

Group profit and loss account

for the year ended December 31, 2000

	Notes	Continuing operations before exceptional items £m	Exceptional items ¹ £m	Total 2000 £m	Restated Total 1999 £m
Turnover: Group and share of joint ventures		5,955	—	5,955	4,697
Sales to joint ventures		893	—	893	799
Less share of joint ventures' turnover		(984)	—	(984)	(862)
Group turnover	2	5,864	—	5,864	4,634
Cost of sales		(4,860)	(145)	(5,005)	(3,787)
Gross profit		1,004	(145)	859	847
Other operating income	3	341	—	341	232
Commercial, marketing and product support costs		(268)	—	(268)	(195)
General and administrative costs		(271)	—	(271)	(171)
Research and development (net)*		(371)	—	(371)	(337)
Group operating profit		435	(145)	290	376
Share of operating profit of joint ventures		76	—	76	31
Loss on sale or termination of businesses	31	(5)	(73)	(78)	(14)
Profit on sale of fixed assets	7	1	—	1	20
Profit on ordinary activities before interest	2	507	(218)	289	413
Net interest payable – Group	4	(85)	—	(85)	(35)
– joint ventures		(38)	—	(38)	(18)
Profit on ordinary activities before taxation	3	384	(218)	166	360
Taxation	5	(99)	16	(83)	(74)
Profit on ordinary activities after taxation		285	(202)	83	286
Equity minority interests in subsidiary undertakings				—	(2)
Profit attributable to ordinary shareholders				83	284
Dividends	6			(126)	(112)
Transferred (from)/to reserves	25			(43)	172
*Research and development (gross)				(604)	(626)
Earnings per ordinary share:	7				
Underlying				21.63p	19.52p
Basic				5.33p	18.86p
Diluted basic				5.30p	18.62p

¹ Exceptional items are analysed in note 3.

As permitted by the Companies Act 1985, a separate profit and loss account for the Company has not been included in these financial statements. Of the Group profit attributable to ordinary shareholders, a profit of **£194m** (1999 £326m) has been dealt with in the profit and loss account of the Company.

There have been no material acquisitions in 2000 and no discontinued operations in 2000 or 1999.

Throughout these financial statements the 1999 comparatives have been restated to reflect UITF 24 'Accounting for Start-up Costs' (see note 9) and the change in the presentation of risk and revenue sharing partnership receipts (see note 3).

Balance sheets

at December 31, 2000

	Notes	Group		Company	
		2000 £m	Restated 1999 £m	2000 £m	Restated 1999 £m
Fixed assets					
Intangible assets	9	889	918	41	45
Tangible assets	10	1,772	1,753	875	857
Investments – subsidiary undertakings	11	—	—	1,887	1,679
– joint ventures	12	174	151	51	48
share of gross assets		1,117	958		
share of gross liabilities		(943)	(807)		
– other	13	33	31	10	10
		2,868	2,853	2,864	2,639
Current assets					
Stocks	14	1,179	1,274	561	626
Debtors – amounts falling due within one year	15	1,591	1,292	1,334	1,057
– amounts falling due after one year	16	482	355	273	208
Short-term deposits and investments	17	142	464	—	355
Cash at bank and in hand		498	521	337	339
		3,892	3,906	2,505	2,585
Creditors – amounts falling due within one year					
Borrowings	18	(272)	(408)	(26)	(151)
Other creditors	19	(2,559)	(2,467)	(2,111)	(1,841)
Net current assets		1,061	1,031	368	593
Total assets less current liabilities		3,929	3,884	3,232	3,232
Creditors – amounts falling due after one year					
Borrowings	20	(1,058)	(1,271)	(707)	(894)
Other creditors	21	(206)	(109)	(329)	(259)
Provisions for liabilities and charges	22	(601)	(503)	(67)	(65)
		2,064	2,001	2,129	2,014
Capital and reserves					
Called-up share capital	24	314	309	314	309
Share premium account	25	623	615	623	615
Revaluation reserve	25	108	112	101	104
Other reserves	25	182	140	167	167
Profit and loss account	25	836	812	924	819
Equity shareholders' funds		2,063	1,988	2,129	2,014
Equity minority interests in subsidiary undertakings		1	13	—	—
		2,064	2,001	2,129	2,014

The financial statements on pages 38 to 69 were approved by the Board on March 1, 2001 and signed on its behalf by:

Sir Ralph Robins Chairman, **P Heiden** Finance Director

Group cash flow statement

for the year ended December 31, 2000

		2000 £m	Restated 1999 £m
Net cash inflow from operating activities	A	479	359
Dividends received from joint ventures		13	6
Returns on investments and servicing of finance	B	(76)	(32)
Taxation paid		(25)	(38)
Capital expenditure and financial investment	C	(253)	(199)
Acquisitions and disposals	D	(53)	(666)
Equity dividends paid		(74)	(88)
Cash inflow/(outflow) before use of liquid resources and financing		11	(658)
Management of liquid resources	E	324	261
Financing	F	(360)	622
(Decrease)/increase in cash		(25)	225

Reconciliation of net cash flow to movement in net funds

(Decrease)/increase in cash	(25)	225
Cash (inflow) from (decrease) in liquid resources	(324)	(261)
Cash outflow/(inflow) from decrease/(increase) in borrowings	370	(618)
Change in net funds resulting from cash flows	21	(654)
Borrowings of businesses acquired	—	(332)
Zero-coupon bonds 2005/2007 (9.0% interest accretion)	(3)	(3)
Exchange adjustments	(14)	(7)
Movement in net funds	4	(996)
Net (debt)/funds at January 1	(694)	302
Net debt at December 31	(690)	(694)

	At January 1, 2000 £m	Cash flow £m	Exchange adjustments £m	Other non-cash changes £m	At December 31, 2000 £m
Analysis of net debt					
Cash at bank and in hand	521	(24)	1	—	498
Overdrafts	(100)	(1)	(2)	—	(103)
Short-term deposits and investments	464	(324)	2	—	142
Other borrowings due within one year	(301)	147	(6)	—	(160)
Borrowings due after one year	(1,174)	215	(3)	(3)	(965)
Finance leases	(104)	8	(6)	—	(102)
	(694)	21	(14)	(3)	(690)

	2000 £m	Restated 1999 £m
Reconciliation of operating profit to operating cash flows		
Operating profit	290	376
Amortisation of intangible assets (note 9)	60	19
Depreciation of tangible fixed assets (note 3)	178	105
(Profit)/loss on disposals of tangible fixed assets and investments	(3)	4
Increase/(decrease) in provisions for liabilities and charges	49	(34)
Decrease in stocks	62	39
Increase in debtors	(374)	(127)
Increase/(decrease) in creditors	217	(23)
A Net cash inflow from operating activities	479	359
Returns on investments and servicing of finance		
Interest received	26	26
Interest paid	(96)	(51)
Interest element of finance lease payments	(6)	(7)
B Net cash outflow for returns on investments and servicing of finance	(76)	(32)
Capital expenditure and financial investment		
Additions to unlisted investments	(2)	—
Additions to certification costs	(10)	—
Purchases of tangible fixed assets	(292)	(381)
Disposals of tangible fixed assets	51	187
Acquisition of own shares by trust	—	(5)
C Net cash outflow for capital expenditure and financial investment	(253)	(199)
Acquisitions and disposals		
Acquisitions of businesses (note 30)	(45)	(653)
Disposals of businesses (note 31)	(5)	14
Investments in joint ventures	(13)	(27)
Loan repayments from joint ventures	10	—
D Net cash outflow for acquisitions and disposals	(53)	(666)
Management of liquid resources		
Decrease in short-term deposits	327	262
Increase in government securities and corporate bonds	(3)	(1)
E Net cash inflow from management of liquid resources	324	261
Financing		
Borrowings due within one year – repayment of loans	(147)	—
– increase in loans	—	88
Borrowings due after one year – repayment of loans	(725)	(196)
– increase in loans	510	734
Capital element of finance lease payments	(8)	(8)
Net cash (outflow)/inflow from (decrease)/increase in borrowings	(370)	618
Issue of ordinary shares	10	4
F Net cash (outflow)/inflow from financing	(360)	622

