.3
Provided during year	1.0	0.1	0.2	13.8	15.1
Disposals	—	—	—	(3.4)	(3.4)
At 31st December	18.8	1.0	1.7	133.5	155.0
Net book value at 31st December	11.9	1.2	0.8	73.2	87.1

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 £95m (1976 £82m). Transfer of all legal titles to the properties acquired from R-R Realisations Limited will be completed during 1978.

**Notes to the Accounts** continued

	Parent		Consolidated	
	1977 £m	1976 £m	1977 £m	1976 £m
<b>7 Deferred Liabilities</b>				
Deferred Taxation	—	—	1.6	1.0
Other Deferred Liabilities	50.6	55.0	51.0	55.7
	<u>50.6</u>	<u>55.0</u>	<u>52.6</u>	<u>56.7</u>

Other deferred liabilities include provisions in respect of future expenditure on warranties and guarantees.

	Parent and Consolidated	
	1977 £m	1976 £m
<b>8 Share Capital</b>		
Authorised at 1st January	200.0	150.0
Increase by Ordinary Resolution on 17th May 1977	50.0	50.0
	<u>250.0</u>	<u>200.0</u>
Authorised at 31st December		
Issued at 1st January	175.0	137.0
175 million Ordinary Shares of £1 each fully paid		
Further issues during 1977	21.0	38.0
21 million Ordinary Shares of £1 each fully paid		
	<u>196.0</u>	<u>175.0</u>
Issued at 31st December		

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

	Parent		Consolidated	
	1977 £m	1976 £m	1977 £m	1976 £m
<b>9 Loans and Other Funding</b>				
Loans from the National Enterprise Board	25.2	25.2	25.2	25.2
Expiring on 23rd July 1978	59.0	50.0	59.0	50.0
Expiring 1980, 1981 and 1982	—	—	0.4	0.7
6½% Debenture Stock 1970/81 (secured)	—	—	—	—
Mortgage (secured) repayable over 5 years from 1975	—	—	1.2	1.9
Notes repayable over 5 years from 1976	—	—	0.2	—
	1.4	1.4	2.7	1.9
Long Term Loans (Note 10)	<u>85.6</u>	<u>76.6</u>	<u>88.7</u>	<u>79.7</u>

Arrangements are under discussion with the National Enterprise Board for the re-financing of the £25.2m loan expiring on 23rd July 1978.

## Notes to the Accounts continued

	Parent		Consolidated	
	1977	1976	1977	1976
	£m	£m	£m	£m
<b>10 Long Term Loans</b>				
Mortgage (secured) repayable over 24 years from 1970 with interest averaging 9½%	1.2	1.2	1.2	1.2
Deferred purchase of equipment, payable over 20 years from 1970 with interest at 10%	0.2	0.2	0.2	0.2
7½% Bonds 1978/82 (secured)	—	—	1.3	0.5
	<u>1.4</u>	<u>1.4</u>	<u>2.7</u>	<u>1.9</u>

	Parent	
	1977	1976
	£m	£m
<b>11 Investments</b>		
Subsidiary Companies:		
Shares, less amounts written off	4.0	2.2
Amounts owing from subsidiaries	13.6	15.3
Amounts owing to subsidiaries	(6.1)	(6.9)
	<u>11.5</u>	<u>10.6</u>

Investments in subsidiary companies are in the Company's books at the net book value of the assets and liabilities at 22nd May 1971, with subsequent additions at cost less post-acquisition losses. Investments in associated companies are not material.

