

Vickers Engineering plc

(Company registered in London under no. 3543)

Directors' Report and Financial Statements

31 December 2000



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Report of the directors

The directors present their annual report and the audited financial statements for the year ended 31 December 2000.

Principal activities

The principal activities of the Company include land defence systems and equipment and the manufacture of components for the marine, gas-turbine and automotive industries.

The profits for the year, after taxation, amounted to £38.2m (1999: £2.3m).

The directors do not recommend the payment of a dividend (1999: £nil).

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 are 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 costs 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 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 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.

Disposals

At the end of the year, December 31, 2000 the following businesses that comprise the major part of the Turbine Components Division were sold to a third party: Ross & Catherall Limited, Trucast Limited. The following divisions of Turbine Components were also disposed of as part of the sale: Vickers Aerospace Components, Vickers Automotive and Vickers Precision Machining.

Directors and directors interests

The directors who held office during the year were as follows:

S J Abesser	(resigned 20 March 2000)
D R Bale	(appointed 5 July 2000)
B Baker	
T C Coltman	
P Heiden	
A L John	(resigned 20 March 2000)

None of the directors who held office at the end of the financial year had any beneficial interest in the shares of Vickers Engineering plc at the beginning or at the end of the financial year. Details of interests of those directors in the share capital of the ultimate holding company were as follows:

Rolls-Royce plc Ordinary 25p Shares			Options over Rolls-Royce plc Ordinary Shares			
	Shares @ 01 January 2000 or date of appointment if later	Shares @ 31 st December 2000	Options @ 01 January 2000 or date of appointment if later	Options @ 31 December 2000	Exercise price (p)	Exercisable Dates
D R Bale	750	4,458*	44,500 1,380	44,500 1,380 15,444 11,584	176 150 194.25 194.25	2000-2005 2001 2003-2010 2003-2010
	750	4,458*	45,880	72,908		
B Baker	2,009	6,686*	63,750	63,750	176	2000-2005
			11,647	11,647	LTIP	2002
			5,200	5,200	150	2001
			2,359	2,359	205	2005
			2,609	2,609	194	2005
				77,221	194.25	2003-2010
	2,009	6,686*	85,565	162,786		
T C Coltman	19,800	27,833*	58,500	58,500	176	2000-2005
			23,293	23,293	LTIP	2002
			4,204	4,204	205	2001
				15,444	194.25	2003-2010
				69,499	194.25	2003-2010
	19,800	27,833*	85,997	170,940		

The share options for Messrs Baker and Coltman include awards made under a long-term incentive plan which are conditional upon performance criteria. Mr P Heiden is a member of the Rolls-Royce plc Board of Directors and his director's interests and emoluments are disclosed in that company's Annual Report and Financial Statements.

*The above interests under ordinary 25p shares include shares held in trust for the following directors:

	Annual Performance Related Award Scheme (granted 7.3.00) ¹		Profit Sharing Share Scheme (granted 14.4.00) ²	
	1.1.2000	31.12.2000	1.1.2000	31.12.2000
D R Bale	-	2,808	-	900
B Baker	-	4,011	-	1,286
T C Coltman	-	6,618	-	1,415

¹ Under the Annual Performance Related Award Scheme, shares vest after two years.

² Under the Profit Sharing Share Scheme, shares vest after three years.

The market price of the ordinary shares of the Company's ultimate parent company Rolls-Royce plc at December 31, 2000, was 198.25p and the range during 2000 was 161p to 261p.

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 depreciate accordingly, is not materially different from that shown in the financial statements.

Research and Development

The Company devotes a substantial amount of time and effort to research and development activities and expenditure for 2000 was £5.0m (1999: £4.5m).

Prompt Payment

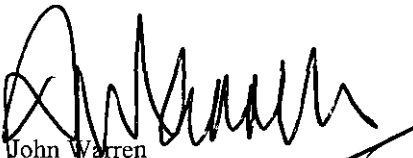
In the United Kingdom, the Company has subscribed to the Prompt Payment Code as published by, and available from, the Confederation of British Industry. The main features of the Code are that payment terms are agreed at the outset of a transaction and are adhered to by the parties concerned, that the bills will be paid in accordance with the contract; and that the payment terms are not altered without prior agreement.

