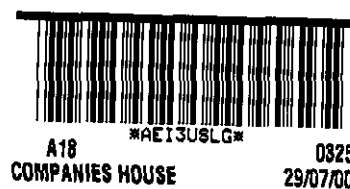


Vickers-Armstrongs Limited

**Directors' report and financial
statements**

Registered number 227013

31 December 1999



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Directors' report

The directors present their report and audited financial statements of the company for the year ended 31 December 1999.

Principal activity

The principal activity of the company is the supply and manufacture of military bridging systems under the name of Vickers Bridging. No change is envisaged and there have been no important events affecting the company since the end of the year under review.

On 17 November 1999 (the "Unconditional Date") a recommended offer from Rolls-Royce plc ("Rolls-Royce") for the whole of the issued share capital of Vickers plc (of 250p per ordinary share) was declared wholly unconditional following which Rolls-Royce plc became the ultimate holding company of the company.

Business review

The profit for the year on ordinary activities before taxation was £260,000. The taxation charge was £93,000, resulting in a profit after taxation of £167,000.

The directors do not recommend the payment of a dividend and accordingly £167,000 (1998: £99,000) has been transferred to retained reserves.

Employees

The company recognises that its most valuable resource is its human resource and unlocking the potential of its employees so that they can contribute fully to its business success whilst enjoying maximum job satisfaction continues to have a high priority.

Employees are kept informed on matters affecting them as employees and on the various factors affecting the company's general business situation through both formal and informal communication activities of various kinds, including regular briefing group meetings. Employee representatives at local level are consulted regularly on a wide range of matters affecting the company's current and future situation.

The business systems and structures of the company are under constant review to ensure through extensive teamwork initiatives, that the best contribution from each and every employee is available.

Employees will be able to participate in the Rolls-Royce Sharesave Scheme.

The company maintains pension schemes for the majority of employees in the UK and overseas. The assets of the schemes are kept independent of the company's finances and are administered by trustees. The most recent actuarial valuations indicated that the assets of the principal schemes were sufficient to meet the cost of benefits as and when they fall due.

The company operates an equal opportunities policy. The company's policy is to provide, whenever 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.

Education and training

The company continues to invest in company training and development programmes to ensure that its people attain the highest level of skills.

Employees are encouraged to take responsibility for their personal development and opportunities and are available to extend their competency levels using a range of the latest education and training techniques. The use of appraisal systems and personal development planning continues to grow and opportunities for the company to share best practice in these and other employee development and training activities is a high priority.

Directors' report (continued)

Directors and directors' interests

The directors listed below held office during the financial year:

SJ Abesser (appointed 15 September 1999)
PM Forster (resigned 30 April 1999)
Mr J Hammerton
Mr AL John
RE McKeown (appointed 4 May 1999, resigned 15 September 1999)

None of the directors who held office at the end of the financial year had any beneficial interest in the shares of Vickers-Armstrongs Limited at the beginning or at the end of the financial year; neither did they have any beneficial interest in the shares of any subsidiary within the Vickers plc or the "new" Rolls-Royce plc group of companies. Details of interests of those directors in the share capital of the ultimate holding company, being Vickers plc (until 17 November 1999) or Rolls-Royce plc (after 17 November 1999) were as follows:

	Interest in Rolls-Royce after Rolls-Royce takeover		Interest in Vickers plc prior to Rolls-Royce takeover		
	Ordinary shares of 25p each as at 31 December 1999	Share options granted in 1999	Ordinary shares of 25p each as at 1 January 1999 or date of appointment if later	Share options granted in 1999	Share options exercised in 1999
H Hammerton	-	-	-	6,451	20,658
AL John	-	-	15,078	63,538	7,522

With effect from the Unconditional Date all outstanding options became exercisable under their respective scheme rules. In addition Rolls-Royce made an offer to holders of SAYE options which entitled such holders to accept options over Rolls-Royce plc shares in exchange for options over Vickers plc shares based on a formula approved by the Inland Revenue. Rolls-Royce also offered to holders of executive share options in Vickers plc cash cancellation in exchange for the extinguishment of the right to exercise such options. In respect of the Vickers plc Performance Investment Plan, the relevant performance targets were achieved and maximum share awards were provisionally made to participants for which Rolls-Royce also offered cash cancellation of such provisional awards.