Group statement of total recognised gains and losses

for the year ended December 31, 2000

	2000 £m	1999 £m
Profit attributable to the shareholders of Rolls-Royce plc	83	284
Exchange adjustments on foreign currency net investments	30	17
Total recognised gains for the year	113	301

Group historical cost profits and losses

for the year ended December 31, 2000

	2000 £m	1999 £m
Profit on ordinary activities before taxation	166	360
Difference between the historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	4	2
Historical cost profit on ordinary activities before taxation	170	362
Historical cost transfer (from)/to reserves	(39)	174

Reconciliations of movements in shareholders' funds

for the year ended December 31, 2000

	Group		Company	
	2000 £m	1999 £m	2000 £m	1999 £m
At January 1	1,988	1,705	2,014	1,714
Total recognised gains for the year	113	301	194	326
Ordinary dividends (net of scrip dividend adjustments)	(89)	(101)	(89)	(101)
New ordinary share capital issued (net of expenses)	10	75	10	75
Goodwill transferred to the profit and loss account in respect of disposals of businesses	41	8	—	—
At December 31	2,063	1,988	2,129	2,014

Notes to the financial statements

1 Accounting policies

Basis of accounting

The financial statements have been prepared in accordance with applicable accounting standards on the historical cost basis, modified to include the revaluation of land and buildings.

Basis of consolidation

The Group financial statements include the financial statements of the Company and all of its subsidiary undertakings made up to December 31, together with the Group's share of the results up to December 31 of:

- i) joint ventures
A joint venture is an entity in which the Group holds a long-term interest and which is jointly controlled by the Group and one or more other venturers under a contractual arrangement. The results of joint ventures are accounted for using the gross equity method of accounting.
- ii) joint arrangements that are not entities
The Group has certain contractual arrangements with other participants to engage in joint activities that do not create an entity carrying on a trade or business of its own. The Group includes its share of assets, liabilities and cash flows in such joint arrangements, measured in accordance with the terms of each arrangement, which is usually pro-rata to the Group's risk interest in the joint arrangement.

Any subsidiary undertakings, joint ventures and joint arrangements that are not entities sold or acquired during the year are included up to, or from, the dates of change of control.

Some small adjustments have been made to comparative figures to put them on a consistent basis with the current year.

Purchased goodwill

Goodwill represents the excess of the fair value of the purchase consideration for shares in subsidiary undertakings and joint ventures over the fair value to the Group of the net assets acquired.

- i) To December 31, 1997: Goodwill was written off to reserves in the year of acquisition. The profit or loss on the disposal of a business acquired before December 31, 1997 takes into account the attributable value of purchased goodwill relating to that business.
- ii) From January 1, 1998: Goodwill has been recognised within fixed assets in the year in which it arises and amortised on a straight line basis over its useful economic life, up to a maximum of 20 years.

Turnover

Turnover, excluding value added tax and discounts, comprises sales to outside customers, and the Group's percentage interest in sales of joint ventures. Long-term contracts are included in turnover on the basis of the sales value of work performed during the year by reference to the total sales value and stage of completion of these contracts.

Risk and revenue sharing partnerships

From time to time the Group enters into arrangements with partners who, in return for a share in future programme turnover or profits, make cash or other payments in kind which are not expected to be refundable. Sums received are credited to other operating income and payments to partners are charged to cost of sales.

Research and development

The charge to the profit and loss account consists of total research and development expenditure incurred in the year, less known recoverable costs on contracts and contributions to shared engineering programmes.

Foreign currencies

Assets and liabilities denominated in foreign currencies are translated into sterling at the rate ruling at the year end or, where applicable, at the estimated sterling equivalent, taking account of future foreign exchange and similar contracts. The trading results of overseas undertakings are translated at the average exchange rates for the year or, where applicable, at the estimated sterling equivalent, taking account of future foreign exchange and similar contracts. Exchange adjustments arising from the retranslation of the opening net investment, and from the translation of the profits or losses at average rate, are taken to reserves. Other exchange differences, including those arising from currency conversions in the usual course of trading, are taken into account in determining profit on ordinary activities before taxation.

Treasury instruments

The accounting treatment of the key instruments used by the Group is as follows:

- i) Gains or losses arising on forward exchange contracts are taken to the profit and loss account in the same period as the underlying transaction.
- ii) Net interest arising on interest rate agreements is taken to the profit and loss account.
- iii) Premiums paid or received on currency options are taken to the profit and loss account when the option expires or matures.
- iv) Gains or losses arising on jet fuel swaps are taken to the profit and loss account in the same period as the underlying transaction.

If the underlying transaction to a hedge ceases to exist, the hedge is terminated and the profits and losses on termination are recognised in the profit and loss account immediately. If the hedge transaction is terminated, the profits and losses on termination are held in the balance sheet and amortised over the life of the original underlying transactions.

Post-retirement benefits

Contributions to Group pension schemes are charged to the profit and loss account so as to spread the cost of pensions at a substantially level percentage of payroll costs over employees' service lives.

The cost of providing post-retirement benefits other than pensions is charged to the profit and loss account over the service lives of the relevant employees.

Certification costs

Costs incurred in respect of meeting regulatory certification requirements for new civil engine/aircraft combinations, including those paid to airframe manufacturers, are carried forward in intangible assets to the extent that they can be recovered out of future sales and are charged to profit and loss account over the programme life, up to a maximum of ten years.

1 Accounting policies continued

Interest

Interest payable is charged to the profit and loss account as incurred except where the borrowing finances tangible fixed assets in the course of construction relating to power development projects. Such interest is capitalised until the asset is complete and income producing and is then written off by way of depreciation of the relevant asset.

Interest receivable is credited to the profit and loss account as earned.

Taxation

Provision for taxation is made at the current rate and for deferred taxation at the projected rate on all timing differences where a liability is expected to crystallise in the foreseeable future.

Scrip dividends

The amounts of dividends taken as shares instead of in cash under the scrip dividend scheme have been added back to reserves. The nominal value of shares issued under the scheme has been funded out of the share premium account.

Stock, contract provisions and long-term contracts

Stock and work in progress are valued at the lower of cost and net realisable value. Full provision is made for any estimated losses to completion of contracts having regard to the overall substance of the arrangements including, if appropriate, related commitments and undertakings given by customers. Provided that the outcome of long-term contracts can be assessed with reasonable certainty, such contracts are valued at cost plus attributable profit earned to date.

Progress payments received, when greater than recorded turnover, are deducted from the value of work in progress except to the extent that payments on account exceed the value of work in progress on any contract where the excess is included in creditors. The amount by which recorded turnover of long-term contracts is in excess of payments on account is classified as 'amounts recoverable on contracts' and is separately disclosed within debtors.

Accounting for leases

i) As Lessee

Assets financed by leasing agreements which give rights approximating to ownership (finance leases) have been capitalised at amounts equal to the original cost of the assets to the lessors and depreciation provided on the basis of the Group depreciation policy. The capital elements of future obligations under finance leases are included as liabilities in the balance sheet and the current year's interest element, having been allocated to accounting periods to give a constant periodic rate of charge on the outstanding balance, is charged to the profit and loss account.