The amount of trade creditors shown in the balance sheet at 31 December 2000 represents 47 days (1999: 47 days) of average purchases during the year for the Company.

Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution for the pre-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 Warren
Secretary
3rd September 2001

Statement of director's 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 for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and apply them constantly;
- 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 assume 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 the 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.

**Report of the Auditors KPMG Audit Plc
To the members of Vickers Engineering plc**

We have audited the financial statements on pages 7 to 26.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 5, 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 audit 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 2000 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
London

3rd September 2001

Accounting Policies

Basis of preparation

The financial statements have been prepared, in accordance with applicable accounting standards, on the historical basis of accounting, modified to include the revaluation of certain land and buildings. The accounting policies are consistent with those adopted by the Company last year.

The Company is exempt by virtue of section 228 of the Companies Act 1985 from the requirement to prepare group financial statements. These financial statements present information about the Company as an individual undertaking and not about its group.

As permitted by FRS 1, no cash flow statement has been prepared, as a consolidated cash flow statement has been prepared by the ultimate parent Company.

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

Foreign currencies

Assets and liabilities in foreign currencies are translated into sterling at the rates ruling at the balance sheet date.

Exchange differences arising on the retranslation of the net investments in overseas businesses, together with differences on associated borrowings in foreign currencies, are transferred directly to reserves. Other exchange differences are included in the profit and loss account.

Turnover

Turnover consists of amounts invoiced to external customers, net of value added taxes, in respect of deliveries made, or work completed, during the year. In the case of long-term contracts, turnover is based on the estimated sale value of the work completed during the year.

Profit

Profit is recognised at the time of sale, except in the case of long-term contracts when it is recognisable by reference to the stage of completion on the contract when the outcome of the contract can be assessed with reasonable certainty. Provision is made for any losses on long-term contracts as soon as they are foreseen.

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.

Operating leases

Rentals under operating leases are charged to profit as incurred.

Taxation

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

No provision is made for United Kingdom and foreign taxation, which would arise in the event of the distribution of the retained profits of overseas businesses unless such distribution is proposed.

Pensions

The Company operates both defined benefit and defined contribution pension schemes, the assets of which are administered by trustees and are independent of the groups' 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.

Tangible assets

Depreciation is provided to write off the cost or valuation less the estimated residual value of tangible assets by equal instalments over their useful economic lives as follows:

	<u>per annum</u>
Freehold Buildings	2% - 4%
Leasehold buildings (or at higher rate based on the life of the lease)	2% - 4%
Plant, machinery and vehicles	10% - 33%
Office furniture and equipment	10% - 20%

Interest costs on major fixed asset additions are capitalised during the construction period and written off as part of the total asset cost.

Assets held under finance leases are included in tangible assets at their purchase price and are depreciated over the shorter of the asset life or lease period. The obligations related to finance leases, net of finance charges in respect of future periods, are included as appropriate under creditors due within or after one year.

Stocks and work in progress

Long-term work in progress is stated as costs incurred less those transferred to the profit and loss account, after deducting provision for foreseeable losses and payments on account not matched with turnover.

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

Warranty

Provision is made for the estimated future costs in respect of warranties for products and services.