In addition to the details listed in the table above, Mr J Hammerton received the cash sum of £29,725 in return for the cancellation of his rights to options over 51,780 shares in Vickers plc. Mr AL John received the cash sum of £292,316 in return for the cancellation of his rights to options over 434,624 shares in Vickers plc.

Tangible Fixed Assets

The directors are of the opinion that the overall market value of the company's properties, on an existing use basis, taking into account that they are held for the longer term and depreciated accordingly, is not materially different from that shown in the accounts.

Research and Development

The company devotes a substantial amount of time and effort to research and development activities.

Directors' report *(continued)*

Year 2000

A task force reporting to the Managing Director, Finance and Planning of the Vickers group of companies, co-ordinated activities throughout the group associated with Year 2000 issues. The operation of this task force was aligned with the Rolls-Royce plc group project following acquisition. Costs were borne by Vickers plc and its operating units. 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.

Auditor

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG Audit Plc as auditor of the Company is to be proposed at the forthcoming Annual General Meeting of the Company.

Signed on behalf of the Board



John Hammerton
Director

17 March 2000

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company 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 the 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.



KPMG Audit Plc

2 Cornwall Street
Birmingham
B3 2DL

Auditor's report to the members of Vickers-Armstrongs Limited

We have audited the financial statements on pages 6 to 14.

Respective responsibilities of directors and auditor

The directors are responsible for preparing the directors' report and, as described on page 4, 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 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 1999 and of its profit 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

17 March 2000

Profit and loss account
for the year ended 31 December 1999

	<i>Note</i>	Continuing operations	
		1999	1998
		£000	£000
Turnover		14,536	15,896
Cost of sales		(12,517)	(12,931)
Gross profit		2,019	2,965
Administrative expenses (1998: including exceptional operating costs of £1,490,000)	2	(1,759)	(2,330)
Operating profit		260	635
Other interest receivable and similar income	5	-	3
Profit on ordinary activities before taxation	2	260	638
Tax on profit on ordinary activities	6	(93)	(539)
Profit for the financial year		167	99

A statement of movements on reserves is given in note 13 on page 14.

The company has no recognised gains or losses other than the profit for the financial year.

Balance sheet
at 31 December 1999

	Note	1999 £000	1998 £000	£000
Fixed assets				
Tangible assets	7	1,529		1,906
Current assets				
Stocks	8	2,012	1,162	
Debtors	9	20,281	23,610	
Cash at bank and in hand		5	4	
		<u>22,298</u>	<u>24,776</u>	
Creditors: amounts falling due within one year	10	<u>(3,890)</u>	<u>(6,912)</u>	
Net current assets		<u>18,408</u>		<u>17,864</u>
Net assets		<u>19,937</u>		<u>19,770</u>
Capital and reserves				
Called up share capital	12	35,000		35,000
Profit and loss account	13	(15,063)		(15,230)
Total equity shareholders' funds		<u>19,937</u>		<u>19,770</u>

These financial statements were approved by the board of directors on 17 March 2000 and were signed on its behalf by:

J. Hammerton

J Hammerton
Director

Reconciliation of movement in shareholders' funds
for the year ended 31 December 1999

	1999 £000	1998 £000
Profit for the financial year	167	99
Net movement on shareholders' funds	<u>167</u>	<u>99</u>
Shareholders' funds at beginning of year	19,770	19,671
Shareholders' funds at end of year	<u><u>19,937</u></u>	<u><u>19,770</u></u>

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements:

Basis of preparation

The financial statements have been prepared in accordance with applicable Accounting Standards and under the historical cost accounting rules.

Cash flow statement

In accordance with Financial Reporting Standard No 1, the company has not produced a statement of cash flows for the year on the grounds that being a wholly owned subsidiary of Rolls-Royce plc it is exempt from the requirement to do so.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

Goodwill

Purchased goodwill represents the excess of purchase consideration for acquisitions over the fair value of separable net tangible assets at the date of acquisition and is immediately written off against reserves.