The annual payments under all other lease arrangements, known as operating leases, are charged to the profit and loss account on an accruals basis.

ii) As Lessor

Amounts receivable under finance leases are included under debtors and represent the total amount outstanding under lease agreements less unearned income. Finance lease income, having been allocated to accounting periods to give a constant periodic rate of return on the net cash investment, is included in turnover.

Rentals receivable under operating leases are included in turnover on an accruals basis.

Depreciation

i) Land and buildings

Depreciation is provided on the original cost of purchases since 1996 and on the valuation of properties adopted at December 31, 1996 and is calculated on the straight line basis at rates sufficient to reduce them to their estimated residual value. Estimated lives, as advised by the Group's professional valuers, are:

- a) Freehold buildings – five to 45 years (average 24 years).
- b) Leasehold land and buildings – lower of valuers' estimates or period of lease.

No depreciation is provided in respect of freehold land.

ii) Plant and equipment

Depreciation is provided on the original cost of plant and equipment and is calculated on a straight line basis at rates sufficient to reduce them to their estimated residual value. Estimated lives are in the range five to 25 years (average 17 years).

iii) Aircraft and engines

Depreciation is provided on the original cost of aircraft and engines and is calculated on a straight line basis at rates sufficient to reduce them to their estimated residual value. Estimated lives are in the range five to 20 years (average 18 years).

iv) In course of construction

No depreciation is provided on assets in the course of construction.

2 Segmental analysis

	Group turnover		Profit before interest		Net assets ¹	
	2000 £m	Restated 1999 £m	2000 £m	1999 £m	2000 £m	1999 £m
Analysis by business:						
Civil aerospace	3,150	2,544	312	232	1,152	1,074
Defence	1,403	1,138	151	181	286	312
Marine systems	751	385	38	37	600	595
Energy	476	482	(191)	(39)	444	468
Financial services*	40	37	55	24	295	243
Materials handling ²	44	48	(76)	(22)	(23)	3
	5,864	4,634	289	413	2,754	2,695
Geographical analysis by origin:						
United Kingdom	3,730	3,553	201	334	1,505	1,506
Other	2,134	1,081	88	79	1,249	1,189
	5,864	4,634	289	413	2,754	2,695
Geographical analysis by destination:						
United Kingdom	1,056	846				
Rest of Europe	855	658				
USA	2,148	1,625				
Canada	259	104				
Asia	953	796				
Africa	67	106				
Australasia	149	228				
Other	377	271				
	5,864	4,634				
Exports from United Kingdom	2,692	2,737				
Sales to overseas subsidiaries	(262)	(213)				
Sales by overseas subsidiaries	2,365	1,260				
Sales by overseas joint arrangements	13	4				
Total overseas	4,808	3,788				

¹ Net assets exclude net debt of **£690m** (1999 net debt of £694m).

² Classified in 1999 as 'Businesses to be disposed'.

The Group has expanded its segmental analysis to reflect the new management structure, which is focused on customers by market sector.

*The turnover of financial services businesses including share of joint ventures is **£115m** (1999 £82m).

The analysis of underlying profit before interest and the profit and loss account exceptional items are as follows:

	Underlying profit before interest £m	Exceptional items £m	Other non-underlying items £m	Profit before interest £m
Civil aerospace	332	(9)	(11)	312
Defence	154	—	(3)	151
Marine systems	67	(3)	(26)	38
Energy	(48)	(133)	(10)	(191)
Financial services	56	—	(1)	55
Materials handling	(2)	(73)	(1)	(76)
	559	(218) ¹	(52) ²	289

¹ See note 3.

² Comprising amortisation of goodwill £46m and loss on sale of businesses/fixed assets £6m.

3 Profit on ordinary activities before taxation

	2000 £m	1999 £m
After crediting		
Risk and revenue sharing partnerships – receipts (credited to other operating income) ¹	341	232
– payments (charged to cost of sales)	(129)	(99)
Net impact of risk and revenue sharing partnerships	212	133
Operating lease rentals receivable	14	15
After charging		
Exceptional items – industrial Trent provision ²	120	—
– restructuring costs in respect of acquired businesses	16	6
– rationalisation costs to simplify business structures	9	—
– closure/termination of materials handling	73	—
	218	6
Amortisation of goodwill	46	5
Depreciation of owned tangible fixed assets ³	172	98
Depreciation of tangible fixed assets held under finance leases ³	6	7
Operating lease rentals payable – hire of plant and equipment	39	27
– hire of other assets	8	7
Auditors' fees were as follows during the year:		
Audit 2000 – Group £2.9m (1999 £2.0m) including Company £0.6m (1999 £0.6m)		
Other 2000 – United Kingdom £1.1m (1999 £0.7m)		
– Rest of World £0.9m (1999 £0.7m)		

¹ Previously these receipts were credited either to turnover or to research and development depending on the terms of the arrangement. In order to simplify the accounting presentation, all such receipts are credited to other operating income. The 1999 comparatives have been amended by: turnover £110m and net research and development £122m to reflect this change in presentation.

² Provision in respect of the industrial Trent covering both contractual obligations and write-down of assets.

³ Including appropriate amounts charged to stocks.

4 Net interest payable – Group

	2000 £m	1999 £m
Interest payable on:		
Bank loans and overdrafts	(52)	(31)
Other borrowings	(55)	(26)
Finance leases	(6)	(7)
Interest capitalised	1	1
	(112)	(63)
Interest receivable	27	28
	(85)	(35)

5 Taxation

	2000 £m	1999 £m
United Kingdom – corporation tax at 30.0% (1999 30.25%)	58	93
– advance corporation tax written back	(14)	(37)
– deferred tax	(7)	5
	37	61
Overseas – current tax	36	5
– deferred tax	2	5
Joint ventures	8	3
	83	74
Analysis of taxation charge:		
Underlying profits	99	72
Other profits (note 7)	(16)	2
	83	74

6 Dividends – ordinary shares

	2000 £m	1999 £m
Interim 3.00p (1999 2.70p) per share	47	41
Final proposed 5.00p (1999 4.55p) per share	79	71
	126	112

7 Earnings per ordinary share

Basic earnings per ordinary share are calculated by dividing the profit attributable to ordinary shareholders of **£83m** (1999 £284m) by **1,558 million** (1999 1,506 million) ordinary shares, being the average number of ordinary shares in issue during the year, excluding own shares held under trust (note 13) which have been treated as if they had been cancelled.

Underlying earnings per ordinary share have been calculated as follows.

	2000		1999	
	Pence	£m	Pence	£m
Profit attributable to ordinary shareholders	5.33	83	18.86	284
Exclude:				
Net loss on sale of businesses – materials handling	4.69	73	—	—
– other	0.32	5	0.93	14
Loss/(profit) on sale of fixed assets (excluding lease engines and aircraft sold by financial services companies)	0.06	1	(1.13)	(17)
Amortisation of goodwill	2.95	46	0.33	5
Restructuring of acquired businesses	1.03	16	0.40	6
Exceptional rationalisation	0.58	9	—	—
Energy – exceptional charge	7.70	120	—	—
Related tax effect	(1.03)	(16)	0.13	2
Underlying earnings per ordinary share	21.63	337	19.52	294

Diluted basic earnings per ordinary share are calculated by dividing the profit attributable to ordinary shareholders of **£83m** (1999 £284m) by **1,566 million** (1999 1,525 million) ordinary shares, being **1,558 million** (1999 1,506 million) as above adjusted by the bonus element of existing share options of **8 million** (1999 19 million).

