

Registration number: 00003543

Vinters Engineering Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2018

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Vinters Engineering Limited

Contents

Company Information	1
Strategic Report	2 to 6
Director's Report	7 to 8
Statement of Director's Responsibilities	9
Independent Auditors' Report to the members of Vinters Engineering Limited	10 to 12
Income Statement	13
Statement of Comprehensive Income	14
Balance Sheet	15
Statement of Changes in Equity	16
Notes to the Financial Statements	17 to 42

Vinters Engineering Limited

Company Information

Registered office Moor Lane
Derby
Derbyshire
DE24 8BJ

Independent Auditors PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
2 Glass Wharf
Bristol
BS2 0FR

Vinters Engineering Limited

Strategic Report for the Year Ended 31 December 2018

The Director presents the Strategic Report for the year ended 31 December 2018.

Introduction

The principal activities of the Company are the production, repair and overhaul of power generation, transmission and conversion equipment for military and commercial markets. The Company also acts as a holding company for investments in the Rolls-Royce Holdings plc group.

Business review

In 2018, revenue increased to £10,000,000 (2017: £8,600,000). This was driven by the production of a batch of auxiliary power units for an armoured fighting vehicle programme.

Profit before taxation in the year was £3,500,000 (2017: £18,700,000).

During 2018, there was also a £2,000,000 reduction in the industrial diseases liability provision to £18,700,000. This was as a result of £1,200,000 being utilised in the year and £700,000 being credited to the income statement due to a revised actuarial valuation of the provision, driven by a reduction in the frequency of claims.

The performance in the year has led to an improvement in the financial position and a return to a net assets position of £1,800,000 for the 2018 year end, compared with the net liability position of £800,000 for the 2017 year end.

The adoption of IFRS 15 has impacted the performance of the business in the year. Prior to the adoption of IFRS 15, revenue was recognised more linearly based on the percentage of completion of the contract. Under IFRS 15, revenue is recognised in relation to the amount of work completed.

The Company's key financial indicators during the year were as follows:

	2018	2017
	£ 000	£ 000
Revenue	10,000	8,600
Profit before taxation	3,500	18,700
Net assets/(liabilities)	1,800	(800)

Future developments

The Director does not expect any change to the present level of activity in the foreseeable future. The Company is tracking the progress of a number of opportunities in the traditional land defence sector, in addition to new opportunities within adjacent markets. The UK Ministry of Defence are in the early stages of defining the requirements for future power needs where there are plans to replace the current contract in the next three years. The Company continues to work on an armoured fighting vehicle programme and has offered equipment and support for a number of naval marine opportunities. In the year the capability to repair, overhaul and test the engines fitted to another Rolls-Royce Holdings plc group company's owned Spitfire has been established.

Brexit

The Director is monitoring the impact of the Brexit vote on the Company and the terms on which the United Kingdom may withdraw from the European Union. It is difficult to evaluate all of the potential implications on the Company's operations and the wider economy. However, the Director believes the business has limited exposure to any Brexit implications given the nature of the Company.

Vinters Engineering Limited

Strategic Report for the Year Ended 31 December 2018 (continued)

Strategy

We are a power systems company with a presence in the UK. We win in our chosen markets by focusing on, and connecting, three powerful themes: customer, innovation and profitable growth.

Customer: placing the customer at the heart of our organisation is key. We need to listen to our customers, share ideas, really understand their needs and then relentlessly focus on delivering our promises.

Profitable growth: by focusing on our customers, and offering them a competitive portfolio of products and services, we will create the opportunity to grow our market share. We have got to make sure that we are not just growing, but growing profitably.

Consistent with the Rolls-Royce Holdings plc group (Group) the Company's strategic focus going forward is to develop products, services and order book to drive long-term profitable growth. We will do this by focusing on three common themes across our business:

- investing in and developing engineering excellence;
- driving a manufacturing and supply chain transformation which will embed operational excellence in lean, lower-cost facilities and processes; and
- leveraging our installed base, product knowledge and engineering capabilities to provide customers with outstanding service through which we can capture aftermarket value long into the future.

Our ability to deliver these priorities will be enhanced by a major transformation of our organisation; to simplify our processes and management structure, to add pace to our decision making and execution, and to provide space to develop our people and create a stronger, high performance culture. These themes will become the cornerstones of our operational priorities going forward.

Investing in people and skills

We seek to attract and retain the best and brightest engineers. The Company continues to invest in training and development programmes to ensure that employees have the opportunity to attain the highest level of skills. Employees are encouraged to take responsibility for their personal development. Opportunities 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 are a high priority.

The Company and employee representatives continue to work closely together to improve the quality of employee engagement and participation in the development of the business.

Vinters Engineering Limited .

Strategic Report for the Year Ended 31 December 2018 (continued)

Principal risks and uncertainties

The following risks have the most material potential impact on the Company. Mitigating activities are described for each risk. These risks are specific to the nature of our business notwithstanding that there are other risks that may occur and may impact the achievement of the Company's objectives. Where relevant these are managed within the Rolls-Royce Holdings plc's group risk management procedures.

Product failure - Product not meeting safety expectations, or causing significant impact to customers or the environment through failure in quality control.

- Operating a safety first culture;
- Our engineering design and validation process is applied from initial design, through production and into service;
- The Safety and Ethics Committee reviews the scope and effectiveness of the product safety policies to ensure that they operate to the highest industry standards;
- A Group safety management system (SMS) has been established by a dedicated team. This is governed by the Product Safety Review Board and is subject to continual improvement based on experience and industry best practice. Product safety training is an integral part of our SMS;
- Improving our supply chain quality; and
- Crisis management team led by the Group Director - Engineering and Technology or General Counsel as appropriate.

Business continuity - Breakdown of external supply chain or internal facilities that could be caused by destruction of key facilities, natural disaster, regional conflict, financial insolvency of a critical supplier or scarcity of materials which would reduce the ability to meet customer commitments, win future business or achieve operational results.

- Continued investment in adequate capacity and modern equipment and facilities;
- Identifying and assessing points of weakness in our internal and external supply chain, our IT systems and our people skills;
- Selection and development of stronger suppliers;
- Developing dual sources or dual capability;
- Developing and testing site-level incident management and business recovery plans;
- Crisis management team led by the Group Director - Engineering and Technology or General Counsel as appropriate; and
- Customer excellence centres provide improved response to supply chain disruption.

Competitor action - The presence of large, financially strong competitors in the majority of our markets means that the Group is susceptible to significant price pressure for original equipment or services even where our markets are mature or the competitors are few. Our main competitors have access to significant government funding programmes as well as the ability to invest heavily in technology and industrial capability.

- Accessing and developing key technologies and service offerings which differentiate us competitively;
- Focusing on being responsive to our customers and improving the quality, delivery and reliability of our products and services;
- Partnering with others effectively;
- Driving down cost and improving margins;
- Protecting credit lines;
- Investing in innovation, manufacturing and production; and
- Understanding our competitors.