Turnover

Turnover consists of amounts invoiced in respect of deliveries. A proportion of profit is taken on long-term contracts appropriate to the stage of completion of the contract.

All turnover arises from the same activity within the UK.

Research and development expenditure

Research and development expenditure, other than that which is recoverable on projects under contract with third parties, is charged against profit in the year in which it is incurred.

Taxation

The charge for taxation is based on the profit for the year and takes into account deferred taxation on timing differences to the extent that a liability or an asset is expected to arise.

Notes (continued)

1 Accounting policies (continued)

Tangible assets

Depreciation is provided by the company on a straight line basis to write off the cost of tangible fixed assets to estimated residual value over their useful lives. These lives are reviewed on a regular basis. The depreciation rates used are:

	Per annum
Freehold property	4%
Plant and machinery	6.67%-20%
Office furniture and equipment	10%-25%
Vehicles	25%

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

Stocks and work in progress

Stocks and work in progress are valued at the lower of cost and net realisable value. Cost comprises materials and factory labour, including overheads thereon based on normal levels of activity.

Long term contracts

The amount of profit attributable to the stage of completion of a long term contract is recognised when the outcome of the contract can be foreseen with reasonable certainty. Turnover for such contracts is stated at cost appropriate to their stage of completion plus attributable profits, less amounts recognised in previous years. Provision is made for any losses which are foreseen.

Contract work in progress is stated at costs incurred, less those transferred to the profit and loss account, after deducting foreseeable losses and payments on account not matched with turnover.

Amounts recoverable on contracts are included in debtors and represent turnover recognised in excess of payments on account.

Leases

Where the company enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a 'finance lease'. The asset is recorded in the balance sheet as a tangible fixed asset and is depreciated over its estimated useful life or the term of the lease, whichever is shorter. Future instalments under such leases, net of finance charges, are included with creditors. Rentals payable are apportioned between the finance element, which is charged to the profit and loss account, and the capital element which reduces the outstanding obligation for future instalments.

All other leases are accounted for as 'operating leases' and the rental charges are charged to the profit and loss account on a straight line basis over the life of the lease.

Pension costs

The company's employees are members of either the group's defined benefit or defined contribution pension schemes, the assets of which are administered by trustees and are independent of the group's finances. The pension costs relating to these schemes, including those related to past service, are assessed in accordance with the recommendations of independent actuaries. Full actuarial valuations are made at regular intervals. Variations from the regular costs of defined benefit schemes are allocated over the average remaining service lives of current employees.

Notes (continued)

1 Accounting policies (continued)

Related parties

Under Financial Reporting Standard 8, the company is exempt from the requirement to disclose transactions with related parties on the grounds that it is a wholly owned subsidiary of Rolls-Royce plc and the company's results are consolidated in the Rolls-Royce plc group financial statements.

2 Profit on ordinary activities before taxation

	1999 £000	1998 £000
<i>Profit on ordinary activities before taxation is stated after charging:</i>		
Auditors' remuneration:		
Audit	11	11
Depreciation	527	694
Hire of other assets - operating leases	73	126
Exceptional operating costs		
- impairment of fixed assets	-	1,080
- redundancy costs	-	410
Research and development	1,012	-
	<hr/>	<hr/>

3 Remuneration of directors

Directors' emoluments in respect of services to the company for the year were £Nil (1998: £47,000).

4 Staff numbers and costs

The average number of persons employed by the company (including directors) during the year, analysed by category, was as follows:

	Number of employees	
	1999	1998
Management and administration	32	44
Production	64	90
	<hr/>	<hr/>
	96	134
	<hr/>	<hr/>

The aggregate payroll costs of these persons were as follows:

	1999 £000	1998 £000
Wages and salaries	2,184	2,748
Social security costs	174	212
	<hr/>	<hr/>
	2,358	2,960
	<hr/>	<hr/>

Notes (continued)

5 Other interest receivable and similar income

	1999 £000	1998 £000
Other interest	-	3

6 Taxation

	1999 £000	1998 £000
Group relief at 30.25% on the profit for the year on ordinary activities	93	-
UK corporation tax at 31% on the profit for the year on ordinary activities	-	689
Prior year adjustment	-	(150)
	<u>93</u>	<u>539</u>

In 1998, the taxation charge was higher than the standard rate of 31% on profits because of an unprovided deferred tax credit of £447,000, arising from the exceptional operating charge.