Profit and loss account

For the year ended 31 December	Notes	Continuing operations 2000 £m	Discontinued operations 2000 £m	Total 2000 £m	Continuing Operations 1999 £m	Discontinued operations 1999 £m	Total 1999 £m
Turnover	2,3	253.6	48.5	302.1	356.3	-	356.3
Operating costs		(220.2)	(45.9)	(266.1)	(353.1)	-	(353.1)
Operating profit – before exceptional items	2,3	33.4	2.6	36.0	15.3	-	15.3
- exceptional items	4	-	-	-	(12.1)	-	(12.1)
Operating profit/(loss)	3	33.4	2.6	36.0	3.2	-	3.2
Profit less losses including provision for losses on disposal of businesses	5	-	(77.4)	(77.4)	-	(6.2)	(6.2)
Non-recurring corporate costs	4	-	-	-	0.9	-	0.9
Write down of investment in subsidiary undertaking	4	(168.3)	-	(168.3)	-	-	-
(Loss)/profit on ordinary activities before dividends receivable and interest	2,3	(134.9)	(74.8)	(209.7)	4.1	(6.2)	(2.1)
Dividends receivable from subsidiary undertakings				272.6			-
Net interest	6			(4.6)			4.4
Profit on ordinary activities before taxation				58.3			2.3
Taxation	7			(20.1)			-
Profit on ordinary activities after taxation and shareholders' profit for the financial year				38.2			2.3
Dividends payable	8			-			-
Profit transferred to reserves	18			38.2			2.3

The notes on pages 13 to 26 form part of these financial statements.

Balance sheet

At 31 December

	Notes	2000 £m	1999 £m
Fixed Assets			
Tangible assets	11	26.7	39.6
Investments in subsidiary undertakings	12	207.9	476.6
		234.6	516.2
Current assets			
Stocks and work in progress	13	8.3	30.9
Debtors falling due within one year	14	749.3	768.6
Debtors falling due after more than one year	14	57.4	35.9
		806.7	804.5
Cash and deposits		32.9	34.2
		847.9	869.6
Creditors: amounts falling due within one year			
Borrowings	15	(26.5)	(147.9)
Other liabilities	15	(424.5)	(644.8)
		(451.0)	(792.7)
Net current assets		396.9	76.9
Total assets less current liabilities		631.5	593.1
Creditors: amounts falling due after more than One year	15	(8.7)	(6.1)
Provisions for liabilities and charges	16	(36.3)	(38.3)
		586.5	548.7
Capital and reserves			
Called up share capital	17	171.6	171.6
Share premium account	18	65.1	65.1
Revaluation reserve	18	11.0	11.3
Other reserves	18	8.4	8.4
Profit and loss account	18	330.4	292.3
Shareholders' funds		586.5	548.7

The notes on pages 13 to 26 form part of these financial statements.

The financial statements were approved by the board of directors on 3rd September 2001 and were signed on its behalf by:

Director



Statement of total recognised gains and losses

	2000 £m	1999 £m
Profit for the financial year	38.2	2.3
Currency translation differences on foreign currency net investments	(0.4)	3.1
Total recognised gains and losses for the financial year	37.8	5.4

Note of historical cost profits and losses

	2000 £m	1999 £m
Reported profit on ordinary activities before taxation	58.3	2.3
Difference between historical cost depreciation charge and the actual Depreciation charge of the year calculated on the revalued amount	0.3	0.4
Historical cost profit on ordinary activities before taxation	58.6	2.7
Historical cost profit for the year retained after taxation, Minority interests and dividends	38.5	2.7

Reconciliation of shareholders' funds

	Ordinary share capital £m	Share premium account £m	Revaluation Reserve £m	Other Reserves £m	Profit and loss account £m	2000 £m	1999 £m
Opening shareholders' funds	171.6	65.1	11.3	8.4	292.3	548.7	543.3
Profit for the year					38.2	38.2	2.3
Dividends					-	-	-
Retained profit for the financial period					38.2	38.2	2.3
Currency translation differences on foreign currency net investments					(0.4)	(0.4)	3.1
Reserves reclassified			(0.3)		0.3	-	-
Closing shareholders' funds	171.6	65.1	11.0	8.4	330.4	586.5	548.7

Notes to the financial statements

1. Discontinued operations

In 2000, discontinued operations comprise the Turbine Components Businesses with the exception of Vickers Pressings and Ross Catherall Ceramics Limited.

