COMPANY NUMBER: 1189540

ALLEN POWER ENGINEERING LIMITED

Annual Report
for the year ended 31 December 1999

Directors on 1 March 2000:	J R Brown D R Bale A P Smith R P Valks
Secretary:	J R Brown J Warren

Registered Office: Moor Lane, Derby DE24 8BJ

ALLEN POWER ENGINEERING LIMITED

REPORT OF THE DIRECTORS

The directors present their Report and audited Financial Statements for the year ended 31 December 1999.

DIRECTORS RESPONSIBILITY FOR FINANCIAL STATEMENTS

Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Company and of its results for that period. In preparing those financial statements, 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 financial statements;
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping 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.

ACTIVITY

The Company did not trade on its own account during the year but acted as agent on behalf of Rolls-Royce Power Engineering plc in the manufacture and supply of diesel engines, small steam turbines and valves.

YEAR 2000

The Company took part in the Rolls-Royce plc group project to address Year 2000 issues. All costs were borne by Rolls-Royce plc. No significant errors or failures have occurred to date. The board continues to believe that the Company was well prepared in respect of Year 2000 issues, although no absolute guarantee can be given that errors or failures related to the Year 2000 issue will not arise in the future. The Company may also be affected by future Year 2000 related events, errors or failures at third parties with whom it deals.

DIRECTORATE

The directors of the Company during the year were as follows:

J R Brown	
R J Buckland	Resigned 11 March 1999
A P Smith	
R P Valks	
D R Bale	Appointed 19 May 1999

DIRECTORS' SHARE INTERESTS

None of directors, or their immediate family, had any beneficial interest in the shares of the Company during the year. The beneficial interests of directors holding office at 31 December 1999, including immediate family, in the ordinary share capital of Rolls-Royce plc are as follows:

	HOLDINGS		OPTIONS			
	1.1.99	31.12.99	1.1.99	Granted	Exercised	31.12.99
DR Bale	750	750	45,880			45,880
J R Brown	-	-	3,949	3,862	-	7,811
A P Smith	954	954	3,220	-	-	3,220
R P Valks	2,160	2,160	10,906	1,629	-	12,535

EMPLOYEES

The Company is a part of the Rolls-Royce plc Group. The Group's policy is to provide, wherever possible, employment opportunities and training for disabled people, to care for employees who become disabled and to make the best possible use of their skills and potential. It also operates an equal opportunities policy details of which are available to all employees.

There are various forms of communication across the Group, each adapted to the particular needs of individual businesses. The Group consults with employees and their elected representatives on a comprehensive range of topics which relate to its overall business objectives. Management and employee representatives hold regular meetings at every location to discuss opportunities and issues of common interest.

PENSION FUND

The Group's pension schemes are mainly of the defined benefit type. The schemes are administered by trustees and the assets of the schemes are invested by them independently of the finances of the Group. The schemes are funded by annual contributions from :

a) the Company's ultimate parent, fellow subsidiary undertakings ; and
b) scheme members.

Further details of the Group's pension schemes are given in the annual report of the ultimate parent, Rolls-Royce plc

PAYMENT TO SUPPLIERS

The Company seeks the best possible terms from suppliers and, in entering into binding purchasing contracts, gives consideration to quality, delivery, price and the terms of payment. Suppliers are, in this way, made aware of these terms. The Company abides therewith whenever it is satisfied that suppliers have provided the goods or services in accordance with agreed terms and conditions.

AUDITORS AND ANNUAL GENERAL MEETING

Elective Resolutions are in force to dispense with the obligations of laying the Annual Report before the Company in general meeting, appointing auditors annually and holding Annual General Meetings.

By Order of the Board

J Warren
Secretary
1 March 2000

REPORT OF THE AUDITORS TO THE MEMBERS OF ALLEN POWER ENGINEERING LIMITED

We have audited the financial statements on pages 5 and 6.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 2, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

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 financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, 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 financial statements are free from material misstatements, 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 financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the Company's affairs as at 31 December 1999 and of its result for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc.

KPMG Audit Plc
Chartered Accountants,
Registered Auditor

Newcastle upon Tyne
1 March 2000

ALLEN POWER ENGINEERING LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 1999

The Company did not trade on its own account during the year and all expenses have been borne by the ultimate parent company. The Company did not receive any income or incur any expenditure during the year and consequently has made neither profit nor loss.

BALANCE SHEET AT 31 DECEMBER 1999

	note	1999 (£)	1998 (£)
Current Assets			
Debtors - Amounts owed by parent undertaking	4	100	100
		100	100
Net Assets			
Capital And Reserves			
Called up share capital	5	100	100
Equity Shareholders' Funds		100	100

These financial statements were approved by the Board on 1 March 2000 and are signed on its behalf by:

D R Bale
Director

The notes on page 6 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. Principal Accounting Policies

a) Basis of Accounting

These financial statements have been prepared on the historical cost basis and in accordance with applicable accounting standards.

b) Cash flow statements

Under Financial Reporting Standard 1, the Company is exempt from the requirement to prepare a cash flow statement on the grounds that it is wholly-owned subsidiary undertaking.

c) Related Party Transactions

Under Financial Reporting Standard 8, the Company is exempt from the requirement to disclose related party transactions with the Rolls-Royce group and its associates on the grounds that it is a wholly owned subsidiary undertaking.

2. Staff Numbers and Costs

The average number of employees, including directors, employed by the Company during the year was as follows.

		1999	1998
United Kingdom	:	375	851
Overseas	:	-	-
		375	851
The number actually employed at 31 December	:	375	821

In keeping with the Company's agency status all employment costs are borne by the ultimate parent company.

3. Directors' Remuneration

None of the directors received any separate remuneration from the Company in respect of their services to the Company.

4. Debtors - amounts falling due within one year

	1999 (£)	1998 (£)
Amount owed parent undertaking:	100	100

5. Share Capital

Ordinary Shares of £1 each	1999 (£)	1998 (£)
Authorised :	1,000	1,000
Issued and Fully Paid :	100	100

6. Ultimate Parent Company

The Company's ultimate parent company is Rolls-Royce plc which is incorporated in Great Britain and registered in England and Wales. Copies of the annual report of Rolls-Royce plc can be obtained from Rolls-Royce plc, PO Box 31, Moor Lane, Derby DE24 8BJ.