**12 Principal Subsidiary and Associated Companies**

The Company's shareholdings in its principal subsidiary and associated companies did not change during the year. The companies and the percentage of equity held in each are as follows:

	Percentage of equity
<b>Subsidiary Companies</b>	
Registered in England:	
Bristol Engine Rentals Limited	100
Bristol Engine Services Limited	100
Rolls-Royce and Associates Limited (25% 'A' Shares 100% 'B' Shares)	43
Rolls-Royce (Far East) Limited	100
Rolls-Royce (France) 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 Aero-Industries (Montreal) Limited	100*
— Bristol Aerospace Limited	100*
— Rolls-Royce (Canada) Limited	100*
U.S.A. — Rolls-Royce Inc.	100*
<b>Associated Companies</b>	
Registered in England:	
Concorde Engines Support Organisation Limited (100% 'A' Shares)	50
Rolls-Royce Turbomeca Limited (100% 'B' Shares)	50
Turbo-Union Limited (40% Ordinary Shares 37.5% 'A' Shares)	40

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

## Notes to the Accounts continued

## 13. 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.

	Parent		Consolidated	
	1977 £m	1976 £m	1977 £m	1976 £m
<b>14 Future Capital Expenditure</b>				
Capital expenditure authorised but not spent at 31st December	26.3	19.2	26.6	22.4
of which there has been committed	10.9	9.7	10.9	12.1
<b>15 Contingent Liabilities</b>	£m	£m	£m	£m
Guarantees, Customs Bonds and other matters estimated at	23.1	29.4	23.4	31.5

The Company has indemnified R-R Realisations Limited against liabilities under agreements (other than the RB211-22 agreements) entered into by it relating to any part of the undertaking or assets of R-R Realisations Limited acquired by Rolls-Royce Limited. No significant costs are expected to fall on the Company.

## 16 Deferred Taxation

The total potential liabilities for deferred taxation are set out below, together with the amounts provided in the accounts in accordance with the Group's accounting policy described on page 12.

	Parent		Consolidated	
	1977 £m	1976 £m	1977 £m	1976 £m
Accelerated Capital Allowances	35.5	41.3	37.8	44.3
Provisions, reserves, etc	(54.1)	(41.7)	(54.1)	(41.7)
Stock Appreciation Relief	107.0	98.8	107.5	98.8
Losses and charges carried forward	(73.9)	(81.2)	(73.9)	(82.4)
Potential Liabilities	14.5	17.2	17.3	19.0
Provided in the Accounts (1976 restated)	—	—	1.6	1.0
Potential Liabilities not provided	14.5	17.2	15.7	18.0