2. Segmental information

	Turnover		Profit on ordinary activities before interest						Segmental net assets/(liabilities)	
			Before exceptional items	Exceptional items	After exceptional items	Before exceptional items	Exceptional items	After exceptional items		
	2000 £m	1999 £m	2000 £m	2000 £m	2000 £m	1999 £m	1999 £m	1999 £m	2000 £m	1999 £m
Principal activities										
Marine	9.8	11.0	0.5	-	0.5	0.8	(0.7)	0.1	8.2	9.8
Turbine Components	12.7	53.9	0.6	-	0.6	2.9	(0.2)	2.7	4.2	27.3
Defence Systems	231.1	291.4	32.3	-	32.3	11.6	-	11.6	(87.6)	(90.8)
			33.4	-	33.4	15.3	(0.9)	14.4		
Costs associated with the Take-over by Rolls-Royce plc			-	-	-	-	(11.2)	(11.2)		
			33.4	-	33.4	15.3	(12.1)	3.2		
Write down of investment in subsidiary undertaking			-	(168.3)	(168.3)	-	-	-		
Non-recurring corporate costs			-	-	-	-	0.9	0.9		
Total continuing operations	253.6	356.3	33.4	(168.3)	(134.9)	15.3	(11.2)	4.1		
Total discontinued operations	48.5	-	2.6	(77.4)	(74.8)	-	(6.2)	(6.2)		
Unallocated net assets									288.7	485.1
Sales to third parties	302.1	356.3								
Profit/(loss) on ordinary activities before dividends receivable and interest			36.0	(245.7)	(209.7)	15.3	(17.4)	(2.1)		
Total segmental net assets									213.5	431.4

The segmental analysis of profit on ordinary activities before dividends receivable and interest includes an appropriate allocation of recurring central costs.

2. Segmental information (continued)

	Turnover by destination	
	2000	1999
	£m	£m
Geographical segments		
United Kingdom	161.5	323.7
North America	0.5	2.8
Continental Europe	5.9	17.5
Asia / Pacific	85.5	11.8
Rest of the World	0.2	0.5
Total continuing operations	253.6	356.3
Discontinued operations	48.5	-
Sales to third Parties	302.1	356.3

All turnover and profit before interest and tax originates from the United Kingdom

	2000	1999
	£m	£m
Reconciliation of total net assets to segmental net assets		
Net assets as shown in the balance sheet	586.5	548.7
Exclude interest-bearing assets and liabilities:		
Cash and deposits	(32.9)	(34.2)
Net loans to subsidiary undertaking	(123.1)	12.5
Loan to parent undertaking	(243.5)	(243.5)
Borrowings falling due within one year	26.5	147.9
Borrowings falling due after more than one year	-	-
Total segmental net (liabilities) / assets	213.5	431.4

3. Operating profit / (loss)

	Continuing operations			Continuing Operations		
	Before exceptional	Exceptional Items	Total	Before exceptional	Exceptional items	Total
For the year ended 31 December	2000 £m	2000 £m	2000 £m	1999 £m	1999 £m	1999 £m
Turnover	253.6	-	253.6	356.3	-	356.3
Cost of Sales	(213.7)	-	(213.7)	(319.4)	(0.2)	(319.6)
Gross Profit	39.9	-	39.9	36.9	(0.2)	36.7
Administrative expenses	(6.8)	-	(6.8)	(21.5)	(11.9)	(33.4)
Distribution costs	-	-	-	(1.1)	-	(1.1)
Other operating income	0.3	-	0.3	1.0	-	1.0
Operating profit	33.4	-	33.4	15.3	(12.1)	3.2

	2000 £m	1999 £m
Operating profit is stated after charging		
Depreciation:		
On owned assets	6.0	7.8
Research and Development	5.0	4.5
Fees paid to the auditors and their associates:		
Audit	0.2	0.4
Non-audit:	-	2.3
Operating lease charges:		
Other lease charges	-	0.3

The non-audit fees paid in 1999 related principally to Vickers plc's acquisition of Ulstein.