8 Employee information

	2000 Number	1999 Number
Average weekly number of Group employees during the year		
United Kingdom	30,200	30,000
Overseas	16,400	10,900
	46,600	40,900
Civil aerospace	26,100	23,900
Defence	7,700	6,500
Marine systems	6,500	3,500
Energy	5,600	6,100
Financial services	100	100
Materials handling ¹	600	800
	46,600	40,900
	£m	£m
Group employment costs		
Wages and salaries	1,388	1,140
Social security costs	128	95
Pensions and other post-retirement benefits (note 29)	77	71
	1,593	1,306

¹ Classified in 1999 as 'Businesses to be disposed'.

9 Intangible fixed assets

	Group			Company		
	Goodwill £m	Certification costs ¹ £m	Total £m	Goodwill £m	Certification costs ¹ £m	Total £m
Cost						
At January 1, 2000 as restated	878	96	974	—	96	96
Exchange adjustments	6	—	6	—	—	—
Additions	—	10	10	—	10	10
Other movements ²	33	—	33	—	—	—
Disposals	(19)	—	(19)	—	—	—
At December 31, 2000	898	106	1,004	—	106	106
Accumulated amortisation						
At January 1, 2000 as restated	5	51	56	—	51	51
Provided during the year	46	14	60	—	14	14
Disposals	(1)	—	(1)	—	—	—
At December 31, 2000	50	65	115	—	65	65
Net book value at December 31, 2000	848	41	889	—	41	41
Net book value at December 31, 1999 as restated	873	45	918	—	45	45

¹ Certification costs, which were previously included in prepayments, have been treated as intangible assets. This change in accounting policy which has resulted from the adoption of UITF* 24 'Accounting for Start-up Costs', has no effect on prior year reserves. The period of amortisation has been amended from five years to the life of the programme, subject to the maximum of ten years, as this is considered to be more appropriate.

*The UITF (Urgent Issues Task Force) is a committee of the Accounting Standards Board.

² For the acquisitions made in 1999, provisional fair values were ascribed to the assets and liabilities at the acquisition dates (1999 annual report note 30). Other movements comprising the finalisation of these fair values and of the consideration paid are detailed in note 30 (page 64).

10 Tangible fixed assets

	Land and buildings £m	Plant and equipment £m	Aircraft and engines £m	In course of construction £m	Total £m
Group					
Cost or valuation:					
At January 1, 2000	489	1,547	209	170	2,415
Exchange adjustments	4	27	12	3	46
Additions at cost	12	133	26	82	253
On disposals of businesses	(13)	(33)	—	(1)	(47)
Reclassifications	8	101	—	(109)	—
Disposals/write-offs	(8)	(74)	(45)	(2)	(129)
At December 31, 2000	492	1,701	202	143	2,538
Accumulated depreciation:					
At January 1, 2000	41	570	51	—	662
Exchange adjustments	1	8	2	—	11
Provided during year	22	145	11	—	178
On disposals of businesses	—	(8)	—	—	(8)
Disposals/write-offs	(3)	(60)	(14)	—	(77)
At December 31, 2000	61	655	50	—	766
Net book value at December 31, 2000	431	1,046	152	143	1,772
Net book value at December 31, 1999	448	977	158	170	1,753
Company					
Cost or valuation:					
At January 1, 2000	265	883	—	133	1,281
Additions at cost	4	76	—	20	100
Reclassifications	8	82	—	(90)	—
Disposals/write-offs	(2)	(31)	—	—	(33)
At December 31, 2000	275	1,010	—	63	1,348
Accumulated depreciation:					
At January 1, 2000	26	398	—	—	424
Provided during year	10	68	—	—	78
Disposals/write-offs	—	(29)	—	—	(29)
At December 31, 2000	36	437	—	—	473
Net book value at December 31, 2000	239	573	—	63	875
Net book value at December 31, 1999	239	485	—	133	857

10 Tangible fixed assets continued

	Group		Company	
	2000 £m	1999 £m	2000 £m	1999 £m
Tangible fixed assets include:				
Net book value of finance leased assets	104	109	27	32
Assets held for use in operating leases:				
Cost	178	194	—	—
Depreciation	(37)	(44)	—	—
Net book value	141	150	—	—
Non-depreciable land	85	90	59	59
Land and buildings at cost or valuation comprise:				
Cost	235	222	72	62
Valuation at December 31, 1985	1	1	—	—
Valuation at December 31, 1996 ¹	256	266	203	203
	492	489	275	265
Land and buildings at net book value comprise:				
Freehold	400	415	231	232
Long leasehold	19	19	9	8
Short leasehold	12	14	(1)	(1)
	431	448	239	239
On an historical cost basis the net book value of land and buildings would have been as follows:				
Cost	475	471	256	246
Depreciation	(152)	(135)	(118)	(111)
	323	336	138	135
Capitalised interest included in net book value of assets in course of construction	4	2	—	—
Capital expenditure commitments – contracted but not provided for	91	177	27	33

The Group has adopted FRS 15 'Tangible fixed assets', and has followed the transitional provisions to retain the book value of land and buildings, certain of which were revalued in 1996 (see ¹ below).

¹ Group properties were revalued at December 31, 1996 as follows:

- i) Specialised properties, including certain of the Group's major manufacturing sites, were revalued on a depreciated replacement cost basis.
- ii) Non-specialised properties were revalued by reference to their existing use value.
- iii) Properties surplus to the Group's requirements were revalued on an open market value basis.

In the United Kingdom the revaluation was carried out by Gerald Eve, Chartered Surveyors, Fuller Peiser, Chartered Surveyors and Storey Sons & Parker, Chartered Surveyors, in accordance with the appraisal and valuation manual of the Royal Institution of Chartered Surveyors. Overseas properties were valued principally by independent local valuers.

11 Investments – subsidiary undertakings

	Shares £m	Loans £m	Total £m
Company			
Cost:			
At January 1, 2000	1,385	294	1,679
Additions	—	208	208
At December 31, 2000	1,385	502	1,887

The principal subsidiary undertakings are listed on pages 66 and 67.

12 Investments – joint ventures

	Shares at cost £m	Share of post acquisition reserves £m	Loans £m	Total £m
Group				
At January 1, 2000	106	23	22	151 ¹
Exchange adjustments	3	—	1	4
Transfer from subsidiary undertaking	4	—	—	4
Additions	11	—	2	13
Disposals and repayments	(3)	—	(10)	(13)
Transfer to subsidiary undertakings	—	—	(4)	(4)
Share of retained profit	—	19	—	19
At December 31, 2000	121	42	11	174 ¹
Company				
At January 1, 2000	44	—	4	48
Additions	3	—	—	3
At December 31, 2000	47	—	4	51

The principal joint ventures are listed on pages 68 and 69.

¹ Investments in joint ventures are represented by:

	2000 £m	1999 £m
Share of aggregate assets:		
Fixed	710	588
Current	407	370
Share of aggregate liabilities:		
Due within one year	(437)	(387)
Due after one year	(506)	(420)
	174	151

13 Investments – other

	Unlisted investments at cost £m	Own shares held under trust ¹ £m	Total £m
Group			
At January 1, 2000	21	10	31
Additions less amortisation	2	—	2
At December 31, 2000	23	10	33
Company			
At January 1, 2000	—	10	10
Additions less amortisation	—	—	—
At December 31, 2000	—	10	10

¹ Ordinary shares in the Company are held in two trusts:

- i) as part of the long-term incentive plan (LTIP), the Rolls-Royce 1999 executive share option plan and other employee share schemes (see Remuneration report on pages 30 to 36).

