

COMPANY NO. 345727

ROLLS-ROYCE INDUSTRIAL & MARINE POWER LIMITED

Accounts for the year
ended 31st December 1996



DIRECTORS REPORT FOR THE YEAR ENDED 31ST DECEMBER 1996

The Directors have pleasure in presenting their report and Audited Accounts for the year ended 31st December 1996.

Statement of Directors Responsibilities

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the company for that period. In preparing those accounts, the directors are required to

- * select suitable accounting policies and then apply them consistently;
- * make judgements and estimates that are reasonable and prudent;
- * state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts;
- * prepare the accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for maintaining proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Activities

The Company did not trade during the year.

Directors

The Directors of the Company during the year were as follows:-

R W Sunnerton

B J Finan

R H Maudslay

W Graham

Directors Interests

None of the Directors had any interest in the shares of the Company.

The beneficial interests of the Directors holding office on 31st December 1996, including immediate family, in the ordinary share capital of Rolls-Royce plc are as follows:-

	HOLDINGS			OPTIONS		
	* 1.1.96	31.12.96	* 1.1.96	Granted in 1996	Exercised in 1996	31.12.96
R W Sunnerton	373	373	169,009	-	99,614	69,395

* or date of appointment if later

Mr W Graham and Mr R H Maudslay are members of the Rolls-Royce Power Engineering plc and Rolls-Royce plc Board of Directors respectively; their Directors' interests are disclosed in those Companies Annual Report and Financial Statements.

Employees

Rolls-Royce Industrial & Marine Power Limited has procedures, both formal and informal, for consulting its employees and their Trade Union Representatives and keeping them informed on a regular basis about the business in which they work.

Directors and/or Senior Management meet with representative members of the recognised Trade Unions on a regular basis to review the general business situation as it relates to the Company or where appropriate the Business Unit, under the auspices of the appropriate Committees. The Company and Business Unit, the prospective workloads, current level of orders and employment prospects are among matters of common interest which are reviewed.

Health and Safety Committees within the Company/Business Unit meet at regular intervals to ensure that health and safety at work is given a priority.

The NEI Group Pension Scheme is open to all eligible U.K. employees and is administered by a Trustee Company which has an equal number of employee and Rolls-Royce Power Engineering plc appointed directors with the Chairman being appointed by Rolls-Royce Power Engineering plc. Facilities are afforded to employee directors of the Pension Scheme to consult with members. Matters of importance are communicated through regular notices and members of the Scheme are provided with an annual report together with details of their own individual prospective benefits.

Employment of Disabled Persons

The Company policy for the employment of disabled persons is that full consideration is given to their applications and candidates are offered employment on the basis of their ability and aptitude. In the event of an individual becoming disabled whilst in employment, every effort is made to ensure that such employment is continued and where necessary appropriate re-training is provided. The training, career development and promotion opportunities for disabled persons are in no way different to those of other employees and the Company makes every effort to employ disabled persons.

Directors and Officers Liability

During the year the Company maintained insurance cover for its Officers against liabilities in relation to the Company.

NEI House, Regent Centre
Newcastle upon Tyne NE3 3SB

By Order of the Board

.....

Secretary

[Signature]
3 March 1997

Auditors Report to the Members of Rolls-Royce Industrial & Marine Power Limited

We have audited the accounts on pages 5 to 6.

As described on page 1 the company's directors are responsible for the preparation of accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of the company's affairs as at 31 December 1996 and have been properly prepared in accordance with the Companies Act 1985.

Wing Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditors

KPMG Audit Plc
Quayside House
110 Quayside
Newcastle upon Tyne
NE1 3DX

3rd March 1997

PROFIT AND LOSS.

The Company has not traded on its own account during the year but acted as agent on behalf of its parent undertaking, Rolls-Royce Power Engineering plc, and the results of the business form part of the consolidated accounts of that company for the year ended 31st December 1996.

BALANCE SHEET AS AT 31ST DECEMBER 1996FIXED ASSETS

	<u>NOTE</u>	<u>1996</u> <u>£</u>	<u>1995</u> <u>£</u>
DEBTORS (Amounts owed by Group Undertakings)	2	3,484,451	3,484,451
<u>TOTAL ASSETS</u>		<u>3,484,451</u>	<u>3,484,451</u>
<u>CAPITAL AND RESERVES</u>			
<u>SHAREHOLDERS FUNDS</u>			
<u>EQUITY</u>			
CALLED UP SHARE CAPITAL:	4	926,100	926,100
PROFIT AND LOSS ACCOUNT:		2,558,351	2,558,351
<u>TOTAL SHAREHOLDERS FUNDS</u>		<u>3,484,451</u>	<u>3,484,451</u>

The notes below form part of these accounts.

Approved by the Board on 3 March 1997
and signed on its behalf by:-

..... Director

RW SWEETON

NOTES TO THE ACCOUNTS1. PROFIT & LOSS ACCOUNT

During the financial year and the preceding financial year the company did not trade and received no income and incurred no expenditure. Consequently, during those years the company made neither a profit or a loss.

2. DEBTORS

The amount stated represents a loan to the Company's parent undertaking Rolls-Royce Power Engineering plc and is repayable upon demand.

3. STAFF NUMBERS AND COSTS

The average number of employees (including Directors) employed by the Company during the year was as follows

	<u>1996</u>	<u>1995</u>
United Kingdom	9	-
Overseas	-	-
	-----	-----
	9	-
	=====	=====
Actual number of persons employed at 31 December 1996	14	-
	=====	=====

In line with the Company's agency status all employment costs are borne by the Parent Undertaking.

4. SHARE CAPITAL

	<u>1996</u> <u>£</u>	<u>1995</u> <u>£</u>
<u>Authorised</u>		
6,400,000 Ordinary shares of 0.25p each	1,600,000	1,600,000
	-----	-----
	1,600,000	1,600,000
	=====	=====
<u>Issued</u>		
3,704,000 Ordinary shares of 0.25p each	926,000	926,000
	-----	-----
	926,000	926,000
	=====	=====

5. ULTIMATE PARENT UNDERTAKING

The Company's parent undertaking is Rolls-Royce Power Engineering plc. The Company's ultimate parent undertaking is Rolls-Royce plc. Both are incorporated in Great Britain and registered in England and Wales. Copies of the Annual Report of both companies can be obtained from Rolls-Royce plc, 65 Buckingham Gate, London, SW1E 6AT.