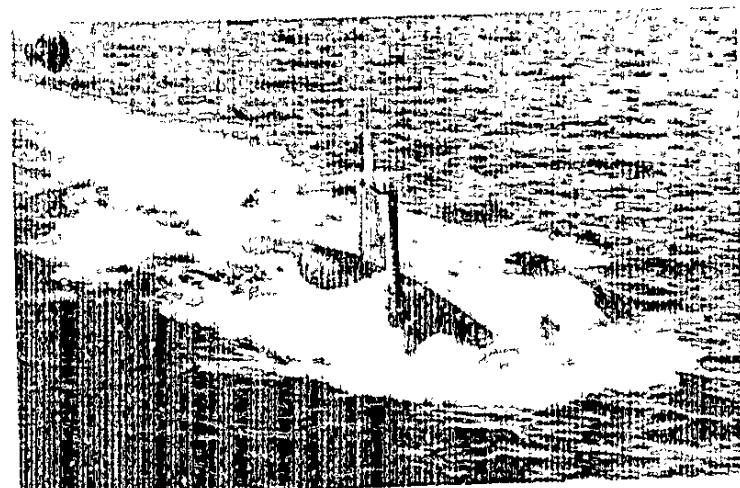
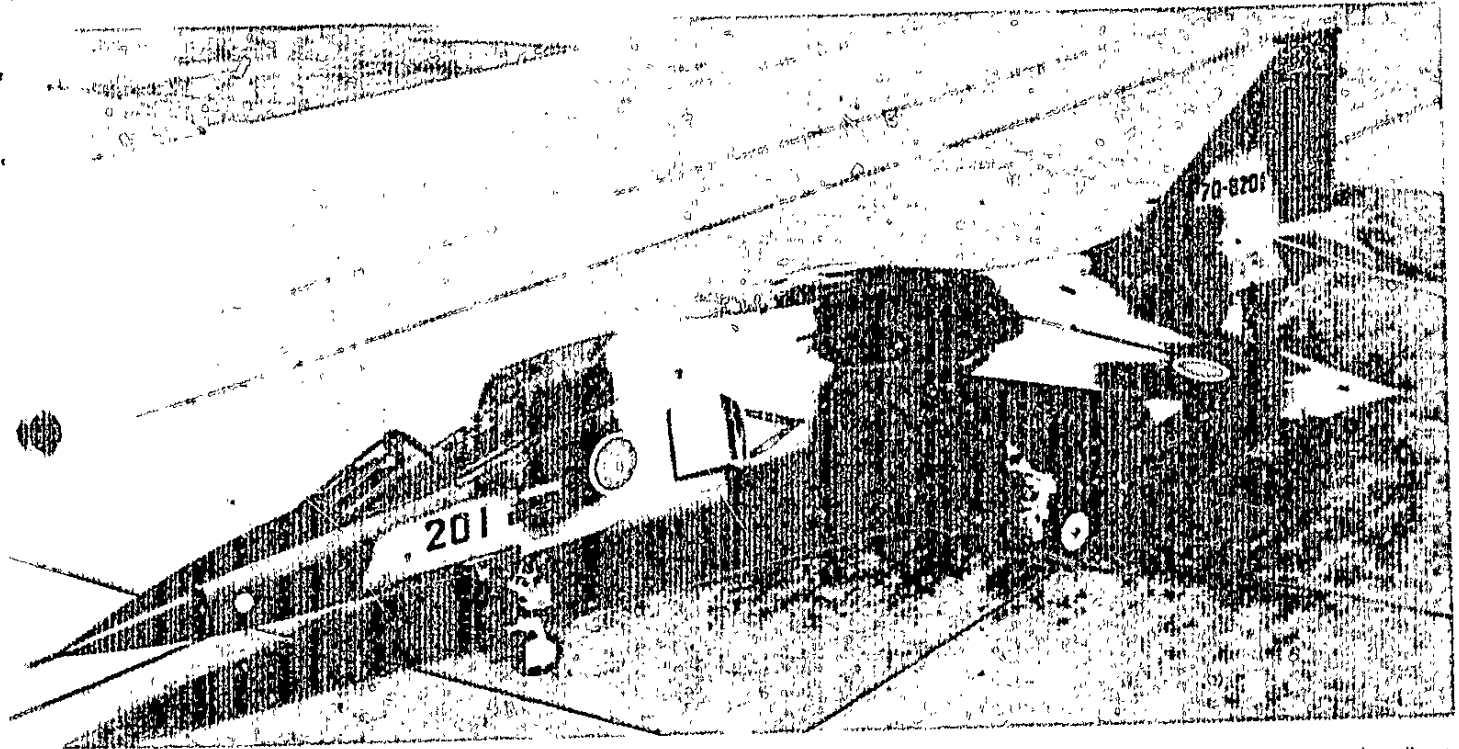
