

Registration number: 00003543

Vinters Engineering Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2017



Vinters Engineering Limited

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Vinters Engineering Limited

Strategic Report for the Year Ended 31 December 2017

The strategic report for the year ended 31 December 2017.

Fair review of the business

In 2017, revenue decreased marginally from £9.2m (2016) to £8.6m. This was driven by the non-repetition of a 2016 revenue release on a support contract, due to the improvement in cost and margin performance. In the year there was a £10.3m reduction in the asbestos-related provision, as a result of revised actuarial figures, driven by a reduction in frequency of claims. This has led to an improvement in the financial position and a decrease in the net liabilities at the end of 2017.

As part of the liquidation of one of the company's investments, Rallyswift Limited, the company has fully impaired the cost of investment of £63.1m and waived a loan of £70.8m due to Rallyswift Limited from the company. This resulted in a net gain to profit of £7.7m.

The company's key financial and other performance indicators during the year were as follows:

	2017	2016
	£ 000	£ 000
Revenue	8,600	9,200
Profit/ (Loss) before tax	18,700	(4,100)
Net liabilities	(800)	(17,400)

Vinters Engineering Limited

Strategic Report for the Year Ended 31 December 2017 (continued)

Strategy

We are a power systems company with a presence in the UK and US. 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.

Innovation: is our lifeblood. We must continually innovate to remain competitive. To drive innovation, we create the right environment - curious, challenging, unafraid of failure, disciplined, open-minded and able to change with pace. But most importantly, we ensure our innovation is relevant to our customers' needs.

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. Of course we have got to make sure that we are not just growing, but growing profitably. That means ensuring our costs are competitive. We look after our cash and we win right.

Consistent with the Rolls-Royce 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. We then create a culture of innovation that allows them to develop their skills. We encourage all employees to contribute to our Group Innovation Portal via the Company intranet.

Vinters Engineering Limited

Strategic Report for the Year Ended 31 December 2017 (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 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 Group's 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
- 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
- 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
- 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 2017 (continued)

- Maintaining a balanced business portfolio with high technological barriers to entry and a diverse customer base
- Understanding our supply chain risks
- 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
- 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
- A legal and compliance team has been put in place to manage the current specific issue through to a conclusion and beyond
- Lord Gold has reviewed the Group's current compliance procedures and an improvement plan is being implemented.

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 Group balance sheet, through healthy cash balances and a continuing low level of debt
- Providing financial flexibility by the Group maintaining high levels of liquidity and an investment grade 'A' credit rating
- 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
- 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 2017 (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
- Active sharing of information through industry, government and security forums.

Approved by the Board on 26/09/2018 and signed on its behalf by:


.....
W S Mansfield
Director

Vinters Engineering Limited

Directors' Report for the Year Ended 31 December 2017

The report and the financial statements for the year ended 31 December 2017.

Directors of the company

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

R C Orgill (resigned 6 December 2017)

W S Mansfield

Principal activity

The principal activities of the company are the production, repair and overhaul of power generation, transmission and conversion equipment for military and commercial markets and to act as a holding company.

Dividends

The director recommends a final dividend payment of £Nil be made in respect of the financial year ended 31 December 2017.

No dividends were paid or proposed during the year by the Company.

Political donations

The Company made no political donations during the year.

Directors liabilities

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

Disclosure of information to the auditors

The director has taken steps that ought to have taken as a director in order to make aware of any relevant audit information and to establish that the company's auditor is aware of that information. The director confirms that there is no relevant information that of and of which the auditor is unaware.

Change of auditors

Following changes in the legislation requiring mandatory rotation of the audit firm, RR Holdings plc, parent company, is rotating its statutory auditor from KPMG LLP. Consequently, the subsidiaries within the Rolls-Royce group will follow the parent company in changing auditor. Following the issuance of their audit report for the year ended 31 December 2017 KPMG LLP will be resigning as the company's auditor and will therefore cease to hold office. In accordance with section 485 of the Act, the directors intend to appoint PricewaterhouseCoopers LLP as the company's auditor.

Approved by the Board on 26/09/2018 and signed on its behalf by:



W S Mansfield
Director

Vinters Engineering Limited

Statement of Directors' Responsibilities

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework. Under company law the directors 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 these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent ;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

The directors are 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. They are 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, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Independent Auditor's Report to the members of Director Vinters Engineering Limited

Opinion

We have audited the financial statements of Vinters Engineering Limited ("the company") for the year ended 31 December 2017 which comprise the Income Statement, the Statement of comprehensive income, the Balance Sheet, the Statement of Changes in Equity and related notes, including the accounting policies in note 2.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in that report for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 7, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; 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; 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 they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

**Independent Auditor's Report to the members of Director
Vinters Engineering Limited (continued)**

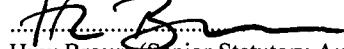
Auditor's responsibilities

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.