4. Exceptional items

	2000 £m	1999 £m
Exceptional operating costs		
Reorganisation costs and asset write-downs		
- Marine	-	(0.7)
- Turbine	-	(0.2)
Costs associated with the take-over by Rolls-Royce plc	-	(11.2)
	-	(12.1)
Profits less losses including provision for losses on disposal of businesses (note 5)	(77.4)	(6.2)
Non-recurring corporate costs	-	0.9
Write down of investment in subsidiary undertaking	(168.3)	-
Total	(245.7)	(17.4)

4. Exceptional items (continued)

Non-recurring corporate costs

A fundamental restructuring of the Company was undertaken in 1999 with the sale of the Medical and Automotive businesses. The non-recurring corporate costs relate to the associated relocation and reorganisation of the Vickers Group's head office function.

Write down of investment in subsidiary undertaking.

Write down of the investment held in Rallyswift Limited to reflect permanent diminution in value of the underlying assets.

5. Disposal of businesses

The losses arising on the disposal of businesses sold, the names of which are given in the report of the directors (page 2).

6. Net Interest	2000 £m	1999 £m
Interest payable and similar charges on bank loans and overdrafts	(0.1)	(7.3)
Interest payable to group companies	(5.1)	3.0
Interest payable	(5.2)	(4.3)
Interest receivable	0.6	8.7
Net interest	(4.6)	4.4

7. Taxation	2000 £m	1999 £m
In respect of the year:-		
Group relief payable at 30% (1999 30.25%)	9.5	(7.3)
Deferred taxation	(0.6)	7.3
Adjustments to prior period:-		
Corporation tax	0.4	-
Deferred taxation	10.8	-
	20.1	-

8 Dividends

	2000 £m	1999 £m
Dividends payable:	-	-
	-	-

9 Pensions

The Company operates the Vickers Group Pension Scheme ("VGPS") which is a funded defined benefit scheme. The pension cost is assessed in accordance with the advice of qualified actuaries using the projected unit cost method. The assets of the scheme are held in a separate trustee-administered fund.

The net pension credit was £ (2.9) m (1999: charge £0.6m).

At the date of the last actuarial valuation in March 1998 the market value of VGPS assets was £512.9m. In accordance with the relevant accounting standard, the scheme's actuaries have carried out a valuation for the purpose of assessing the pension cost. This indicates that the actuarial valuations of the assets of the scheme were approximately 111% of the benefits that had accrued to members. On the same basis, the actuarial surplus of the scheme totalled £36.1m. The assumptions that had the most significant effect on the results of the valuation were those relating to the rate of return on investments and the rates of increases in salaries and pensions. It has been assumed that the investment return will be 8% per annum, that salary increases will average 6% per annum and that present and future pensions will increase at a rate of 4% per annum. Differences between the amounts charged in the financial statements and the amounts paid to the schemes are shown in note 14 (£41.8m (1999: £35.9m) as prepayments falling due after more than one year).

10 Directors and employees

	2000 £m	1999 £m
(a) Directors' emoluments		
The aggregate amounts in respect of the directors are as follows:		
Emoluments	-	2.2
Pension contributions	-	0.8
Compensation for loss of office	-	1.3
	-	4.3
The amounts in respect of the highest paid director are as follows:		
Emoluments	-	1.0
Pension contributions	-	0.4
Compensation for loss of office	-	0.8
	-	2.2
(b) Number of employees (average)	2000	1999
Marine	183	210
Turbine Components	657	701
Defence	821	1269
	1661	2180
(c) Employment costs	2000 £m	1999 £m
Employee costs, including those of executive directors:		
Wages and salaries	39.8	65.1
Social security costs	3.5	4.6
Other pension costs	(2.9)	0.6
	40.4	70.3