This independently managed trust purchased shares on the open market:

		£m
June 25, 1997	672,891 at £2.42 per share	1.6
April 24, 1998	651,103 at £2.82 per share	1.8
March 26, 1999	569,800 at £2.54 per share	1.4
June 30, 1999	1,475,000 at £2.73 per share	4.0

At December 31, 2000, these shares had a market value of £6.7m. In accordance with UITF 17 'Employee share schemes', the Company is required to amortise the cost of likely awards over each separate performance measurement period and to include this charge as part of the cost of 'wages and salaries'. The UITF is a committee of the Accounting Standards Board.

- ii) in respect of a qualifying employee share trust (QUEST), which provides employees with shares under Inland Revenue approved Save As You Earn (SAYE) share schemes. In accordance with UITF 17 (Revised), no amortisation charge has been made. At December 31, 2000, a total of 2,321,587 of these shares had still not been allocated to option holders, their market value being £4.6m. These outstanding allocations are expected to occur in 2001.

Both trusts have waived dividends and voting rights, and their costs of administration have been charged to the Company's profit and loss account.

14 Stocks

	Group		Company	
	2000 £m	1999 £m	2000 £m	1999 £m
Raw materials	258	288	65	54
Work in progress	354	483	99	178
Long-term contracts work in progress	119	159	13	8
Finished goods	674	597	475	461
Payments on account	33	45	22	11
	1,438	1,572	674	712
Progress payments received against:				
Long-term contracts work in progress	(97)	(121)	—	—
Other stocks ¹	(162)	(177)	(113)	(86)
	1,179	1,274	561	626
¹ Includes payments received from joint ventures	(5)	(12)	(5)	(12)

15 Debtors – amounts falling due within one year

	Group		Company	
	2000 £m	Restated 1999 £m	2000 £m	Restated 1999 £m
Trade debtors	919	839	352	272
Amounts recoverable on contracts	94	78	18	3
Amounts owed by – subsidiary undertakings	—	—	645	606
– joint ventures	156	165	129	121
Corporate taxation	11	10	7	10
Other debtors	201	93	40	1
Prepayments and accrued income ¹	210	107	143	44
	1,591	1,292	1,334	1,057

¹ Certification costs amounting to **£28m** (1999 £29m) which were previously included in prepayments have been treated as intangible assets (see note 9).

16 Debtors – amounts falling due after one year

	Group		Company	
	2000 £m	Restated 1999 £m	2000 £m	Restated 1999 £m
Trade debtors	18	45	17	40
Amounts recoverable on contracts	97	39	93	39
Amounts owed by – subsidiary undertakings	—	—	13	25
– joint ventures	57	45	43	44
Corporate taxation	26	19	26	19
Other debtors	49	66	—	—
Prepayments and accrued income ¹	78	36	76	36
Prepaid pension contributions	157	105	5	5
	482	355	273	208

¹ Certification costs amounting to **£13m** (1999 £16m) which were previously included in prepayments have been treated as intangible assets (see note 9).

17 Short-term deposits and investments

	Group		Company	
	2000 £m	1999 £m	2000 £m	1999 £m
Short-term deposits	106	431	—	355
Investments – government securities and corporate bonds	36	33	—	—
	142	464	—	355

18 Borrowings – amounts falling due within one year

	Group		Company	
	2000 £m	1999 £m	2000 £m	1999 £m
Overdrafts	103	100	—	—
Bank loans	103	160	25	150
Other loans	57	141	—	—
Obligations under finance leases	9	7	1	1
	272	408	26	151

19 Other creditors – amounts falling due within one year

	Group		Company	
	2000 £m	1999 £m	2000 £m	1999 £m
Payments received on account ¹	257	348	118	145
Trade creditors	584	658	266	339
Amounts owed to – subsidiary undertakings	—	—	662	432
– joint ventures	118	105	95	98
Corporate taxation	187	130	101	71
Other taxation and social security	63	66	33	34
Other creditors	526	547	377	387
Accruals and deferred income	698	501	332	223
Interim dividend since paid	47	41	47	41
Final proposed dividend	79	71	80	71
	2,559	2,467	2,111	1,841

¹ Includes payments received from joint ventures

	70	64	70	64
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20 Borrowings – amounts falling due after one year

	Group		Company	
	2000 £m	1999 £m	2000 £m	1999 £m
Unsecured				
Bank loans	23	734	—	696
7½% Notes 2003 ¹	199	199	—	—
4½% Notes 2005 ²	177	177	177	177
6¼% Notes 2007 ²	310	—	310	—
7¾% Notes 2016	200	—	200	—
Other loans 2001-2009 (interest rates nil)	4	5	—	—
Secured				
Bank loans	13	—	—	—
Obligations under finance leases payable: ³				
Between one and two years	23	8	16	1
Between two and five years	33	45	3	17
After five years	37	44	1	3
Zero-coupon bonds 2005/2007 (including 9.0% interest accretion) ⁴	39	33	—	—
Bank loans 2001 (interest rates 5.8% to 6.8%) ⁴	—	26	—	—
	1,058	1,271	707	894
Repayable				
Between one and two years – by instalments	26	26	16	1
– otherwise	—	408	—	398
Between two and five years – by instalments	37	48	3	17
– otherwise	378	497	177	298
After five years – by instalments	68	82	1	3
– otherwise	549	210	510	177
	1,058	1,271	707	894

¹ The Group has borrowed US \$300m through a subsidiary, Rolls-Royce Capital Inc., in order to provide a loan for general Group purposes. This has been translated into sterling after taking account of future contracts. The loan is guaranteed by the Company. These notes are the subject of interest swap agreements under which counterparties have undertaken to pay amounts at fixed rates of interest in consideration for amounts payable by the Group at variable rates of interest.

² The Company has borrowed €756m in order to provide a loan for general Group purposes. These notes are the subject of currency swap agreements under which counterparties have undertaken to pay amounts at fixed rates of interest and exchange in consideration for amounts payable by the Company at variable rates of interest and at fixed exchange rates.

³ Obligations under finance leases are secured by related leased assets.

⁴ Secured on aircraft financed by joint arrangements. Repayment of the zero-coupon bonds is also guaranteed by the Company.

21 Other creditors – amounts falling due after one year

	Group		Company	
	2000 £m	1999 £m	2000 £m	1999 £m
Payments received on account ¹	66	40	66	40
Amount owed to subsidiary undertaking	—	—	198	198
Other creditors	57	18	41	—
Accruals and deferred income	83	51	24	21
	206	109	329	259
¹ Includes payments received from joint ventures	—	—	—	—

22 Provisions for liabilities and charges

	At January 1, 2000 £m	Exchange adjustments £m	Fair value adjustments ¹ £m	On disposal of businesses £m	Unused amounts reversed £m	Charged to profit and loss account £m	Utilised £m	At December 31, 2000 £m
Group								
Post-employment, pensions and other post-retirement benefits	108	9	(1)	—	—	16	(2)	130
Deferred taxation	60	2	(7)	(1)	—	1	(6)	49
Warranty/guarantees	161	2	5	—	(1)	52	(32)	187
Contract loss ²	46	1	15	—	(6)	148	(89)	115
Customer financing	30	2	13	—	(3)	6	(13)	35
Insurance	27	—	—	—	—	1	(6)	22
Restructuring	35	—	(8)	—	—	27	(24)	30
Other	36	—	1	—	(1)	11	(14)	33
	503	16	18	(1)	(11)	262	(186)	601
Company								
Warranty/guarantees	41	—	—	—	(1)	11	(9)	42
Contract loss	6	—	—	—	(3)	3	(3)	3
Customer financing	13	—	—	—	—	6	(13)	6
Restructuring	—	—	—	—	—	9	—	9
Other	5	—	—	—	—	2	—	7
At December 31, 2000	65	—	—	—	(4)	31	(25)	67

¹ Fair value adjustments comprise the finalisation of provisional fair values as described in note 30.

