

COMPANY NUMBER 1189540

ALLEN POWER ENGINEERING LIMITED

**Annual Report
for the year ended 31 December 1998**

Directors on
3 March 1999 :

J R Brown
R J Buckland
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 1998.

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 is participating in the Year 2000 project being undertaken by its parent company, Rolls-Royce plc.

The Company may, of course, be impacted in this matter by the actions or inaction of suppliers, partners and customers, and work to ensure that they are prepared or are taking the appropriate actions is also underway.

No absolute guarantee that the problem has been eliminated can be given, but we believe that the majority of our businesses and of our principal commercial relationships are well advanced in this area.

DIRECTORATE

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

J R Brown
R J Buckland
A P Smith
R P Valks

ALLEN POWER ENGINEERING LIMITED

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 1998, including immediate family, in the ordinary share capital of Rolls-Royce plc are as follows :

	HOLDINGS		OPTIONS			
	<u>1.1.98</u>	<u>31.12.98</u>	<u>1.1.98</u>	<u>Granted</u>	<u>Exercised</u>	<u>31.12.98</u>
J R Brown	-	-	3,949	-	-	3,949
R J Buckland	2,327	2,327	152,677	-	-	152,677
A P Smith	-	954	4,174	-	954	3,220
R P Valks	-	2,160	13,066	-	2,160	10,906

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

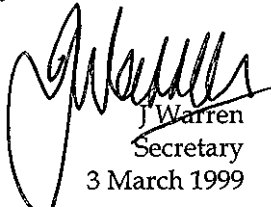
PAYMENT TO SUPPLIERS

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
3 March 1999

ALLEN POWER ENGINEERING LIMITED

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

As described on page 2 the Company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements 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 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 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 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 1998 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 Auditors*

*Newcastle upon Tyne
3 March 1999*

ALLEN POWER ENGINEERING LIMITED

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 1998

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 1998

	<u>note</u>	<u>1998</u> (£)	<u>1997</u> (£)
Current Assets			
Debtors- Amounts owed by parent undertaking	4	<u>100</u>	<u>100</u>
		<u>100</u>	<u>100</u>
Net Assets			
Capital And Reserves			
Called up share capital	5	<u>100</u>	<u>100</u>
Equity Shareholders' Funds		<u>100</u>	<u>100</u>

These financial statements were approved by the Board on 3 March 1999 and are signed on its behalf by :



R P Valks
Director

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

ALLEN POWER ENGINEERING LIMITED

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.

		<u>1998</u>	<u>1997</u>
United Kingdom	:	851	966
Overseas	:	<u>-</u>	<u>15</u>
		<u>851</u>	<u>981</u>
The number actually employed at 31 December	:	<u>821</u>	<u>970</u>

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

	<u>1998</u> (£)	<u>1997</u> (£)
Amount owed parent undertaking:	100	100

5. Share Capital

	<u>1998</u> (£)	<u>1997</u> (£)
Ordinary Shares of £1 each		
Authorised :	1,000	1,000
Issued and Fully Paid :	<u>100</u>	<u>100</u>

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.