Huw Brown (Senior Statutory Auditor)

For and on behalf of KPMG LLP, Statutory Auditor

15 Canada Square
London
E14 5GL

Date: 28/9/2018

Vinters Engineering Limited

Income Statement for the Year Ended 31 December 2017

	Note	2017 £ 000	2016 £ 000
Revenue		8,600	9,200
Cost of sales		<u>(5,800)</u>	<u>(5,500)</u>
Gross profit		2,800	3,700
Commercial and administrative costs		(2,300)	(800)
Other operating income	6	-	400
Gain (loss) from changes in provisions		10,300	(7,400)
Profit on disposal of property, plant and equipment		200	-
Impairment of investment	13	(63,100)	-
Waiver of loan to impaired investment	7	<u>70,800</u>	<u>-</u>
Operating profit/(loss)		18,700	(4,100)
Profit/(loss) before tax		18,700	(4,100)
Tax on profit/(loss)	14	<u>(2,100)</u>	<u>500</u>
Profit/(loss) for the year		<u><u>16,600</u></u>	<u><u>(3,600)</u></u>

The above results were derived from continuing operations.

Vinters Engineering Limited

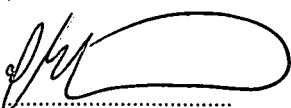
Statement of Comprehensive Income for the Year Ended 31 December 2017

	Note	2017 £ 000	2016 £ 000
Profit/(loss) for the year		<u>16,600</u>	<u>(3,600)</u>
Total comprehensive income for the year		<u>16,600</u>	<u>(3,600)</u>

Vinters Engineering Limited
(Registration number: 00003543)
Balance Sheet as at 31 December 2017

	Note	2017 £ 000	2016 £ 000
Non-current assets			
Property, plant and equipment	11	3,400	4,100
Investments	13	<u>32,200</u>	<u>96,600</u>
		<u>35,600</u>	<u>100,700</u>
Current assets			
Inventories	15	2,400	1,300
Trade and other receivables	16	11,300	12,800
Cash and cash equivalents		26,800	21,600
Assets held for sale		<u>-</u>	<u>2,300</u>
		<u>40,500</u>	<u>38,000</u>
Current liabilities			
Trade and other payables	17	<u>(56,200)</u>	<u>(125,100)</u>
Net current liabilities		<u>(15,700)</u>	<u>(87,100)</u>
Total assets less current liabilities		19,900	13,600
Non-current liabilities	14		
Deferred tax liabilities		(100)	(100)
Provisions for liabilities and charges	20	<u>(20,600)</u>	<u>(30,900)</u>
Net liabilities		<u><u>(800)</u></u>	<u><u>(17,400)</u></u>
Equity			
Called up share capital	21	171,600	171,600
Share premium reserve		65,100	65,100
Revaluation reserve		-	2,100
Other reserves		8,400	8,400
Retained earnings		<u>(245,900)</u>	<u>(264,600)</u>
Total Equity		<u><u>(800)</u></u>	<u><u>(17,400)</u></u>

Approved by the director on 26/09/2018



W S Mansfield
Director

Vinters Engineering Limited

Statement of Changes in Equity for the Year Ended 31 December 2017

	Share capital £ 000	Share premium £ 000	Revaluation reserve £ 000	Other reserves £ 000	Retained earnings £ 000	Total £ 000
At 1 January 2017	171,600	65,100	2,100	8,400	(264,600)	(17,400)
Profit for the year	-	-	-	-	16,600	16,600
Transfer of revaluation gain	-	-	(2,100)	-	2,100	-
At 31 December 2017	<u>171,600</u>	<u>65,100</u>	<u>-</u>	<u>8,400</u>	<u>(245,900)</u>	<u>(800)</u>

	Share capital £ 000	Share premium £ 000	Revaluation reserve £ 000	Other reserves £ 000	Profit and loss account £ 000	Total £ 000
At 1 January 2016	171,600	65,100	2,100	8,400	(261,000)	(13,800)
Loss for the year	-	-	-	-	(3,600)	(3,600)
Total comprehensive income	-	-	-	-	(3,600)	(3,600)
At 31 December 2016	<u>171,600</u>	<u>65,100</u>	<u>2,100</u>	<u>8,400</u>	<u>(264,600)</u>	<u>(17,400)</u>

The notes on pages 14 to 39 form an integral part of these financial statements.