² Includes industrial Trent provision.

Post-employment, pensions and other post-retirement provisions are long term in nature and the timing of their utilisation is uncertain.

Warranty provisions primarily relate to products sold and generally cover a period of up to three years.

Provisions for contract loss and restructuring are generally expected to be utilised within one year.

Customer financing provisions cover guarantees provided for asset values and/or financing as described in note 27. Timing of utilisation is uncertain.

Insurance provisions relate to the Group's captive insurance business with timing of utilisation being uncertain.

Other provisions comprise numerous liabilities with varying expected utilisation rates.

	Group		Company	
	2000 £m	1999 £m	2000 £m	1999 £m
Deferred taxation				
Provided in accounts:				
Fixed asset timing differences	8	5	—	—
Other timing differences	60	70	—	—
Advance corporation tax	(19)	(15)	—	—
	49	60	—	—
Full potential liability/(asset):				
Fixed asset timing differences	136	127	112	99
Other timing differences	57	52	(2)	(14)
	193	179	110	85
Advance corporation tax	(19)	(75)	—	(56)
	174	104	110	29

The above figures exclude taxation payable on capital gains which might arise from the sale of fixed assets at the values at which they are stated in the Group's balance sheet.

23 Financial instruments

Details of the Group's policies on the use of financial instruments are given in the Finance Director's review on pages 18 to 23 and in the accounting policies on pages 43 and 44. The following disclosures provide additional information regarding the effect of these instruments on the financial assets and liabilities of the Group excluding short-term debtors and creditors, where permitted by FRS 13.

Funding and interest rates

					2000
	Sterling £m	US Dollar £m	Euro £m	Other £m	Total £m
Financial assets					
Cash at bank and in hand ¹	474	14	6	4	498
Short-term deposits ²	10	32	10	54	106
Government securities and corporate bonds ³	34	2	—	—	36
Unlisted fixed asset investments ⁴	—	13	—	10	23
Debtors – amounts falling due after one year ⁴	60	26	23	15	124
	578	87	39	83	787
Financial liabilities ⁵					
Floating-rate borrowings ⁶	—	(15)	(59)	(164)	(238)
Fixed-rate borrowings	(976)	(83)	—	(29)	(1,088)
Borrowings on which no interest is paid ⁷	—	—	—	(4)	(4)
Other creditors – amounts falling due after one year ⁴	(50)	(1)	—	(6)	(57)
Provisions ⁴	(11)	—	—	(3)	(14)
	(1,037)	(99)	(59)	(206)	(1,401)
1999					
	Sterling £m	US Dollar £m	Euro £m	Other £m	Total £m
Financial assets					
Cash at bank and in hand ¹	366	72	17	66	521
Short-term deposits ²	370	16	23	22	431
Government securities and corporate bonds ³	21	1	9	2	33
Unlisted fixed asset investments ⁴	—	10	—	11	21
Debtors – amounts falling due after one year ⁴	132	24	—	—	156
	889	123	49	101	1,162
Financial liabilities ⁵					
Floating-rate borrowings ⁶	(505)	(123)	(143)	(131)	(902)
Fixed-rate borrowings	(673)	(76)	—	(23)	(772)
Borrowings on which no interest is paid	—	—	—	(5)	(5)
Other creditors – amounts falling due after one year ⁴	—	(2)	—	(16)	(18)
Provisions ⁴	(19)	—	—	(7)	(26)
	(1,197)	(201)	(143)	(182)	(1,723)

Notes

¹ Cash at bank and in hand comprises deposits placed on money markets overnight and bank balances.

² The short-term deposits are deposits placed on money markets for periods ranging from two nights up to one month.

³ The interest on the securities and bonds are at fixed rates. The weighted average interest rate on the sterling securities is 6.7% (1999 6.8%) and the weighted average interest rate on the US Dollar securities is 9.0% (1999 6.0%). The weighted average time for these securities is 2.5 years (1999 1.5 years).

⁴ These amounts do not incur or accrue interest.

⁵ Financial liabilities are stated after taking into account the various interest rate and currency swaps entered into by the Group.

⁶ The floating-rate financial liabilities comprise bank borrowings bearing interest at rates fixed in advance for periods ranging from one to six months based on the applicable LIBOR rate.

⁷ The weighted average period for borrowings on which no interest is paid is nine years (1999 ten years).

23 Financial instruments continued

The analysis of fixed-rate borrowings is as follows:

	2000			1999		
	Total £m	Weighted average interest rate at which fixed %	Weighted average period for which rate is fixed Months	Total £m	Weighted average interest rate at which fixed %	Weighted average period for which rate is fixed Months
Currency						
Sterling	976	6.2	23	673	5.8	96
US Dollar	83	7.1	59	76	6.4	61
Other	29	5.4	72	23	5.0	79

The maturity profile of the Group's financial liabilities is as follows:

	2000 £m	1999 £m
In one year or less, or on demand	286	434
In more than one year but not more than two years	57	778
In more than two years but not more than five years	441	255
In more than five years	617	256
	1,401	1,723

Borrowing facilities

The Group has various borrowing facilities available to it. The undrawn committed facilities available at December 31, 2000 were as follows:

	2000 £m	1999 £m
Expiring within one year	15	20
Expiring in one to two years	238	100
Expiring thereafter	790	395
	1,043	515

Exchange risk management

The table below shows the Group's currency exposures at December 31, 2000 on currency transactions that give rise to the net currency gain and losses recognised in the profit and loss account. Such exposures comprise the net monetary assets and liabilities at December 31, 2000 of the Group that are not denominated in the functional currency of the operating company involved. The exposures are stated after taking into account the effects of currency swaps and forward foreign exchange contracts.

Functional currency of Group operation	2000 Net foreign currency monetary assets/(liabilities)				1999 Net foreign currency monetary assets/(liabilities)			
	Sterling £m	US Dollar £m	Euro £m	Other £m	Sterling £m	US Dollar £m	Euro £m	Other £m
Sterling	—	7	(8)	2	—	(4)	(7)	5
US Dollar	—	—	—	—	1	—	—	—
Euro	—	1	—	1	—	—	—	—
Other	(2)	—	3	6	(1)	27	9	(2)

23 Financial instruments continued

Fair values of financial assets and financial liabilities

The estimated fair value of the Group's financial instruments are summarised below:

Where available, market values have been used to determine current values. Where market values are not available, fair values have been calculated by discounting expected future cashflows at prevailing interest and exchange rates.

	2000		1999	
	Book value £m	Fair value £m	Book value £m	Fair value £m
Unlisted fixed asset investments	23	23	21	21
Cash at bank and in hand	498	498	521	521
Short-term deposits and investments	142	140	464	462
Short-term debt	(272)	(273)	(408)	(409)
Long-term debt	(1,058)	(1,121)	(1,271)	(1,283)
Other creditors – amounts falling due after one year	(57)	(54)	(18)	(16)
Debtors – amounts falling due after one year	124	117	156	132
Provisions	(14)	(14)	(26)	(25)
Derivatives used to hedge the interest, currency and commodity exposure of the business:				
Jet fuel swaps	—	4	—	3
Interest rate swaps	(17)	(55)	(10)	(8)
Currency options	—	(5)	(6)	(3)
Forward foreign currency contracts	(20)	(273)	(4)	32
Forward purchase of shares to meet share option commitments	—	(1)	—	—

Cash at bank and in hand, short-term deposits and short-term borrowings

The book value approximates to fair value either due to the short-term maturity of the instruments or because the interest rate of investments is reset after periods not greater than six months.