11 Tangible assets

	Land & Buildings £m	Plant & Equipment £m	Total £m
Gross book value			
At 1 January 2000	39.1	77.6	116.7
Capital expenditure	0.2	3.6	3.8
Disposals	(0.8)	(31.1)	(31.9)
At 31 December 2000	38.5	50.1	88.6
Depreciation			
At 1 January 2000	22.7	54.4	77.1
Provided during the year	0.8	5.2	6.0
Disposals	(0.2)	(21.0)	(21.2)
At 31 December 2000	23.3	38.6	61.9
Net book value at			
31 December 2000	15.2	11.5	26.7
31 December 1999	16.4	23.2	39.6
Gross book value of non-depreciable assets at:			
31 December 2000	5.8	-	5.8
31 December 1999	5.8	-	5.8
Land and buildings	Freehold £m	Long leasehold £m	
The net book value of land and buildings at the end of the year comprises:			
Cost	4.6	0.3	
Valuation as at November 1988	9.4	0.5	
Directors' valuation as at November 1992	0.4	-	
	14.4	0.8	
			£m
On an historical cost basis land and buildings would have been included as follows:			
Cost			23.6
Accumulated depreciated			(19.4)
			4.2

12 Investments in subsidiary undertakings

	Cost £m	Provisions £m	Total £m
At 1 January 2000	490.8	(14.2)	476.6
Additions	7.4	(168.3)	(160.9)
Disposal	(107.8)	-	(107.8)
At 31 December 2000	390.4	(182.5)	207.9

In the opinion of the directors, the values of these investments are not less than their net book values.

The principal subsidiary undertakings of the Company are listed on page 26.

13 Stocks and work in progress

	2000 £m	1999 £m
Long term contract work in progress	6.0	91.0
Instalments on account	(2.3)	(71.2)
	3.7	19.8
Other work in progress	2.4	7.8
Instalments on account	(0.5)	(0.7)
	1.9	7.1
Net work in progress	5.6	26.9
Materials, bought out components and general stores	2.6	3.7
Finished goods	0.1	0.3
Total stocks and work in progress	8.3	30.9

Customer advances (instalments in advance of contract expenditure) have been shown separately within other liabilities within creditors.

14 Debtors

	2000 £m	1999 £m
Amounts falling due within one year		
Trade debtors	22.2	43.1
Amounts owed by subsidiary undertakings	405.7	472.9
Loan to parent undertaking	243.5	243.5
Other debtors	77.3	4.3
Group tax relief receivable	-	4.3
Prepayments and accrued income	0.6	0.5
	749.3	768.6
Amounts falling due after more than one year		
Pension payment	41.8	35.9
Other debtors	15.6	-
	57.4	35.9
Total debtors	806.7	804.5

15 Creditors

	2000 £m	1999 £m
Amounts falling due within one year		
Bank loans and overdrafts	26.5	147.9
Borrowings	26.5	147.9
Customer advances	44.8	55.6
Trade creditors	36.0	45.7
Amounts owed to subsidiary undertakings	273.1	485.4
Group tax relief payable	9.5	-
Loan from associated undertaking	-	8.2
Accruals and deferred income	-	6.6
Taxation on profits	19.3	3.5
Other taxation and social security	1.0	3.4
Other creditors	40.8	36.4
Other liabilities	424.5	644.8
Total amounts falling due within one year	451.0	792.7
Amounts falling due after more than one year		
Loan from associated undertaking	8.2	-
Other liabilities – other creditors	0.5	6.1
Total amounts falling due after more than one year	8.7	6.1

16 Provisions for liabilities and charges

	Warranty £m	Disposals £m	Re- Organisation £m	Other liabilities £m	Deferred Taxation £m	Total £m
At 1 January 2000	9.8	7.1	18.3	3.1	-	38.3
Provided	2.8	-	-	3.0	10.2	16.0
Used	-	-	(12.6)	(1.0)	-	(13.6)
Released	-	-	(4.3)	(0.1)	-	(4.4)
At 31 December 2000	12.6	7.1	1.4	5.0	10.2	36.3

	2000 £m	1999 £m
Deferred Taxation		
Excess capital allowances over accumulated depreciated	2.5	4.4
Other timing differences – United Kingdom	7.7	(4.4)
Net deferred tax liability	10.2	-
The potential liability for taxation, which has not been provided in the Amounts shown above because payment is unlikely to be required in the Foreseeable future, is:		
Excess capital allowances over accumulated depreciation	-	-
Other timing differences	-	(11.3)
Capital gains on revaluation of properties and rolled-over gains	19.0	19.0
	19.0	7.7