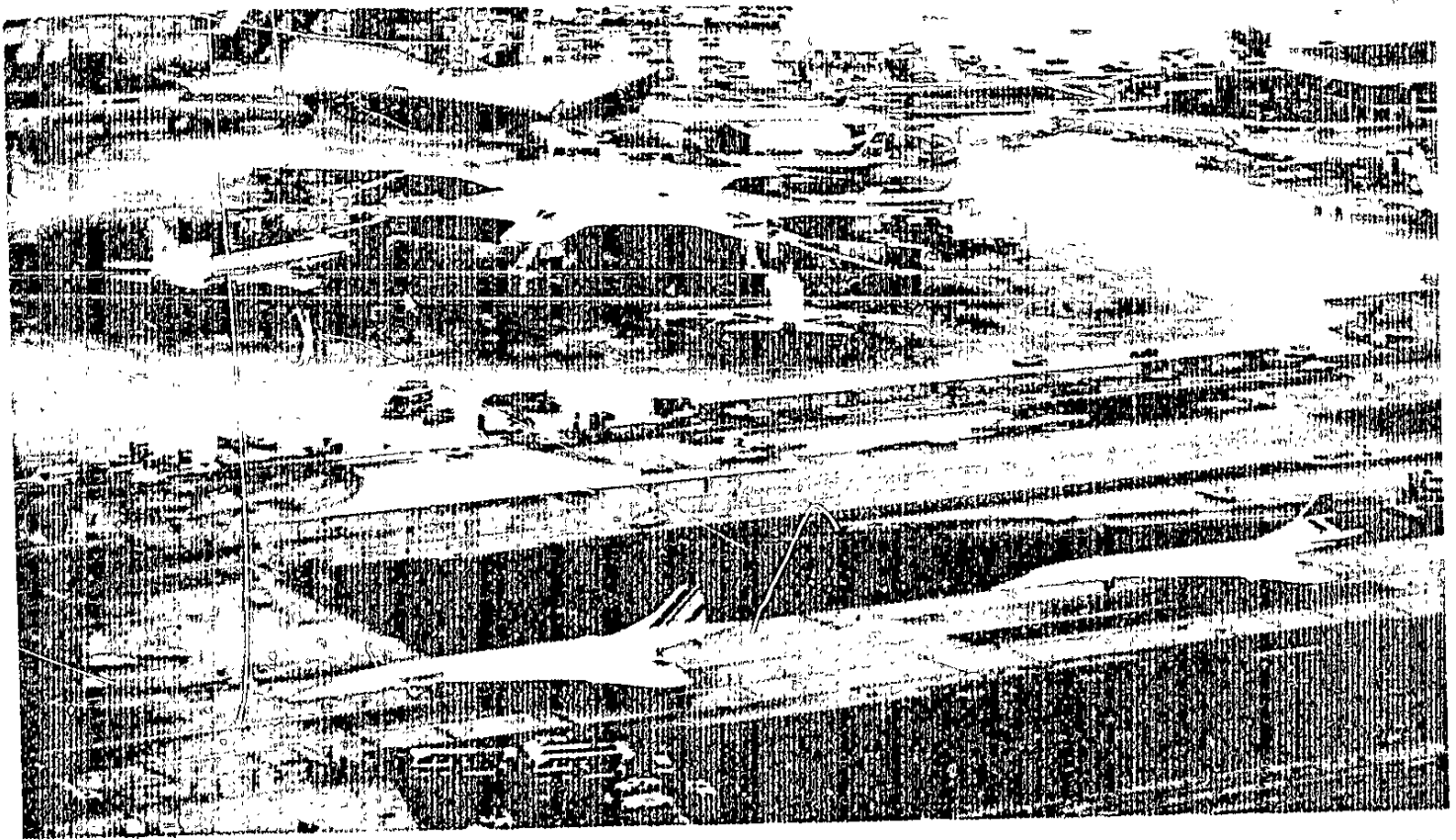