Vinters Engineering Limited

Notes to the Financial Statements for the Year Ended 31 December 2017

1 General information

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

The address of its registered office is:

Moor Lane
Derby
DE24 8BJ

2 Accounting policies

Summary of significant accounting policies and key accounting estimates

The principal 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

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework.

In preparing these financial statements, the company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ('Adopted IFRSs'), but makes amendments where necessary in order to comply with Companies Act 2006.

These accounts are prepared to the nearest £0.1m.

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.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Vinters Engineering Limited

Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

2 Accounting policies (continued)

Going concern

These financial statements have been prepared on the historical cost basis and on a going concern basis. The parent company's current policy is 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 directors' 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 directors consider 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.

Exemption from preparing group accounts

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 by full consolidation in the consolidated financial statements of a group parent, Rolls-Royce plc, a company incorporated in United Kingdom.

Changes in accounting policy

None of the standards, interpretations and amendments effective for the first time from 1 January 2017 have had a material effect on the financial statements.

Revenue

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods supplied, stated net of discounts, returns and value added taxes. The company recognises revenue when: the amount of revenue can be reliably measured and it is probable that future economic benefits will flow to the entity.

The company has long-term contracts that fall into different accounting periods. Provided that the outcome of the contracts can be assessed with reasonable certainty, the revenue and costs on such contracts are recognised based on stage of completion and overall contract profitability. Full provision is made for any estimated losses to completion of contracts.

Finance income and costs policy

Interest receivable/payable is credited/charged to the income statement using the effective interest method.

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 entity 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 2017 (continued)

2 Accounting policies (continued)

Tax

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

L/term leasehold property

Plant & machinery

Depreciation method and rate

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

lower of advisors' estimates or period of lease

5 to 25 years.

Investments

Fixed asset investments are shown at cost less provision for impairment. Current asset investments are stated at the lower of cost and net realisable value. A revaluation reserve relating to previously revalued fixed asset investments was written off in the year.

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.

Vinters Engineering Limited

Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

2 Accounting policies (continued)

Inventories

All inventory is valued at the lower of cost and net realisable value on a first-in, first-out 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 Profit and Loss Account and reduction of the lease obligation so as to achieve a constant periodic rate of interest on the remaining balance of the liability.

Impairment of non-financial assets

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount might not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying value exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. Prior impairments of non-financial assets are reviewed for possible reversal at each reporting date.

Vinters Engineering Limited

Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

2 Accounting policies (continued)

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 profit and loss account 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 in the final note 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 2017 (continued)

3 Critical accounting judgements and key sources of estimation uncertainty

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.

The asbestosis provision

This provision relies on assumptions and estimates used by the actuaries in calculating the likely provision required for asbestosis related 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.

Assessment of long-term contracts

Accounting for long term contracts involves a number of judgements in the selection of the correct accounting standard (IAS 18 v. IAS11), the consideration of what constitutes a contract and the selection of an appropriate measure of progress. Significant estimates are involved in determining future revenues and costs on the contract to establish the correct margin at which to recognise profits on the contract. Changes to these judgements or estimates could significantly impact on revenue and/or cost recognition in a period.

Vinters Engineering Limited

Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

4 Segment information

	Defence Systems		Head office		Total Company	
	2017	2016	2017	2016	2017	2016
	£ 000	£ 000	£ 000	£ 000	£ 000	£ 000
Revenue	8,600	9,200	-	-	8,600	9,200
Cost of sales	(5,800)	(5,500)	-	-	(5,800)	(5,500)
Gross profit	2,800	3,700	-	-	2,800	3,700
Commercial and administrative costs	(1,100)	(600)	(1,200)	(200)	(2,300)	(800)
Other operating income	-	-	-	400	-	400
Gain/(loss) from changes in provisions	-	-	10,300	(7,400)	10,300	(7,400)
Profit on disposal of property, plant and equipment	-	-	200	-	200	-
Impairment of investment	-	-	(63,100)	-	(63,100)	-
Waiver of loan to impaired investment	-	-	70,800	-	70,800	-
Financing income	-	-	-	-	-	-
Profit/(loss) before tax	1,700	3,100	17,000	(7,200)	18,700	(4,100)

Vinters Engineering Limited

Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

5 Operating profit

Arrived at after charging/(crediting)

	2017 £ 000	2016 £ 000
Profit on disposal of property, plant and equipment	(200)	-
Depreciation expense	<u>200</u>	<u>200</u>

6 Other operating income/(expense)

	2017 £ 000	2016 £ 000
Other operating expense	10,300	(7,400)
Release of deferred income	<u>-</u>	<u>400</u>
Provision decrease/(increase)	<u>10,300</u>	<u>(7,000)</u>

The other operating expense relates to long-tail disease liability provisions resulting from businesses previously owned by the Group.