Political risk - Geopolitical factors that lead to significant tensions between major trading parties or blocs which could impact the Company's operations. For example: explicit trade protectionism; differing tax or regulatory regimes; potential for conflict; or broader political issues.

- Where possible, locating our domestic facilities in politically stable countries and/or ensuring that we maintain dual capability;
- Diversifying global operations to avoid excessive concentration of risks in particular areas;
- Network of regional directors proactively monitors local situations;

Vinters Engineering Limited

Strategic Report for the Year Ended 31 December 2018 (continued)

Political risk (continued)

- Maintaining a balanced business portfolio with high technological barriers to entry and a diverse customer base;
- Understanding our supply chain risks; and
- Proactively influencing regulation where it affects us.

Major product programme delivery - Failure to deliver a major product programme on time, to specification or technical performance falling significantly short of customer expectations would have potentially significant adverse financial and reputational consequences, including the risk of impairment of the carrying value of the Company's assets and the impact of potential litigation.

- Major programmes are subject to Board approval;
- Major programmes are reviewed at levels and frequencies appropriate to their performance against key financial and non-financial deliverables and potential risks throughout a programme's life cycle;
- Technical audits are conducted at pre-defined points performed by a team that is independent from the programme;
- Programmes are required to address the actions arising from reviews and audits and progress is monitored and controlled through to closure; and
- Knowledge management principles are applied to provide benefit to current and future programmes.

Compliance - Non-compliance by the Company with legislation or other regulatory requirements in the regulated environment in which it operates (for example: export controls; offset; use of controlled chemicals and substances; and anti-bribery and corruption legislation) compromising our ability to conduct business in certain jurisdictions and exposing the Company to potential: reputational damage; financial penalties; debarment from government contracts for a period of time; and/or suspension of export privileges or export credit financing), any of which could have a material adverse effect.

- An uncompromising approach to compliance is now, and should always be, the only way to do business;
- The Group has an extensive compliance programme. This programme and the Global Code of Conduct are promulgated throughout the Group and are updated and reinforced from time to time, to ensure their continued relevance, and to ensure that they are complied with both in spirit and to the letter. The Global Code of Conduct and the Company's compliance programme are supported by appropriate training; and
- A Group legal and compliance team work closely with the business to ensure that issues can be addressed on a timely basis, with the necessary expertise in place.

Market shock - The Company is exposed to a number of market risks, some of which are of a macro-economic nature, for example, foreign currency exchange rates, and some which are more specific to the Company, for example liquidity and credit risks, or disruption to other customer operations. Significant extraneous market events could also materially damage the Group's competitiveness and/or credit worthiness. This would affect operational results or the outcomes of financial transactions.

- Maintaining a strong balance sheet, through healthy cash balances and a continuing low level of debt;
- Providing financial flexibility by the Company maintaining high levels of liquidity;
- The portfolio effect from our business interests, both in terms of original equipment to aftermarket split and our different segments provide a natural shock absorber since the portfolios are not correlated; and
- Deciding where and what currencies to source in, where and how much credit risk is extended or taken and hedging residual risk through the financial derivatives markets (foreign exchange, interest rates and commodity price risk).

Vinters Engineering Limited

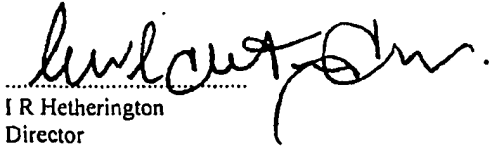
Strategic Report for the Year Ended 31 December 2018 (continued)

Market shock - continued

IT vulnerability - Breach of IT security causing controlled data to be lost, made inaccessible, corrupted or accessed by unauthorised users.

- Establishing 'defence in depth' through deployment of multiple layers of software and processes including web gateways, filtering, firewalls, intrusion, advanced persistent threat detectors and integrated reporting;
- Security and network operations centres have been established; and
- Active sharing of information through industry, government and security forums.

Approved by the Board on 18/12/19 and signed on its behalf by:


I R Hetherington
Director

Vinters Engineering Limited

Director's Report for the Year Ended 31 December 2018

The Director presents his report and the audited financial statements for the year ended 31 December 2018.

Directors of the Company

The Directors who held office during the year and up to the date of signing the financial statements were as follows:

W S Mansfield (resigned 5 April 2019)

I R Hetherington (appointed 13 May 2019)

Principal activities

The principal activities of the Company are the production, repair and overhaul of power generation, transmission and conversion equipment for military and commercial markets. The Company also acts as a holding company for investments in the Rolls-Royce Holdings plc group.

Dividends

No dividends were paid or proposed during the year by the Company (2017: £nil).

Business review

Results for the year

In 2018, revenue increased to £10,000,000 (2017: £8,600,000). This was driven by the production of a batch of auxiliary power units for an armoured fighting vehicle programme.

Profit before taxation in the year was £3,500,000 (2017: £18,700,000).

During 2018, there was also a £2,000,000 reduction in the industrial diseases liability provision to £18,700,000. This was as a result of £1,200,000 being utilised in the year and £700,000 being credited to the income statement due to a revised actuarial valuation of the provision, driven by a reduction in the frequency of claims.

The performance in the year has led to an improvement in the financial position and a return to a net assets position of £1,800,000 for the 2018 year end, compared with the net liability position of £800,000 for the 2017 year end.

Future developments

The future developments of the Company are set out in more detail in the Strategic Report on page 2.

Principal risks and uncertainties

The principal risks of the Company are detailed in the Strategic Report on pages 4 to 6.

Going Concern

The Director has prepared the financial statements on a going concern basis.

Rolls-Royce plc, a parent undertaking has provided written confirmation to the Company that its current policy is to provide such financial support as is required to ensure that the Company is managed so that it maintains adequate financial resources and is in a position to meet its financial obligations arising from its normal trading activities. Based on the Director's assessment of the Company's future financial requirements, the ability of Rolls-Royce plc to support the Company, if necessary, and the statement referred to above, the Director considers that the Company will have sufficient financial resources to meet its obligations for the foreseeable future, that is, for at least 12 months from the date of approval of these financial statements.

Vinters Engineering Limited

Director's Report for the Year Ended 31 December 2018 (continued)

Political donations

The Company made no political donations during the current or prior year.

Employee involvement

The Company and employee representatives continue to work closely together to improve the quality of employee engagement and participation in the development of the business.

The Company consults widely over changes to the Rolls-Royce Group pension scheme for UK employees. The Company's policy on diversity and equality continues to develop in consultation with employee representatives. The Company is committed to equal opportunities and to developing a diverse and inclusive workforce:

The Company's policy is to provide, wherever possible, employment and training and development opportunities for disabled people. It is also committed to supporting employees who become disabled and to helping disabled employees make the best possible use of their skills and potential.

The Company actively encourages employee share ownership in the ultimate parent company, Rolls-Royce Holdings plc.

The Company continues to invest in training and development programmes to ensure that employees have the opportunity to attain the highest level of skills.

Employees are encouraged to take responsibility for their personal development. Opportunities 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 enables managers to support employees in their careers.