Derivatives

The fair value of derivatives is the estimated amount which the Group would expect to pay or receive were it to terminate the derivatives at the balance sheet date. This is based on current market rates.

Hedges of future transactions

As described in the Finance Director's review on pages 18 to 23 the Group's policy is to hedge the following exposures:

- interest rate risk – using interest swaps
- currency exposures on future forecast sales – using forward foreign currency contracts, currency swaps and currency options
- commodity price risk – using jet fuel swaps

Gains and losses on instruments used for hedging are as outlined in the accounting policies on pages 43 and 44.

Unrecognised gains and losses on instruments used for hedging, and the movements therein, are as follows:

	2000			1999		
	Gains £m	(Losses) £m	Total net gains/(losses) £m	Gains £m	(Losses) £m	Total net gains/(losses) £m
Unrecognised gains and losses on hedges at January 1, 2000	64	(20)	44	169	(24)	145
Gains and losses arising in previous year that were recognised in 2000	(27)	2	(25)	(62)	18	(44)
Gains and losses arising in previous year that were not recognised in 2000	37	(18)	19	107	(6)	101
Gains and losses arising as a result of acquisitions	—	—	—	3	(4)	(1)
Gains and losses arising in 2000 that were not recognised in 2000	59	(371)	(312)	(46)	(10)	(56)
Unrecognised gains and losses on hedges at December 31, 2000 of which:	96	(389)	(293)	64	(20)	44
Gains and losses expected to be recognised in 2001	54	(116)	(62)	22	(2)	20
Gains and losses expected to be recognised thereafter	42	(273)	(231)	42	(18)	24

24 Share capital

	Non-equity special share of £1	Equity ordinary shares of 20p each	Nominal value £m
Authorised			
At January 1 and December 31, 2000	1	2,000,000,000	400
Issued and fully paid			
At January 1, 2000	1	1,545,024,330	309
Exercise of share options	—	6,620,836	1
In lieu of paying dividends in cash	—	17,612,912	4
At December 31, 2000	1	1,569,258,078	314

Certain special rights, set out in the Company's Articles of Association, attach to the special rights redeemable preference share (special share) issued to HM Government. Subject to the provisions of the Companies Act 1985, the special share may be redeemed by the Treasury Solicitor at par at any time. The special share confers no rights to dividends or to vote at general meetings but in the event of a winding-up it shall be repaid at its nominal value in priority to any other shares.

At December 31, 2000, the following ordinary shares were subject to options:

	Date of grant	Number	Exercise price	Exercisable dates
Executive share option scheme	1991	120,407	139p	2001
	1992	302,364	125p	2001-2002
	1995	1,761,250	176p	2001-2005
	1996	113,400	238p	2001-2006
Executive share option plan	1999	1,542,669	269p	2002-2009
	1999	254,896	216p	2002-2009
	2000	2,393,399	194p	2003-2010
	2000	7,988,316	194p	2003-2010
	2000	36,808	163p	2003-2010
	2000	410,664	163p	2003-2010
	2000	29,326	170p	2003-2010
	2000	85,045	170p	2003-2010
Sharesave schemes	1995	13,862,662	150p	2001/2003
	*1995	40,895	155p	2001
	*1996	94,895	168p	2001/2002
	1997	15,769,359	205p	2001/2003/2005
	*1997	123,095	154p	2002
	*1998	893,767	107p	2002/2004
	1999	23,340,725	194p	2002/2003/2005/2007

Under the terms of the executive share option scheme and the executive share option plan, options granted to 363 directors and senior executives were outstanding at December 31, 2000.

Under the terms of the sharesave schemes, the Board may grant options to purchase ordinary shares in the Company each year to those employees who enter into an Inland Revenue approved Save As You Earn (SAYE) contract for a period of either three, five or seven years.

Employees in 24 countries participate in sharesave schemes through arrangements broadly comparable to the UK scheme. In the USA a '423' plan which has a two-year savings period was offered.

*Relates to options granted under the Vickers plc sharesave schemes which, following acquisition of Vickers plc, were exchanged in accordance with Inland Revenue Rules for options over Rolls-Royce plc ordinary shares.

25 Reserves

	Non-distributable			Profit and loss account £m
	Share premium £m	Revaluation reserve £m	Other reserves £m	
Group				
At January 1, 2000	615	112	140	812
Exchange adjustments	—	—	1	29
Scrip dividend adjustment	—	—	—	37
Ordinary shares issued relating to scrip dividend	(4)	—	—	—
Write-back of purchased goodwill relating to disposals	—	—	41	—
Arising on share issues (net of expenses)	9	—	—	—
Relating to Qualifying Employee Share Trust	3	—	—	(3)
Transfers between reserves	—	(4)	—	4
Retained loss for the year	—	—	—	(43)
At December 31, 2000	623	108	182	836
Company				
At January 1, 2000	615	104	167	819
Scrip dividend adjustment	—	—	—	37
Ordinary shares relating to scrip dividend	(4)	—	—	—
Arising on share issues (net of expenses)	9	—	—	—
Relating to Qualifying Employee Share Trust	3	—	—	(3)
Transfers between reserves	—	(3)	—	3
Retained profit for the year	—	—	—	68
At December 31, 2000	623	101	167	924

The cumulative amount of goodwill, arising on the acquisition of undertakings still in the Group at December 31, 2000, written off against other reserves amounts to **£387m** (1999 £428m). The continuance of this basis, in respect of pre-1998 acquisitions, is permitted under the transitional arrangements of FRS 10.

The undistributed profits of overseas subsidiary and joint ventures may be liable to overseas taxes and/or United Kingdom tax (after allowing for double tax relief) if remitted as dividends to the UK. No deferred tax has been provided on the basis that there is currently no intention to pay such dividends.

26 Operating lease annual commitments

	Group		Company	
	2000 £m	1999 £m	2000 £m	1999 £m
Leases of land and buildings which expire:				
Within one year	2	2	—	—
Between one and five years	5	5	2	—
After five years	6	4	3	2
Other leases which expire:				
Within one year	2	3	—	1
Between one and five years	12	12	6	5
After five years	42	27	—	1

27 Contingent liabilities

In connection with the sale of its products, on some occasions the Group and Company enter into individually and collectively significant long-term contingent obligations. These can involve, inter alia, guaranteeing financing for customers, guaranteeing a proportion of the values of both engine and airframe, entering into leasing transactions, commitments to purchase aircraft and in certain circumstances could involve the Group and Company assuming certain of its customers' entitlements and related borrowing or cash flow obligations until the value of the security can be realised.

At December 31, 2000, having regard to the estimated net realisable value of the relevant security, the net contingent liabilities in respect of financing arrangements on all delivered aircraft amounted to **£184m** (1999 £118m). Sensitivity calculations are complex, but, for example, if the value of the relevant security was reduced by 20%, a net contingent liability of approximately **£347m** (1999 £272m) would result. There are also net contingent liabilities in respect of undelivered aircraft but it is not considered practicable to estimate these as deliveries can be many years in the future and the related financing will only be put in place at the appropriate time.

At the date these accounts are approved, the directors regard the possibility that there will be any significant loss arising from these contingencies, which cover a number of customers over a long period of time, as remote. In determining this, and the values above, the directors have taken account of advice, principally from Airclaims Limited, professional aircraft appraisers, who base their calculations on a current and future fair market value basis assuming an arms-length transaction between a willing seller and a willing buyer.