In 2017 the provision required decreased by £10.3m following an annual independent actuarial review of claims made. In 2016 the provision increased by £7.4m due to a lower discount rate being used than in previous years.

7 Exceptional items

In 2017 a loan from a wholly owned subsidiary, Rallyswift Limited, of £70.8m was waived. At the same time the investment in Rallyswift Limited of £63.1m was impaired.

8 Staff costs

The aggregate payroll costs (including directors' remuneration) were as follows:

	2017 £ 000	2016 £ 000
Wages and salaries	1,600	1,500
Social security costs	200	200
Pension and other post-employment benefit costs	<u>200</u>	<u>200</u>
	<u>2,000</u>	<u>1,900</u>

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

	2017 No.	2016 No.
Defence Systems	<u>40</u>	<u>40</u>

Vinters Engineering Limited

Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

9 Directors' remuneration

The directors did not receive any remuneration (2016 - £Nil) for qualifying services to the company.

10 Auditors' remuneration

	2017 £ 000	2016 £ 000
Audit of the financial statements	<u>100</u>	<u>100</u>

Vinters Engineering Limited

Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

11 Property, plant and equipment

	Land & buildings Freehold £ 000	Land & buildings Long leasehold £ 000	Plant and machinery £ 000	Total £ 000
Cost or valuation				
At 1 January 2017	5,700	1,100	2,100	8,900
Disposals	(1,600)	(1,100)	-	(2,700)
At 31 December 2017	4,100	-	2,100	6,200
Depreciation				
At 1 January 2017	2,100	1,000	1,700	4,800
Charge for the year	100	-	100	200
Eliminated on disposal	(1,200)	(1,000)	-	(2,200)
At 31 December 2017	1,000	-	1,800	2,800
Carrying amount				
At 31 December 2017	3,100	-	300	3,400
At 31 December 2016	3,600	100	400	4,100

The cost of non-depreciable land included above is £1.4m (2016: £1.4m).

Land and buildings previously measured at valuation were disposed of during the year.

Vinters Engineering Limited

Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

12 Obligations under leases and hire purchase contracts

Operating leases

The total future value of minimum lease payments is as follows:

	2017 £ 000	2016 £ 000
Within one year	-	100
In two to five years	-	200
In over five years	-	1,800
	<u>-</u>	<u>2,100</u>

Land and buildings that were transferred to assets held for sale in 2015 were sold on 4 January 2017.

The above leases of land and buildings are typically subject to rent reviews at specified intervals and provide for the lessee to pay all insurance, maintenance and repair costs.

The amount of non-cancellable operating lease payments recognised as an expense during the year was £Nil (2016 - £Nil)

13 Investments

Subsidiaries	£ 000
Cost or valuation	
At 1 January 2017	<u>369,600</u>
At 31 December 2017	<u>369,600</u>
Impairment	
At 1 January 2017	273,000
Impairment losses	<u>64,400</u>
At 31 December 2017	<u>337,400</u>
Carrying amount	
At 31 December 2017	<u>32,200</u>
At 31 December 2016.	<u>96,600</u>

The impairment in the year mostly relates to the write-off in full of the cost of investment in Rallyswift Limited (£63.1m) as a result of the liquidation of the business.

Vinters Engineering Limited

Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

13 Investments (continued)

The following were subsidiary undertakings / participating interest of the company as at 31 December 2017:
denotes a direct shareholding by the company.