Qualifying third party indemnity provisions

The Company has made qualifying third party indemnity provisions for the benefit of its Directors which were in place during the year and remain in force at the date of this report.

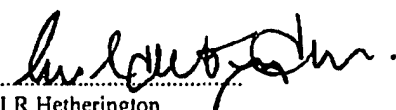
Disclosure of information to the auditors

Each Director has taken steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information. The Directors confirm that there is no relevant information that they know of and of which they know the auditors are unaware.

Independent auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and are deemed to be reappointed under section 487(2) of the Companies Act 2006.

Approved by the Board on 18/12/19 and signed on its behalf by:


I R Hetherington
Director

Vinters Engineering Limited

Statement of Director's Responsibilities

The Director is responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the Director to prepare financial statements for each financial year. Under that law the Director has prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). Under company law the Director must not approve the financial statements unless they are satisfied that they 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 the financial statements, the Director is required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Director is also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Director is responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

Vinters Engineering Limited

Independent Auditors' Report to the members of Vinters Engineering Limited

Report on the audit of the financial statements

Opinion

In our opinion, Vinters Engineering Limited's financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Balance Sheet as at 31 December 2018; the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the Company's trade, customers, suppliers and the wider economy.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The Directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

Vinters Engineering Limited

Independent Auditors' Report to the members of Vinters Engineering Limited (continued)

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Director's Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Director's Report for the year ended 31 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Director's Report.

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 9, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Vinters Engineering Limited

**Independent Auditors' Report to the members of Vinters Engineering Limited
(continued)**

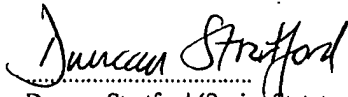
Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.



Duncan Stratford (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol

Date: 19 December 2019.

Vinters Engineering Limited

Income Statement for the Year Ended 31 December 2018

	Note	2018 £ 000	2017 £ 000
Revenue		10,000	8,600
Cost of sales		<u>(6,700)</u>	<u>(5,800)</u>
Gross profit		3,300	2,800
Administrative expenses		(500)	(2,100)
Other operating income	6	700	10,300
Exceptional item - waiver of loan	7	-	70,800
Exceptional item - Investment impairment	7	-	(63,100)
Profit before taxation		3,500	18,700
Tax on profit	13	<u>(900)</u>	<u>(2,100)</u>
Profit for the financial year		<u>2,600</u>	<u>16,600</u>

The above results were derived from continuing operations for both the current and prior year.

Vinters Engineering Limited

Statement of Comprehensive Income for the Year Ended 31 December 2018

	Note	2018 £ 000	2017 £ 000
Profit for the financial year		<u>2,600</u>	<u>16,600</u>
Total comprehensive income for the year		<u>2,600</u>	<u>16,600</u>

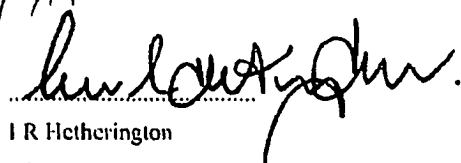
The notes on pages 17 to 42 form an integral part of these financial statements.

Vinters Engineering Limited

(Registration number: 00003543)
Balance Sheet as at 31 December 2018

	Note	2018 £ 000	2017 £ 000
Non-current assets			
Property, plant and equipment	11	3,300	3,400
Investments	12	<u>32,200</u>	<u>32,200</u>
		<u>35,500</u>	<u>35,600</u>
Current assets			
Inventories	14	1,600	2,400
Trade and other receivables	15	32,700	11,300
Cash and cash equivalents		<u>4,900</u>	<u>26,800</u>
		<u>39,200</u>	<u>40,500</u>
Current liabilities			
Trade and other payables	16	(53,900)	(56,200)
Provisions for liabilities and charges	19	<u>(1,300)</u>	<u>(800)</u>
Creditors: Amounts falling due within one year		<u>(55,200)</u>	<u>(57,000)</u>
Net current liabilities		<u>(16,000)</u>	<u>(16,500)</u>
Total assets less current liabilities		19,500	19,100
Non-current liabilities			
Deferred tax liabilities	13	(300)	(100)
Provisions for liabilities and charges	19	<u>(17,400)</u>	<u>(19,800)</u>
Net assets/(liabilities)		<u>1,800</u>	<u>(800)</u>
Equity			
Called up share capital	20	171,600	171,600
Share premium		65,100	65,100
Other reserves		8,400	8,400
Accumulated losses		<u>(243,300)</u>	<u>(245,900)</u>
Total Equity/(Deficit)		<u>1,800</u>	<u>(800)</u>

The Financial Statements on pages 13 to 42 were approved and authorised for issue by the Board on 18/12/19 and signed on its behalf by:


I R Hetherington
Director

Vinters Engineering Limited

Statement of Changes in Equity for the Year Ended 31 December 2018

	Called up share capital £ 000	Share premium £ 000	Revaluation reserve £ 000	Other reserves £ 000	Accumulated losses £ 000	Total equity £ 000
At 1 January 2018	171,600	65,100	-	8,400	(245,900)	(800)
Profit for the financial year	-	-	-	-	2,600	2,600
At 31 December 2018	171,600	65,100	-	8,400	(243,300)	1,800

	Called up share capital £ 000	Share premium £ 000	Revaluation reserve £ 000	Other reserves £ 000	Accumulated losses £ 000	Total equity £ 000
At 1 January 2017	171,600	65,100	2,100	8,400	(264,600)	(17,400)
Profit for the financial year	-	-	-	-	16,600	16,600
Other comprehensive income	-	-	(2,100)	-	2,100	-
Total comprehensive income	-	-	(2,100)	-	18,700	16,600
At 31 December 2017	171,600	65,100	-	8,400	(245,900)	(800)

The notes on pages 17 to 42 form an integral part of these financial statements.

Vinters Engineering Limited

Notes to the Financial Statements for the Year Ended 31 December 2018

1 General information

The Company is a private company limited by share capital incorporated, registered and domiciled in the East Midlands, in the United Kingdom.

The principal activities of the Company are the production, repair and overhaul of power generation, transmission and conversion equipment for military and commercial markets. The Company also acts as a holding company for investments in the Rolls-Royce Holdings plc group.

The address of its registered office is:

Moor Lane
Derby
Derbyshire
DE24 8BJ

2 Significant accounting policies

The significant accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

The financial statements of Vinters Engineering Limited have been prepared in accordance with the Companies Act 2006 as applicable to companies using Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101). The financial statements have been prepared under the historical cost convention.

These financial statements are prepared to the nearest £000's

In these financial statements the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- A Cash Flow Statement and related notes;
- The requirements of IAS 24 Related Party Transactions and has, therefore, not disclosed transactions between the Company and its wholly owned subsidiaries;
- Disclosures in respect of the compensation of Key Management Personnel; and
- The effects of new but not yet effective IFRSs.

New standards, amendments and IFRIC interpretations

IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* are new accounting standards that are effective for the year ended 31 December 2018.