7 Tangible fixed assets

	Freehold land and buildings £000	Plant and machinery £000	Fixtures and fittings £000	Total £000
<i>Cost</i>				
At beginning of year	630	4,170	212	5,012
Additions	-	-	150	150
Disposals	-	-	(180)	(180)
Transfers between categories	(26)	(31)	57	-
At end of year	<u>604</u>	<u>4,139</u>	<u>239</u>	<u>4,982</u>
<i>Depreciation and diminution in value</i>				
At beginning of year	78	2,850	178	3,106
Charge for year	22	290	215	527
Disposals	-	-	(180)	(180)
At end of year	<u>100</u>	<u>3,140</u>	<u>213</u>	<u>3,453</u>
<i>Net book value</i>				
At 31 December 1999	<u>504</u>	<u>999</u>	<u>26</u>	<u>1,529</u>
At 31 December 1998	<u>552</u>	<u>1,320</u>	<u>34</u>	<u>1,906</u>

The gross book value of land and buildings includes £460,000 (1998: £486,000) of depreciable assets.

Notes (continued)

8 Stocks

	1999 £000	1998 £000
Long-term contract work in progress	4,564	3,588
Payments on account	(2,552)	(2,426)
	<u>2,012</u>	<u>1,162</u>

9 Debtors

	1999 £000	1998 £000
Trade debtors	683	896
Amounts owed by intermediate parent undertaking	19,031	21,871
Other taxes and social security	-	110
Other debtors	533	690
Prepayments and accrued income	34	43
	<u>20,281</u>	<u>23,610</u>

10 Creditors: amounts falling due within one year

	1999 £000	1998 £000
Bank loans and overdrafts	4	69
Trade creditors	1,753	2,831
Amounts owed to fellow subsidiary undertakings	96	2
Group relief corporation tax	93	689
Other taxes and social security	52	51
Other creditors	55	79
Accruals and deferred income	1,837	3,191
	<u>3,890</u>	<u>6,912</u>

11 Deferred taxation

The potential asset for which provision has not been made is:

	1999 £000	1998 £000
Excess capital allowances over accumulated depreciation	65	56
Other timing differences	-	172
	<u>65</u>	<u>228</u>

Notes (continued)

12 Called up share capital

	1999 £000	1998 £000
<i>Authorised</i>		
Ordinary shares of £1 each	35,000	35,000
	<hr/>	<hr/>
<i>Allotted, called up and fully paid</i>		
Ordinary shares of £1 each	35,000	35,000
	<hr/>	<hr/>

13 Reserves

	Profit and loss account £000
At beginning of year	(15,230)
Profit for the year	167
	<hr/>
At end of year	(15,063)
	<hr/>

The cumulative amount of goodwill which has been written off is £19,760,000 (1998: £19,760,000).

14 Commitments

Annual commitments under non-cancellable operating leases are as follows:

	Land and buildings	
	1999 £000	1998 £000
Operating leases which expire:		
Within one year	52	48
	<hr/>	<hr/>

15 Pension scheme

Both defined benefit and defined contribution pension schemes for group employees are operated by Vickers plc, the company's intermediate parent undertaking. Details of the schemes are given in the group financial statements of Rolls-Royce plc.

16 Ultimate parent company and parent undertaking of larger group of which the company is a member

The company's ultimate holding company is Rolls-Royce plc incorporated in Great Britain and registered in England and Wales. The accounts of Rolls-Royce plc may be obtained from the Secretary, Rolls-Royce plc, 65 Buckingham Gate, London SW1E 6AT.