

Chairman's statement



Sir Ralph Robins, Chairman

Rolls-Royce is building a strong portfolio of businesses which are winning an increasing share of world markets. Our success is demonstrated by our record order book and by our leading market positions.

Rolls-Royce made good progress in 2000. We continued to develop a strong portfolio of businesses, strengthening our market position whilst continuing to improve productivity.

We achieved a record order book of £13.1 billion with a further £1.4 billion of announced business, reflecting significant growth in the civil aerospace and marine markets.

We participate in many of the world's key defence aerospace programmes and we anticipate growing success in the energy sector, as a range of new products becomes available.

In each of these market sectors we are exploiting our large investment in core gas turbine technology, and developing a range of related products and services.

We are increasing our share of growing world markets as we introduce new competitive products and exploit the aftermarket from our successful range of established products and services.

During 1999 we made four significant acquisitions which enhanced our position in each market sector. The acquired businesses met our expectations in 2000.

We increased our share of the civil aerospace market to 31 per cent of all orders placed during the year and delivered a record number of engines. The Trent family had an excellent year. New orders for the Trent 700 and 800 engines for Airbus A330 and Boeing 777 respectively were gained from around the world. The Trent 500 for the Airbus A340-500/600 was certificated in December, ahead of schedule. The selection of the latest member of the Trent family, the Trent 900, by Singapore Airlines, Virgin

Atlantic and Qantas for the new Airbus A380, was particularly significant and a strong endorsement of our Trent engine family development philosophy.

Milestones in our defence business included the progression of the EJ200 engine programme from development to production. This engine, which powers the Eurofighter Typhoon aircraft, will form the backbone of a strong defence business over the coming years as it progresses towards full output.

The US Joint Strike Fighter prototypes made their first flights in 2000. Rolls-Royce continued its participation in each aircraft/engine configuration. In Europe we secured a leading position on the TP400 engine for the new military transport aircraft, the Airbus A400M.

We have developed a world-leading marine business. The acquisition of Vickers in 1999, added a range of complementary products and services and expanded the company's routes to market. We are now able to play an enlarged role as a full propulsion systems supplier to both the commercial and naval sectors, enabling us to raise our share of global growth markets.

In the energy sector, our successful oil and gas pumping business had a relatively quiet year, although orders improved in the last quarter.

Growth in the power generation market is largely dependent on the introduction of new gas turbines and diesel engines which are nearing completion of their development programmes.

Significant technical difficulty has been experienced in developing a combustion system for the industrial Trent to meet the extremely rigorous emission requirements.

A £120 million provision was made in 2000 in respect of this programme. Good progress has been made and the engine is expected to achieve significant market penetration.

Our financial services businesses are making an increasing contribution to our performance in their own right. They also enhance the company's ability to sell its products and services throughout the world.

We have continued our strategic pursuit of the aftermarket. In 2000 we expanded our network of repair and overhaul bases and invested in new predictive maintenance capabilities, exploiting the communication benefits offered by the internet.

Underpinning the success of the company is a continuous drive for greater efficiency. In 2000, we announced rationalisation proposals involving a fundamental review of our operations to ensure that we maintain world-class performance in all aspects of our business.

I extend my thanks to all our employees for their contribution and congratulate Mike Howse who received an OBE for service to the aerospace industry.

I have much pleasure in welcoming to the Board John Cheffins, our Chief Operating Officer and President – Civil Aerospace.

Prospects

The company's short-term outlook is consistent with the view given at the announcement of its half-year results in August 2000.

We expect underlying earnings to be unchanged in 2001 as a result of a combination of civil aerospace business mix, delays in sales of the industrial Trent and restructuring charges. We are confident that earnings growth will resume in 2002.

We are well positioned for growth in each of our markets.

The civil aerospace business will benefit as the growing installed base of engines matures.

We expect our defence business to grow as a result of increasing production of Eurofighter engines and our strong position on many of the world's new programmes.

Our marine business should benefit from recovery in the offshore support sector, new opportunities for gas turbines in the commercial sector and re-equipment in the naval market. Our ability to offer fully integrated power systems to customers will create new opportunities in these markets.

Our energy businesses are expected to grow as a result of increased investment in exploration in the oil and gas sector, which will stimulate demand for our products. This, coupled with the strong market prospects of the industrial Trent, should lead to significant benefits.

Returns from invested capital will improve as a result of the broad business portfolio, increasing maturity of products in service and more intensive asset utilisation.

Your Board has recommended a final dividend of 5.00p per share, making a total for the year of 8.00p, an increase of 10.3 per cent over 1999.



Sir Ralph Robins, Chairman
March 1, 2001