Company name	Share class	Address	% Holding 2017
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 Værftsvej, 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 2017 (continued)

13 Investments (continued)

Fluid Mechanics LLC	Partnership	Corporation Service Company, 2711 Centerville Road, Suite 400, Wilmington DE19808, USA	100%
Kamewa AB	Ordinary	Box 1010, S-68129, Kristinehamn, Sweden	100%
Kamewa Do Brazil Equipmentos Maritimos Limitada	Quotas	401 Rua Visconde de Piraja 433, Rio de Janeiro, Brazil	100%
Kamewa Holding AB	Ordinary	Box 1010, S-68129, Kristinehamn, Sweden	100%
Kamewa UK Limited#	Deferred preference	Derby*	100%
Karl Maybach Hilfe GmbH	Capital Stock	Maybachplatz 1, 88045, Friedrichshafen, Germany	100%
L'Orange Fuel Injection (Ningbo) Co. Ltd	Equity	#3 South Qihang Rd 55, Yinzhou Economic Development Zone Ningbo City, 315145, China	100%
L'Orange Fuel Injection Trading (Suzhou) Co. Ltd	Equity	#399 Suhong Middle Rd, Suzhou Industrial Park, Suzhou 215000, China	100%
L'Orange GmbH	Capital Stock	30 Porschestraße, 70435 Stuttgart, Germany	100%
L'Orange Unterstützungskasse GmbH	Capital Stock	Rudolph-L'Orange-Strasse 1, 72293 Glatten, 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%

Vinters Engineering Limited

Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

13 Investments (continued)

MTU Benelux B.V.	Ordinary	Merwedestraat 86, 3313 CS, Dordrecht, Netherlands	100%
MTU Do Brasil Limitada	Ordinary	Via Anhanguera, KM 29203, 05276-000 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	281 Chaussée Jules César, 95250 Beauchamp, France	100%
MTU Friedrichshafen GmbH	Capital Stock	1 Maybachplatz, 88045 Friedrichshafen, Germany	100%
MTU Hong Kong Ltd	Ordinary	36/F Tower Two, Time Square, 1 Matheson Street, Causeway Bay, Hong Kong	100%
MTU Iberica Propulsion Y Energia S.L	Ordinary	26-28 Calle Copernico, 28823 Coslada, Madrid, Spain	100%
MTU India Private Limited	Ordinary	HM Geneva House, Unit No. 303, 3rd Floor, No. 14 Cunningham Road, Bangalore, KA 560052, 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	2-15-19 Takanawa-Meiko, Minato-ku, Tokyo, 108-0074, Japan	100%
MTU Korea Limited	Ordinary	22nd Floor, Olive Tower, 41 Sejongdaero 9 gil, Junggo, 100-737, Seoul, Republic of Korea	100%

Vinters Engineering Limited

Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

13 Investments (continued)

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 Arnavutköy, Istanbul, Turkey	100%
MTU Onsite Energy Corporation	Common Stock	100 Power Drive, Mankato, MIN 56001, USA	100%
MTU Onsite Energy GmbH	Capital Stock	Dasinger Strasse 11, 86165, Augsburg, Germany	100%
MTU Onsite Energy Systems GmbH	Capital Stock	8 Rotthofer Straße, 94099 Ruhstorf a.d. Rott, Germany	100%
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-Strabe, 39122 Magdeburg, Germany	100%
MTU RUS LLC	Ordinary	Vashutinskoye Sh. 24B, Khimki, 141402, Moscow, Russian Federation	100%
MTU South Africa Pty	Ordinary	Corner Marcony Rd and 3rd St, Western Cape, 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%
ODIM Serviços E Comerciização Marítima Limitada	Capital Stock	Rua Lauro Muller 116, room 2206, Botafogo, Rio de Janeiro, Brazil	100%
Powerfield Limited#	Ordinary	Derby*	100%
Powerfield Specialist Engines Limited#	Ordinary	Derby*	100%

Vinters Engineering Limited

Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

13 Investments (continued)

Prokura Diesel Services (Pty) Ltd	Ordinary	Corner Marconi Rd and 3rd St, Western Cape, 7441 South Africa	100%
PT MTU Indonesia	Ordinary	Secure Building Blok B, Jl. Raya Protokol Halim, Perdanakusuma Jakarta, 13610, Indonesia	100%
Rallyswift Limited#	Ordinary	Derby*	100%
Rolls-Royce AB	Ordinary	Box 1010, S-68129, Kristinehamn, Sweden	100%
Rolls-Royce Commercial (Beijing) Co Limited	Registered Capital	305-306 Indigo Building 1, 20 Jiuxianqiao Road, Beijing, 100016, China	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	Vaerftsvej 23 , 2300, Aalborg, Denmark	100%
Rolls-Royce Marine AS	Ordinary	Borgunden 340, Alesund, 6009, Norway	100%
Rolls-Royce Marine Asia Limited	Ordinary	1-3 Wing Yip St, Kwai Chung, New Territories, Hong Kong	100%
Rolls-Royce Marine Benelux BV	Ordinary	Merwedestraat 86, 3313 CS, Dordrecht, Netherlands	100%
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 Atki Poseidonos & Makrigianni corner, Athens 18344, Greece	100%
Rolls-Royce Marine Hong Kong Limited	Ordinary	1-3 Wing Yip St, Kwai Chung, New Territories, Hong Kong	100%
Rolls-Royce Marine India Private Limited	Ordinary	PLOT D-505, TTC Industrial Area, MIDC, Sharaya Hyundai Lane Turbhe, Navi Mumbai, Maharashtra, 400710, India	100%
Rolls-Royce Marine Korea Limited	Ordinary	197 Noksansaneopbung-ro , Gangseogu, Busan, Republic of Korea	100%