On transitioning to IFRS 9, the Director evaluated the impact on the financial statements and considered that there is not a material impact.

On the adoption of IFRS 15 the Company is required to split the Future Power CLS contract into two performance obligations (one "over time", the other "point in time"). Previously, the obligations were bundled together and accounted for as a long term contract using one margin rate. On transitioning to IFRS 15, the Director re-evaluated the impact on the financial statements of this change and considered that there is not a material impact.

Vinters Engineering Limited

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

2 Significant accounting policies (continued)

Going concern

These financial statements have been prepared on the historical cost basis and on a going concern basis. Rolls-Royce plc, a parent undertaking, has provided written confirmation to the Company that its current policy is to provide such financial support as is required to ensure that the Company is managed, so that it maintains adequate financial resources and is in a position to meet its financial obligations arising from its normal trading activities. Based on the Director's assessment of the Company's future financial requirements, the ability of the parent company to support the Company if necessary and the statement referred to above, the Director considers that the Company will have sufficient financial resources to meet its obligations for the foreseeable future, that is for at least 12 months from the date of approval of these financial statements.

Unlawful distributions

During the year ended 31 December 2018 and in prior years, as part of a Rolls-Royce Group wide corporate simplification exercise, intercompany loan waivers were undertaken by dormant subsidiaries of the Company prior to their strike off. The Company received dividends in specie resulting from the waiver of amounts owed by the Company to these dormant subsidiaries in respect of £72,800,000. Subsequently, it has been determined that the distributions made to the Company were not strictly permissible by law as there were insufficient distributable reserves available in the dormant subsidiaries at the point the transactions occurred. In this situation, the Company is liable to repay the distributions not strictly permissible by law due to there being insufficient distributable reserves in the dormant subsidiaries of £64,200,000.

The Company is currently in the process of reinstating the respective subsidiary undertakings to take the necessary steps to remedy this position. These subsidiaries intend to complete capital reductions during 2019 and 2020 to create additional distributable reserves with the intention of relying on such reserves in making new distributions. Having received external legal advice, the directors of the Company consider that having taken these necessary steps the risk of any liability materialising is remote, and therefore no liability has been recognised as at 31 December 2018 and 31 December 2017.

Exemption from preparing group accounts financial statements

The financial statements contain information about Vinters Engineering Limited as an individual company and do not contain consolidated financial information as the parent of a group.

The Company is exempt under section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it and its subsidiary undertakings are included in the consolidated financial statements of a group parent, Rolls-Royce plc, a company incorporated in United Kingdom, which are publicly available. The address of the parent company's registered office is set out in note 23.

Vinters Engineering Limited

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

2 Significant accounting policies (continued)

Revenue

The Company adopted IFRS 15 Revenue from Contracts with Customers on 1 January 2018 using the simple transition method in accordance with paragraph C3 (b). There was no material impact to the financial statements on adoption of this standard. On adoption of IFRS 15 the Company has split the Future Power CLS contract into two performance obligations (one "over time", the other "point in time"). Previously, the obligations were grouped together and accounted for as a long term contract using one margin rate. The Company also has other contracts where revenue is either recognised over time or at a point in time.

For the year ended 31 December 2018, following the adoption of IFRS 15, revenue is recognised when services have been provided to the customer. A five-step recognition model is used to apply the standard as follows: (1) identify the contract(s) with the customer; (2) identify the separate performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to separate performance obligations; and (5) recognise revenue when (or as) each performance obligation is satisfied.

Under IFRS 15, where a performance obligation is satisfied over time, revenue is recognised on an activity basis using the costs incurred as the measure of the activity, the Future Power CLS contract is the only significant contract recognised over time.

The contracts held by the Company relate to continued logistical support service, repair work and occasional specific development, as such returns are not a feature. The transaction price for the contracts are either derived from the value of the fixed price contract, or for Future Power CLS, will be the fixed price element together with the variable element as per the latest forecasts.

The Company receives payment under a pre-defined payment plan agreed at the start of each contract. For the largest contract, Future Power CLS, payment is predefined as a series of equal monthly payments with an annual adjustment to allow for a 'Total Cost Incentive Fee'. Payments due to the Company for smaller contracts are triggered by set milestones in the contracts. A contract asset/liability is recognised where payment is received in arrears/advance of the costs incurred to meet performance obligations. These are presented within trade receivables/payables respectively. There is a contract liability as a result of the Future Power CLS contract whereby the payment plan is ahead of satisfaction of the performance obligations.

Exceptional items

Exceptional items relate to material items which derive from transactions outside the normal operating activities of the Company and are presented separately on the face of the income statement. These items are non-recurring in nature and by virtue of their size have a significant impact on the financial statements.

Foreign currency transactions and balances

Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into the respective functional currency of the Company at the rates prevailing on the reporting period date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the initial transaction dates.

Non-monetary items measured in terms of historical cost in a foreign currency are not retranslated.

Vinters Engineering Limited

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

2 Significant accounting policies (continued)

Taxation

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except that a change attributable to an item of income or expense recognised as other comprehensive income is also recognised directly in other comprehensive income.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the Company operates and generates taxable income.

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements and on unused tax losses or tax credits in the company. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

The carrying amount of deferred tax assets are reviewed at each reporting date and a valuation allowance is set up against deferred tax assets so that the net carrying amount equals the highest amount that is more likely than not to be recovered based on current or future taxable profit.

Property, plant and equipment

Property, plant and equipment assets are stated at cost less accumulated depreciation and any provision for impairment in value.

Depreciation

Depreciation is provided on a straight-line basis to write off the cost, less the estimated residual value, of property, plant and equipment over their estimated useful lives.

Asset class

Land and buildings Freehold

Plant & machinery

Depreciation method and rate

5 to 45 years. No depreciation is provided on freehold land.

5 to 25 years.

Investments

Fixed asset investments are shown at cost less accumulated impairment losses. A revaluation reserve relating to previously revalued fixed asset investments was written off in the prior year.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Vinters Engineering Limited

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

2 Significant accounting policies (continued)

Trade receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at the transaction price. They are subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for the impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

Inventories

All inventory is valued at standard cost calculated on a rolling basis. Cost comprises direct materials and, where applicable, direct labour costs and those overheads, including depreciation of property, plant and equipment, that have been incurred in bringing the stocks to their present location and condition. Net realisable value represents the estimated selling prices less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at the transaction price and subsequently measured at amortised cost using the effective interest method.

Provisions

Provisions are recognised when the Company has a present obligation as a result of a past event, and it is probable that the Company will be required to settle that obligation. Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

Leases

Payments made and rentals received under operating lease arrangements are charged/credited to the income statement on a straight-line basis.

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. Assets held under finance leases are recognised at the lower of their fair value at inception of the lease and the present value of the minimum lease payments. These assets are depreciated on a straight-line basis over the shorter of the useful life of the asset and the lease term. The corresponding liability to the lessor is included in the Balance Sheet as a finance lease obligation.