17 Share capital

	2000 £m	1999 £m
Issued share capital allotted, called up and fully paid – 343,297,724 ordinary shares of 50p each	171.6	171.6
Authorised share capital – 457,000,000 ordinary shares of 50p each	228.5	228.5

18 Reserves

	Profit and loss reserve £m	Share premium £m	Revaluation Reserve £m	Other reserves £m
At 1 January 2000	292.3	65.1	11.3	8.4
Exchange adjustment	(0.4)	-	-	-
Retained profit for the year	38.2	-	-	-
Reserves reclassified	0.3	-	(0.3)	-
At 31 December 2000	330.4	65.1	11.0	8.4

The amount of unrealised exchange gain (net of losses) on net borrowings at 31 December 2000 included in reserves amounted to £2.6m (1999 net gain £3.0m).

19 Capital commitments

	2000 £m	1999 £m
Outstanding contracts for capital expenditure	0.2	0.8

20 Operating lease commitments

	Property Leases	
	2000 £m	1999 £m
Annual rentals payable on leases expiring:		
Beyond five years	-	0.6
	-	0.6

21 Contingent liabilities

Guarantees and contingencies arising in the ordinary course of business are not expected to result in any material financial loss to the Company.

There are lawsuits outstanding against the Company for damages in respect of certain transactions. The directors have been advised that there are good defences in all material actions and do not believe that the Company is likely to suffer any material loss in excess of the amounts provided.

22 Related party transactions

The Company has taken advantage of the exemption in Financial Reporting Standard 8 not to disclose related party transactions with its immediate parent company, Vickers plc, and its ultimate parent company Rolls-Royce plc and other group companies.

23 Ultimate holding company

The ultimate holding company is Rolls-Royce plc, incorporated in Great Britain and registered in England and Wales. The financial statements of Rolls-Royce plc may be obtained from PO Box 31, Moor Lane, Derby, DE24 8BJ.

24 Principal subsidiary undertakings

Defence Systems:

- ◆ Vickers Defence Systems, Leeds and Newcastle-upon-Tyne
Vickers-Armstrongs Limited, trading as Vickers Bridging, Wolverhampton
- ◆ Vickers Specialist Engines, Crewe
Vickers OMC (Pty) Limited, Johannesburg, South Africa

Turbine components

Ross Catherall Ceramics Limited, Denby, Derby

- ◆ Vickers Pressings, Newcastle-upon-Tyne

Marine

- * Rolls-Royce AB, (formerly known as Kamewa AB) Kristinehamn, Sweden
- * Rolls-Royce Finland OY AB, trading as Aquamaster and Rauma, Rauma, Finland
- ◆ Michell Bearings, Newcastle-upon-Tyne
- ❖ Rolls-Royce Marine AS
- ❖ Ulstein UK Limited, United Kingdom
- ❖ Ulstein Turbine AS, Norway
- ❖ Ulstein USA Inc., USA
- ❖ Ulstein Maritime Industries Inc., USA
- ❖ Bird-Johnson Co, US

Other activities:

Vickers Properties Limited, United Kingdom

- ◆ Divisions of the Company
- ❖ The whole of the indicated share capital of each of the companies shown is held by Vickers Engineering plc or, where indicated by an asterisk, by one of its wholly-owned subsidiary undertakings.

Note

All of the Companies shown are incorporated and operate principally in the countries indicated. A full list of subsidiary and associated undertakings will be included with the Company's Annual Return.

Discontinued Operations: Turbine Components (Disposed 31.12.00)

Ross & Catherall Limited, Killamarsh, Sheffield

Trucast Limited, Ryde, Isle of Wight

- ❖ Certified Alloy Products Inc., Long Beach, California, USA
- ❖ Trucast Inc., Newberry, South Carolina, USA
- ◆ Vickers Aerospace Components, Shrewsbury
- ◆ Vickers Airmotive, Shrewsbury
- ◆ Vickers Precision Machining, Crewe