Contingent liabilities exist in respect of guarantees provided by the Group in the ordinary course of business for product delivery, performance and reliability. The Company and some of its subsidiary undertakings have, in the normal course of business, entered into arrangements in respect of export finance, performance bonds, countertrade obligations and minor miscellaneous items. Various Group undertakings are parties to legal actions and claims which arise in the ordinary course of business, some of which are for substantial amounts. As a consequence of the recent insolvency of an insurer, the Group is no longer fully insured against known and potential claims from employees who worked for certain of the Group's UK based businesses for a period prior to the acquisition of those businesses by the Group. While the outcome of some of these matters cannot precisely be foreseen, the directors do not expect any of these arrangements, legal actions or claims, after allowing for provisions already made, to result in significant loss to the Group or Company.

In addition to the guarantees referred to in note 20 at December 31, 2000, there were other Company guarantees in respect of financial obligations of subsidiary undertakings **£38m** (1999 £4m) and joint ventures **£14m** (1999 £46m).

28 Related party transactions

Joint ventures

In the course of normal operations, the Group has contracted on an arms-length basis with joint ventures. The aggregated transactions which are considered to be material and which have not been disclosed elsewhere in the financial statements are summarised below:

	2000	1999
	£m	£m
Other income	16	18
Purchases of goods and services	(233)	(315)

29 Post-retirements benefits

Pensions

The Group's pension schemes are mainly of the defined benefit type and the assets of the schemes are held in separate trustee administered funds.

The pension cost relating to the UK schemes is assessed in accordance with the advice of independent qualified actuaries using the projected unit method. The latest actuarial valuations of the principal schemes were as at March 31, 1998 (for the Vickers Group Pension Scheme), April 5, 1998 (for the Rolls-Royce Group Pension Scheme), and March 31, 2000 (for The Rolls-Royce Pension Fund). The principal assumptions used were that in the long term the average returns on investments would be between 2.5% and 2.75% per annum higher than the average increase in pay and between 3.0% and 4.5% per annum higher than the average increase in pensions. The assets of the Vickers Group Pension Scheme have been valued using the discounted income method assuming that UK equity dividends increase at a rate which is 3.5% less than the return on investments. The assumptions used for the March 1998 valuation of the Vickers Group Pension Scheme were determined by Vickers plc prior to it being acquired by Rolls-Royce plc. For the Rolls-Royce Group Pension Scheme and The Rolls-Royce Pension Fund, assets were valued on a market related basis.

The pension cost relating to overseas schemes is calculated in accordance with local best practice and regulations.

The total pension cost for the Group was **£63m** (1999 £60m) of which **£12m** (1999 £7m) relates to overseas schemes.

The aggregate of the market values of the UK schemes at the dates of the latest actuarial valuations was £5,126m. The actuarial value of the assets of the principal schemes represented respectively 99.8% (for The Rolls-Royce Pension Fund), 111.0% (for the Vickers Group Pension Scheme) and 125.0% (for the Rolls-Royce Group Pension Scheme) of the value of the projected accrued liabilities.

The difference between the value of the assets and the value of the projected accrued liabilities (after allowing for expected future increases in earnings and discretionary pension increases) is being amortised over periods of between 9 and 13 years, being the average expected remaining service lives of the pensionable employees.

Prepayments of **£157m** (1999 £105m) are included in debtors and accruals of **£24m** (1999 £24m) are included in provisions for liabilities and charges, being the differences between the accumulated amounts paid into the pension funds and the accumulated pension costs.

Post-retirement benefits other than pensions

In the USA, and to a lesser extent in some other countries, the Group's employment practices include the provision of healthcare and life insurance benefits for retired employees. In the USA, 167 retired employees currently benefit from these provisions and it is estimated that 5,200 current employees will be eligible on retirement.

The cost of post-retirement benefits other than pensions for the Group was **£14m** (1999 £11m). Provisions for the benefit obligations at December 31, 2000 amounted to **£102m** (1999 £80m) and are included in provisions for liabilities and charges. There were no plan assets at either December 31, 2000 or December 31, 1999. The future costs of benefits are assessed in accordance with the advice of independent qualified actuaries and are based on a weighted average discount rate of 7.5% and a weighted average assumed healthcare costs trend rate of 5%.

30 Acquisition fair values

For the acquisitions made in 1999, provisional fair values have been finalised resulting in the following adjustments:

	1999 Provisional fair values £m	Accounting policy adjustments £m	Revaluation adjustments £m	Adjusted fair value £m
Vickers				
Tangible fixed assets	169	—	—	169
Investments	19	—	—	19
Stocks	153	—	(3)	150
Debtors	270	—	—	270
Cash and deposits	93	—	—	93
Borrowings	(191)	—	—	(191)
Other liabilities	(374)	—	(4)	(378)
Provisions for restructuring	(32)	—	4	(28)
Other provisions for liabilities and charges	(89)	—	(14)	(103)
Net assets acquired	18	—	(17)	1
Goodwill	577	—	16	593
Total consideration	595	—	(1)	594

The principal adjustments have been: £3m for obsolete stock, £4m for additional accruals, £10m for various contract issues and deferred tax asset and £1m adjustment to consideration.

	1999 Provisional fair values £m	Accounting policy adjustments £m	Revaluation adjustments £m	Adjusted fair value £m
Rolls-Royce Deutschland				
Tangible fixed assets	185	(3)	—	182
Stocks	80	5	—	85
Debtors	112	—	—	112
Borrowings	(141)	—	—	(141)
Other liabilities	(81)	(5)	—	(86)
Provisions for restructuring	(13)	—	4	(9)
Other provisions for liabilities and charges	(51)	1	(13)	(63)
Net assets acquired	91	(2)	(9)	80
Goodwill	198	2	10	210
Total consideration	289	—	1	290

The principal adjustments have been: £3m on fixed assets to align depreciation policies, £5m write-back of stock provision, £5m for other liabilities relating to the unwinding of foreign exchange positions and write-back of tax, £9m for provision adjustments and £1m adjustment to consideration.

Cooper Energy Services

Fair values have increased by £2m for additional accruals, and the consideration paid has increased by £2m.

Rolls-Royce Engine Services – Oakland

Fair values have increased by £1m for additional accruals.

Cash flow

The cash flow impact in 2000 was: 1999 accruals £43m, additional consideration £2m.

31 Disposal or termination of businesses

During the year, the Group disposed of or terminated its interests in Vickers turbine components and materials handling businesses. Additionally full or partial interests were sold in several other small businesses.

	Continuing businesses £m	Vickers turbine components £m	Materials handling disposal/ termination £m	Other businesses £m	Total £m
Intangible fixed assets	1	17	—	—	18
Tangible fixed assets	7	29	—	3	39
Investments	1	—	—	—	1
Stocks	8	21	5	1	35
Debtors	9	36	6	3	54
Creditors	(7)	(30)	(4)	(3)	(44)
Provisions for liabilities and charges	(1)	—	—	—	(1)
	18	73	7	4	102
Minority interest	(11)	—	—	—	(11)
Transfer to joint ventures	(4)	—	—	—	(4)
Net assets	3	73	7	4	87
Write-back of goodwill	1	—	40	—	41
Profit/(loss) on sale or termination of businesses	—	—	(73)	(5)	(78)
Disposal proceeds less costs	4	73	(26)	(1)	50
Deferred receipts	(1)	(77)	(1)	—	(79)
Accrued costs	—	3	21	—	24
Net cash inflow/(outflow) – Group cash flow statement	3	(1)	(6)	(1)	(5)