Lease payments are apportioned between finance costs in the income statement and reduction of the lease obligation so as to achieve a constant periodic rate of interest on the remaining balance of the liability.

Vinters Engineering Limited

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

2 Significant accounting policies (continued)

Share capital

Ordinary shares are classified as equity. Equity instruments are measured at the fair value of the cash or other resources received or receivable, net of the direct costs of issuing the equity instruments. If payment is deferred and the time value of money is material, the initial measurement is on a present value basis.

Defined benefit pension obligation

The Company participates in a group wide pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the Company. The Company is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by IAS 19 Employee Benefits, accounts for the scheme as if it were a defined contribution scheme. As a result the amount charged to the income statement represents the contributions payable to the scheme in respect of the accounting period.

Further disclosure relating to the scheme is given in the consolidated financial statements of Rolls-Royce Holdings plc, which can be obtained from the address given in note 23 to these financial statements.

Share based payments

The parent company on behalf of the Company provides share-based payment arrangements to certain employees. These are equity-settled arrangements and are measured at fair value (excluding the effect of non-market based vesting conditions) at the date of grant.

The fair value is expensed on a straight-line basis over the vesting period. The amount recognised as an expense is adjusted to reflect the actual number of shares or options that will vest, except where additional shares vest as a result of the Total Shareholder Return (TSR) performance condition in the Performance Share Plan.

The costs of these share-based payments are treated as a capital contribution from the parent company. Any payments made by the Company to its parent company, in respect of these arrangements, are treated as a return of this capital contribution.

The fair values of the share-based payment arrangements are measured as follows:

- i) ShareSave plans - using the binomial pricing model;
- ii) Performance Share Plan - using a pricing model adjusted to reflect non-entitlement to dividends (or equivalent) and the TSR market-based performance condition;
- iii) Annual Performance Related Award plan deferred shares and free shares under the Share Incentive Plan - share price on the date of the award.

Vinters Engineering Limited

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

3 Critical accounting judgements and key sources of estimation uncertainty

Critical accounting estimates

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are addressed below.

Industrial diseases liability provision

This provision relies on assumptions and estimates used by the external actuaries in calculating the likely provision required for industrial diseases liabilities. These assumptions include discount rates, assessment of inflation and the number of future claims.

Investment impairment

The carrying values of the Company's investments are dependent on the present values of estimates of future cash flows expected to be generated and valuation of net assets of the investments. Where net assets form the basis of the support for the investment value this is dependent on the valuation of any subjective assets/liabilities within the subsidiary including those measured at fair value. Where cash flow forecasts are used management make their best estimate of future income and costs adjusted for known and expected factors, discounted using a rate to reflect the time and risk value of money. This therefore involves complex forecasting and judgements over the discount rates which could result in different net present values. Further details are disclosed in note 12.

Long term contracts

Key estimates in the business relate to the contract trading positions. Profit traded on long term contracts is based on the contract margin forecast at completion and the stage of completion of the contract. Forecasted costs to completion are based upon estimates of costs to complete over the remaining contract life, which are subject to contract reviews and the process that underpins the reviews.

Critical accounting judgement

Multi-employer defined benefit pension scheme

Certain employees participate in a multi-employer defined benefit pension scheme with other companies in the Rolls-Royce Holdings plc group. In the judgement of the Director, the Company does not have sufficient information on the plan assets and liabilities to be able to reliably account for its share of the defined benefit obligations and plan assets and therefore the scheme is accounted for as a defined contribution scheme (see note 18 for further details).

Vinters Engineering Limited

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

4 Segment information

	Defence Systems		Head office		Total Company	
	2018	2017	2018	2017	2018	2017
	£ 000	£ 000	£ 000	£ 000	£ 000	£ 000
Revenue	10,000	8,600	-	-	10,000	8,600
Cost of sales	(6,700)	(5,800)	-	-	(6,700)	(5,800)
Gross profit	3,300	2,800	-	-	3,300	2,800
Administrative costs	(1,000)	(1,100)	500	(1,000)	(500)	(2,100)
Other operating income	-	-	700	10,300	700	10,300
Exceptional items						
Loan impairment - Rallyswift	-	-	-	70,800	-	70,800
Investment impairment	-	-	-	(63,100)	-	(63,100)
Profit before taxation	2,300	1,700	1,200	17,000	3,500	18,700
Defence systems revenue is recognised as follows:						
	2018	2017				
	£ 000	£ 000				
Over time	3,600	5,100				
Point in time	6,400	3,500				
	10,000	8,600				

Vinters Engineering Limited

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

5 Operating profit

Arrived at after charging/(crediting)

	2018 £ 000	2017 £ 000
Profit on disposal of property, plant and equipment	-	(200)
Depreciation expense (see note 11)	<u>200</u>	<u>200</u>

6 Other operating income

	2018 £ 000	2017 £ 000
Other operating income	<u>700</u>	<u>10,300</u>

The other operating income relates to an industrial diseases liability provision resulting from businesses previously owned by the Rolls-Royce Holdings plc group.

In 2018, £700,000 (2017: £10,300,000) was credited to the income statement following an annual independent actuarial review of claims made.

7 Exceptional items

In 2017, a loan from a wholly owned subsidiary, Rallyswift Limited, of £70,800,000 was waived. At the same time the investment in Rallyswift Limited of £63,100,000 was impaired (see note 12).

8 Staff costs

The aggregate payroll costs were as follows:

	2018 £ 000	2017 £ 000
Wages and salaries	1,800	1,600
Social security costs	200	200
Pension and other post-employment benefit costs	<u>200</u>	<u>200</u>
	<u>2,200</u>	<u>2,000</u>

The average number of persons employed by the Company during the year, analysed by category was as follows:

	2018 No.	2017 No.
Defence Systems	<u>40</u>	<u>40</u>

Vinters Engineering Limited

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

9 Director's remuneration

All Directors fees or emoluments were paid by Rolls-Royce plc and the amount attributable to the qualifying services provided by the Directors to the Company cannot be reliably estimated. No charge has been made in the current or prior year for the services of the Directors.

10 Auditors' remuneration

The fees for the audit of the Company's financial statements were £45,000 (2017: £100,000) and were paid by Rolls-Royce plc on behalf of the Company and not recharged.

No (2017: no) amounts were paid to the auditors for non-audit services. No non-audit services were provided by the auditors in 2017 or 2018.

Vinters Engineering Limited

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

11 Property, plant and equipment

	Land & buildings Freehold £ 000	Plant and machinery £ 000	Total £ 000
Cost or valuation			
At 1 January 2018	4,100	2,100	6,200
Additions	-	100	100
At 31 December 2018	4,100	2,200	6,300
Accumulated depreciation			
At 1 January 2018	1,000	1,800	2,800
Charge for the year	100	100	200
At 31 December 2018	1,100	1,900	3,000
Carrying amount			
At 31 December 2018	3,000	300	3,300
At 31 December 2017	3,100	300	3,400

The cost of non-depreciable land included above is £1,400,000 (2017: £1,400,000).