## Value Added Statement

	1977 £m	1976 £m
Turnover	703.9	620.2
Less: Cost of materials, sub-contracting, bought-out items and services	379.0	346.9
	<hr/>	<hr/>
Value Added	324.9	273.3
	<hr/>	<hr/>

### Applied as Follows

To employees in wages, salaries and benefits	278.3	266.7
To providers of loans by way of interest	13.7 1.7	12.6 2.1
To government by way of taxation		
Funds retained in business	16.3	15.9
Depreciation	14.9	(24.0)
Profit (1976 loss)	<hr/>	<hr/>
	324.9	273.3
	<hr/>	<hr/>

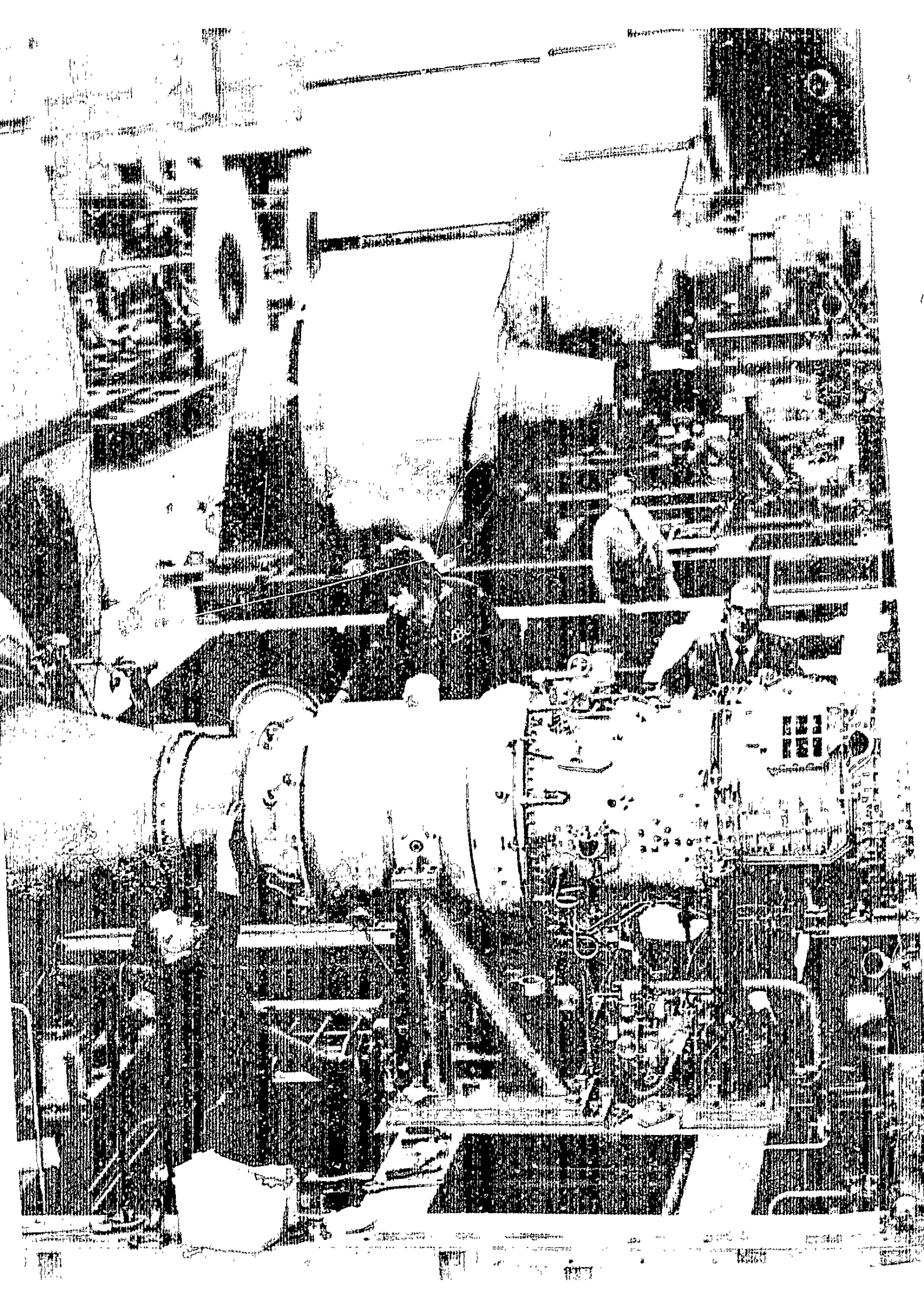


**Top** British Airways and Air France Olympus-powered Concorde airliners at New York's Kennedy airport after their inaugural flights.

**Middle** Japanese F1 aircraft powered by two Rolls-Royce Turbomeca Adour turbofans. The Adour is manufactured under licence in Japan by Ishikawajima Harima Heavy Industries.

**Left** Royal Navy nuclear fast submarine HMS CHURCHILL is a capital ship of the Royal Navy, powered by a pressurised water reactor (PWR) designed and manufactured by Rolls-Royce and Associates Limited.





Industrial Avon engine in a Coberrow  
pumping set for use on the Tyumen-  
Chelyabinsk gas pipeline in the Soviet  
Union.