Total contracted capital commitments at 31 December 2018 were £247,000 (2017: £356,000).

Vinters Engineering Limited

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

12 Investments

Subsidiaries	£ 000
Cost	
At 1 January 2018	<u>369,600</u>
At 31 December 2018	<u>369,600</u>
Provision for impairment	
At 1 January 2018	<u>337,400</u>
At 31 December 2018	<u>337,400</u>
Carrying amount	
At 31 December 2018	<u>32,200</u>
At 31 December 2017	<u>32,200</u>

For the year ended 31 December 2017, an impairment review was performed comparing the Company's carrying value against the net assets of the subsidiary undertakings. This resulted in an impairment charge of £63,100,000 recognised for Rallyswift Limited. No impairment charge was identified for the year ended 31 December 2018 following the annual impairment review.

Vinters Engineering Limited

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

12 Investments (continued)

The following were subsidiary undertakings / participating interest of the Company as at 31 December 2018:

denotes a direct shareholding by the Company.

'Derby*' refers to Moor Lane, Derby, Derbyshire, England DE24 8BJ.

Company name	Share class	Address	% Holding 2018
Bergen Engines AS	Ordinary	125 Hordvikneset, 5108 Hordvik, Bergen, 1201, Norway	100%
Bergen Engines Bangladesh Private Limited	Ordinary	Plot n.58E, Kemal Ataturk Avenue, Dhaka, 1213, Bangladesh	100%
Bergen Engines BV	Ordinary	Werfdijk 2, 3195HV Pernis, Rotterdam, Netherlands	100%
Bergen Engines Denmark A/S	Ordinary	23 Værftssvej, 9000 Aalborg, Denmark	100%
Bergen Engines India Private Limited	Ordinary	52-b Okhla Industrial Estate, Phase 3, New Delhi 110-020, India	100%
Bergen Engines Limited	Ordinary	Derby*	100%
Bergen Engines Property Co AS	Ordinary	125 Hordvikneset, 5108 Hordvik, Bergen, 1201, Norway	100%
Bergen Engines S.L.	Social Participation	Calle Dinamarca, 43120 Constantí, Tarragona, Spain	100%
Bergen Engines SRL	Social Capital	13 Via Castel Morrone, 16161, Genoa, Italy	100%
Brown Brothers & Company Limited#	Ordinary	Taxiway, Hillend Industrial Estate, Dalgety Bay, Dunfermline, Scotland, KY11 9JT	100%

Vinters Engineering Limited

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

12 Investments (continued)

Kamewa AB	Ordinary	Box 1010, S-68129, Kristinehamn, Sweden	100%
Kamewa Do Brazil Equipamentos Maritimos Limitada	Quotas	401 Rua Visconde de Pitaia 433, Rio de Janeiro, Brazil	100%
Kamewa Holding AB	Ordinary	Box 1010, S-68129, Kristinehamn, Sweden	100%
Karl Maybach Hilfe GmbH	Capital Stock	Maybachplatz 1, 88045, Friedrichshafen, Germany	100%
MTU America Inc	Ordinary	Corporation Service Company, 2711 Centerville Road, Suite 400, Wilmington DE19808, USA	100%
MTU Asia Pte. Ltd	Ordinary	#05-01, Robinson Rd 112, 068902, Singapore	100%
MTU Benelux B.V.	Ordinary	Merwedestraat 86, 3313 CS, Dordrecht, Netherlands	100%
MTU do Brasil Limitada	Ordinary	Via Anhanguera, KM 29203, 05376-000 Sao Paulo SP Brazil	100%
MTU China Company Limited	Ordinary	1801-1803, 18/F Ascendas Plaza, No 333 Tian Yao Qiao Road Xuhai District, Shanghai, 200030, China	100%
MTU Engineering (Suzhou) Company Limited	Ordinary	9 Long Yun Rd, Suzhou Industrial Park, Suzhou 215024 Jiang Su, China	100%
MTU France SAS	Ordinary	Immeuble Colorado, 8/10 rue de Rosa Luxembourg-Parc des Bellevues 95610, Erangy-sur-Oise, France	100%
MTU Friedrichshafen GmbH	Capital Stock	Maybachplatz 1, 88045 Friedrichshafen, Germany	100%

Vinters Engineering Limited

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

12 Investments (continued)

MTU Hong Kong Ltd	Ordinary	Room 1006, 10/F, Hang Seng Tsimshatsui Building, 18 Camarvon Road, Tsimshatsui, Kowloon, Hong Kong	100%
MTU Iberica Propulsion y Energia S.L	Ordinary	26-28 Calle Copernico, 28823 Costada, Madrid, Spain	100%
MTU India Private Limited	Ordinary	6th Floor, RMZ Galleria, S/Y No.144 Bengaluru, Bangalore, Karnataka 560,064, India	100%
MTU Israel Ltd	Ordinary	4 Ha'Alon Str, Kfar Neter, 4059300, Israel	100%
MTU Italia Srl	Capital Stock	Via Aurelia Nord, 328, 19021 Arcola (SP), Italy	100%
MTU Japan Co Limited	Ordinary	Resortrust Building 4-14-3, Nishitenma Kita-ku, Osaka 530-0047, Japan	100%
MTU Korea Limited	Ordinary	22nd Floor, Olive Tower, 41 Sejongdaero 9 gil, Junggo, 100-737, Seoul, Republic of Korea	100%
MTU Middle East FZE	Ordinary	Showroom No. S3B5SR06 , Jebel Ali Free Zone, P.O. Box 61141 Dubai, United Arab Emirates	100%
MTU Motor Turbin Sanayi Ve Tic. A.S.	Ordinary	Hatira Solak, No. 5, Omerli Mahellesi, 34555 Amavutköy, Istanbul, Turkey	100%
MTU Onsite Energy GmbH	Capital Stock	Dasinger Strasse 11, 86165, Augsburg, Germany	100%
MTU Onsite Energy Systems GmbH	Capital Stock	8 Rottthofer Straße, 94099 Ruhstorf a.d. Rott, Germany	100%

Vinters Engineering Limited

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

12 Investments (continued)

MTU Polska Sp. Zoo	Ordinary	Ul. Slaska, Nr 9, Raum, Stargard Szczecinski, 73-110, Potsdam Stargard Szczecinski, Poland	100%
MTU Reman Technologies GmbH	Capital Stock	8 Friedrich-List-Strasse, 39122 Magdeburg, Germany	100%
MTU Rus LLC	Ordinary	Shabolovka Street 2, 119049 Moscow, Russian Federation	100%
MTU South Africa (Proprietary) Limited	Ordinary	36 Marconi Street, Montague Gardens, Cape Town, 7441 South Africa	100%
MTU UK Limited	Ordinary	Derby*	100%
Navis Consult d.o.o Croatia	Ordinary	Ul. Bartola Kasica 5/4, HR-51000, Rijeka, Croatia	75%
Powerfield Limited#	Ordinary	Derby*	100%
Prokura Diesel Services (Pty) Ltd	Ordinary	36 Marconi Street, Montague Gardens, Cape Town, 7441 South Africa	100%
PT MTU Indonesia	Ordinary	Secure Building Blok B, Jl. Raya Protokol Halim, Perdanakusuma Jakarta, 13610, Indonesia	100%
Rolls-Royce AB	Ordinary	Box 1010, S-68129, Kristinehamn, Sweden	100%
Rolls-Royce Italia Srl	Ordinary	13 Via Castel Morrone 13,16161, Genova, Italy	100%
Rolls-Royce Japan Co Limited	Ordinary	31 fr, Kasumigaseki bldg, Chiyoda-Ku, Tokyo 100-6031, Japan	100%
Rolls-Royce Marine A/S (Denmark)	Ordinary	Ostre Havnepromenade 34, 9000, Aalborg, Denmark	100%
Rolls-Royce Marine AS	Ordinary	Borgundvegen 340, Alesund, 6009, Norway	100%
Rolls-Royce Marine Hong Kong Limited	Ordinary	1-3 Wing Yip St, Kwai Chung, New Territories, Hong Kong	100%
Rolls-Royce Marine Benelux BV	Ordinary	Werfdijk 2, 3195 HV Pernis, Rotterdam, Netherlands	100%

Vinters Engineering Limited

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

12 Investments (continued)

Rolls-Royce Marine Deutschland GmbH	Capital Stock	Fahrstieg 9, 21107, Hamburg, Germany	100%
Rolls-Royce Marine Espana S.A.	Ordinary	Poligono Industrial de Constanti, 43120 Constanti, Tarragona, Spain	100%
Rolls-Royce Marine France Sarl	Ordinary	122 avenue Charles de Gaulle, 92200 Neuilly sur Seine, France	100%
Rolls-Royce Marine Hellas S.A.	Ordinary	25 Atiki Poseidonos & Makrigianni corner, Athens 18344, Greece	100%
Rolls-Royce Marine India Private Limited	Ordinary	Birla Tower West, 2nd Floor, 25 Barakhamba Road, New Delhi, 11001, India	100%
Rolls-Royce Korea Limited	Ordinary	197 Noksan SanEop Buk-Ro, Gangseo-gu, Busan 46753, Republic of Korea	100%
Rolls-Royce Marine (Shanghai) Limited	Ordinary	1st Floor Building 14, Lane 8666, Hu Nan Road Pudong District, Shanghai, PRC	100%
Rolls-Royce Oy AB	A Shares	PO Box 220, Suojantie 5, 26101, Rauma, Finland	100%
Rolls-Royce Poland Sp Zoo	Ordinary	Gniew 83-140, ul. Kopernika 1, Poland	100%
Rolls-Royce Power Systems AG	Ordinary	1 Maybachplatz, 88045, Friedrichshafen, Germany	100%
Rolls-Royce Vietnam Limited	Capital Stock	Dong Xuyen Industrial Zone, Rach Dua Ward, Vung Tau City Ba Ria - Vung Tau Province, Vietnam	100%
Ross Ceramics Limited#	Ordinary	Derby*	100%
Scandinavian Electric Gdansk Sp. Z.O.O.	Ordinary	ul. Reja 3, Gdansk, 80-404, Poland	67%
Scandinavian Electric Systems do Brazil Limitada	Quotas	Rua Sao Jose 90, salas 1406-07, Rio de Janeiro, RJ, Brazil	66%
Timec 1487 Ltd#	Ordinary	Derby*	100%
Trigno Energy S.R.L.	Ordinary	Zona Industrial, San Salvo, 66050, Italy	100%

Vinters Engineering Limited

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

12 Investments (continued)

Ulstein Holding AS	Ordinary	Sjøgata 80, 6065 Ulsteinvik, Norway	100%
Ulstein Maritime Limited	Common	8 Adelaide Street West, Suite 200, Toronto, ON M5H 0A9, Canada	100%
Vinters Defence Systems Limited#	Ordinary	Derby*	100%
Vinters International Limited#	Ordinary	Derby*	100%
Vinters-Annstrongs (Engineers) Limited#	Ordinary	Derby*	100%

Joint ventures

Details as at 31 December 2018 are as follows:

Company name	Class of shares	Address	Proportion of ownership interest and voting rights held 2018
Hovden Klubbhaus AS	Ordinary	Stalhaugen 5, Ulsteinvik, 6065 Norway	69%
Offshore Simulator Centre AS	Ordinary	4 Larsgardsvegen, 6009, Alesund, Norway	25%
Shanxi North MTU Diesel Co Ltd	Ordinary	97 Daqing West Rd, Datong, Shanxi Province, China	49%
Viking Reisebyrå AS	Ordinary	Saunesvn. 10, Ulsteinvik, NO-6067, Norway	50%

Vinters Engineering Limited

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

12 Investments (continued)

MTU Yuchai Power Co Ltd	Capital stock	No 7 Danan Road, Yuzhou, Yulin, Guangxi China 537005, China	50%
EPIX Power Systems LLC	Partnership	Corporation Service Company, 2711 Centerville Road, Suite 400, Wilmington DE19808, USA	0%
Mest Co Ltd	Normal	97 Bukjeonggongdan 2-gil, Yangsan-si, Gyeongsangnam-do 50571, Republic of Korea	46.8%

Vinters Engineering Limited

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

13 Taxation

Tax charged in the income statement

	2018 £ 000	2017 £ 000
Current taxation		
Group relief	700	2,100
Deferred taxation		
Adjustments in respect of prior periods	<u>200</u>	<u>-</u>
Tax expense in the income statement	<u>900</u>	<u>2,100</u>

The tax on profit before tax for the year is higher than the standard rate of corporation tax in the UK (2017 - lower than the standard rate of corporation tax in the UK) of 19% (2017 - 19.25%).

The differences are reconciled below:

	2018 £ 000	2017 £ 000
Profit before tax	<u>3,500</u>	<u>18,700</u>
Corporation tax at standard rate	700	3,600
Increase in current tax from adjustment for prior periods	200	-
Impairment of investments	-	12,400
Decrease from effect of expenses not deductible in determining taxable profit	-	(100)
Impairment of loans	<u>-</u>	<u>(13,800)</u>
Total tax charge	<u>900</u>	<u>2,100</u>

The Budget 2016 announced that the UK tax rate will reduce to 19% with effect from 1 April 2017 and 17% with effect from 1 April 2020. The rate reduction to 17% has been substantively enacted on 6 September 2016. The deferred tax assets and liabilities of the Company has therefore been calculated at 17%.

Vinters Engineering Limited

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

13 Taxation (continued)

Deferred tax

Deferred tax assets and liabilities

	Liability £ 000
2018	
Accelerated tax depreciation	<u>(300)</u>
2017	
Accelerated tax depreciation	<u>(100)</u>

Deferred tax movement during the year:

	At 1 January 2018 £ 000	Recognised in income £ 000	At 31 December 2018 £ 000
Accelerated tax depreciation	<u>(100)</u>	<u>(200)</u>	<u>(300)</u>

Deferred tax movement during the prior year:

	At 1 January 2017 £ 000	At 31 December 2017 £ 000
Accelerated tax depreciation	<u>(100)</u>	<u>(100)</u>

14 Inventories

	2018 £ 000	2017 £ 000
Raw materials and consumables	1,300	1,700
Work in progress	<u>300</u>	<u>700</u>
	<u>1,600</u>	<u>2,400</u>

Inventory recognised as an expense in cost of sales in the year was £3,278,000 (2017: £1,945,000). The increase in 2018 relative to 2017 is due to a manufactured product that was highly material intensive.

There is no significant difference between replacement cost of raw materials, consumables or work in progress and their carrying amounts. Inventories are stated after a provision for impairment of £300,000 (2017: £300,000).

Vinters Engineering Limited

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

15 Trade and other receivables

	2018 £ 000	2017 £ 000
Trade receivables	400	500
Amounts owed by related party undertakings	1,300	800
Amounts owed by group undertakings	<u>31,000</u>	<u>10,000</u>
	<u>32,700</u>	<u>11,300</u>

Amounts owed by group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

16 Trade and other payables

	2018 £ 000	2017 £ 000
Trade payables	200	200
Contract liabilities	3,000	3,800
Amounts owed to group undertakings	<u>50,700</u>	<u>52,200</u>
	<u>53,900</u>	<u>56,200</u>

Amounts owed to group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

17 Pension and other schemes

The Company participates in The Rolls-Royce Pension Fund and Rolls-Royce Group Pension Scheme, which are multi-employer defined benefit schemes. The assets of the schemes are held in separate funds administered by trustees and invested independently of the finances of the Rolls-Royce Holdings plc group ('Group'). The schemes are funded by annual contributions from the Company and scheme members.

In accordance with IAS 19 *Employee Benefits*, the net defined benefit cost is recognised in the financial statements of Rolls-Royce plc, the Group entity that is legally the sponsoring employer for the plan. This Company has recognised a cost of £200,000 (2017: £200,000) representing its contributions paid to the Group for the period.

The IAS 19 disclosure relating to the schemes is given in the consolidated financial statements of Rolls-Royce Holdings plc.

18 Share-based payments

Share based payments in the year were £19,000 (2017: £10,000).

During the year, the Company participated in the following share-based payment plans operated by Rolls-Royce Holdings plc:

Vinters Engineering Limited

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

18 Share-based payments (continued)

Performance Share Plan (PSP)

Scheme description

This plan involves the award of shares to participants subject to performance conditions. Vesting of the performance shares is based on the achievement of both non-market based conditions (EPS and cash flow per share) and a market based performance condition (Total Shareholder Return – TSR) over a three-year period.

ShareSave share option plan

Scheme description

Based on a three or five year monthly savings contract, eligible employees are granted share options with an exercise price of up to 20% below the share price when the contract is entered into. Vesting of the options is not subject to the achievement of a performance target.

The plan is HM Revenue & Customs approved.

Annual Performance Related Award (APRA) plan deferred shares

Scheme description

A proportion of the APRA annual incentive scheme is delivered in the form of a deferred share award. The release of deferred share awards is not dependent on the achievement of any further performance conditions other than that participants remain employed by the Company for two years from the date of the award in order to retain the full number of shares. During the two year deferral period, participants are entitled to receive dividends, or equivalent, on the deferred shares.

As share options are exercised throughout the year, the weighted average share price during the year of 883p (2017: 756p) is representative of the weighted average share price at the date of exercise. The closing price at 31 December 2018 was 830p (2017: 847p).

Share options outstanding

	ShareSave	ShareSave Weighted average remaining contractual life
	Number Thousand	Years
At 31 December 2018		
600p – 699p	14	1.20
700p – 799p	16	3.10
900p – 999p	5	0.10
	35	2.90

Vinters Engineering Limited

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

18 Share-based payments (continued)

	ShareSave	ShareSave Weighted average remaining contractual life
	Number Thousand	Years
At 31 December 2017		
600p - 699p	14	2.20
700p - 799p	17	4.10
900p - 999p	5	1.10
	<u>36</u>	<u>1.40</u>

The range of exercise prices of options outstanding at 31 December 2018 was between 617p and 962p (2017: 617p and 962p).

Vinters Engineering Limited

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

19 Industrial diseases provision

	Retained liabilities from disposed companies £ 000
At 1 January 2018	20,600
Provisions - Retained liabilities from disposed companies - Amounts reversed	(700)
Provisions - Retained liabilities from disposed companies - Utilised	(1,200)
At 31 December 2018	<u>18,700</u>
Non-current liabilities	<u>17,400</u>
Current liabilities	<u>1,300</u>

The industrial diseases liability provision relates to businesses previously owned by the Rolls-Royce Holdings plc group. The provision is expected to be utilised over the next 30-40 years. The discount rate used in the actuarial valuation is 1.75% (2017: 1.90%) which aligns with the yield on a UK 30 year gilt.

Of the total industrial diseases liability provision at 31 December 2018, £1,300,000 is presented as a current liability (2017: £800,000).

20 Called up share capital

Allotted and fully paid shares

	2018		2017	
	No. 000	£ 000	No. 000	£ 000
Ordinary shares of £0.50 each	343,298	171,600	343,298	171,600

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.

In January 2017, after full cooperation, companies within the Rolls-Royce group concluded deferred prosecution agreements with the SFO and the US Department of Justice and a leniency agreement with the MPF, the Brazilian federal prosecutors ("the agreements"). The Central Bureau of Investigation (CBI) in India has opened a formal investigation naming Rolls-Royce plc, Rolls-Royce India Private Limited and others alleging bribery in relation to historical matters. The companies named will respond appropriately. Action may be taken by other authorities against these or other entities or individuals. In addition, we could still be affected by actions from customers and customers' financiers. The Directors of those companies that are party to the agreements or named in the CBI investigation are not currently aware of any matters that are likely to lead to a material financial loss, but cannot anticipate all the possible actions that may be taken or their potential consequences. There are no financial consequences of the agreements or the CBI investigation on the Company.

Vinters Engineering Limited

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

22 Related party transactions

Sales to another Rolls-Royce Holdings plc group joint venture in the year were £3,217,000 (2017: £2,547,000). There were no other related party transaction during the year (2017: £nil). Amounts due from related parties at the 31 December 2018 were £1,300,000 (2017: £800,000).

23 Parent and ultimate parent undertaking

The Company's immediate parent is Vinters Limited.

The ultimate parent undertaking is Rolls-Royce Holdings plc.

The most senior parent undertaking producing publicly available financial statements is Rolls-Royce Holdings plc. These financial statements are available upon request from Kings Place, 90 York Way, London, N1 9FX, United Kingdom.

The ultimate controlling party is Rolls-Royce Holdings plc.

The smallest group in which these financial statements are consolidated is Rolls-Royce plc. These financial statements are available upon request from Kings Place, 90 York Way, London, N1 9FX, United Kingdom.