Vinters Engineering Limited

Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

13 Investments (continued)

Rolls-Royce Marine Manufacturing (Shanghai) Limited	Ordinary	1 Xuanzhong Rd, Xuanqiao Town, Pudong New Area, Shanghai 201399, China	100%
Rolls-Royce Oy AB	A Shares	PO Box 220, Suojantie 5, 26101, Rauma, Finland	100%
Rolls-Royce Poland Sp Zoo	Ordinary	GNI EW 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	M. 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%
Stone Vickers Limited	Ordinary	Derby*	100%
Timec 1487 Ltd (was Michell Bearings Limited)#	Ordinary	Derby*	100%
Trigno Energy S.R.L.	Ordinary	Zona Industrial, San Salvo, 66050, Italy	100%
Ulstein Holding AS	Ordinary	Sjogata 80, 6065 Ulsteinvik, Norway	100%
Ulstein Maritime Limited	Common	96 North Bend St, Coquitlam, BC V3K 6H1, Canada	100%
Vickers Pension Trustees Limited#	Ordinary	Derby*	100%
Vickers Pressings Limited#	Ordinary	Derby*	100%
Vinters Defence Systems Limited#	Ordinary	Derby*	100%
Vinters International Limited#	Ordinary	Derby*	100%
Vinters-Armstrongs (Engineers) Limited#	Ordinary	Derby*	100%

Vinters Engineering Limited

Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

13 Investments (continued)

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

Vinters Engineering Limited

Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

13 Investments (continued)

Joint ventures

Details as at 31 December 2017 are as follows:

Company name	Class of shares	Address	Proportion of ownership interest and voting rights held 2017
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 Reisebyra AS	Ordinary	Saunesvn. 10, Ulsteinvik, NO-6067, Norway	50%
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 2017 (continued)

14 Income tax

Tax charged/(credited) in the income statement

	2017 £ 000	2016 £ 000
Current taxation		
Group relief	2,100	(900)
Deferred taxation		
Adjustments in respect of prior periods	-	400
Tax expense/(receipt) in the income statement	<u>2,100</u>	<u>(500)</u>

The tax on loss before tax for the year is lower than the standard rate of corporation tax in the UK (2016 - higher than the standard rate of corporation tax in the UK) of 19.25% (2016 - 20%).

The differences are reconciled below:

	2017 £ 000	2016 £ 000
Profit/(loss) before tax	<u>18,700</u>	<u>(4,100)</u>
Corporation tax at standard rate	3,600	(800)
Increase (decrease) in current tax from adjustment for prior periods	-	300
Impairment of investments	12,400	-
Increase (decrease) from effect of expenses not deductible in determining taxable profit (tax loss)	(100)	-
Impairment of loans	<u>(13,800)</u>	<u>-</u>
Total tax charge/(credit)	<u>2,100</u>	<u>(500)</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 UK companies within the group have therefore been calculated at 17%.

Vinters Engineering Limited

Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

14 Income tax (continued)

Deferred tax

Deferred tax assets and liabilities

2017

Liability
£ 000

Accelerated tax depreciation

(100)

2016

Liability
£ 000

Accelerated tax depreciation

(100)

Vinters Engineering Limited

Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

14 Income tax (continued)

Deferred tax movement during the year:

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

Deferred tax movement during the prior year:

	At 1 January 2016 £ 000	Recognised in income £ 000	At 31 December 2016 £ 000
Accelerated tax depreciation	<u>200</u>	<u>(300)</u>	<u>(100)</u>

15 Inventories

	2017 £ 000	2016 £ 000
Raw materials and consumables	1,700	1,100
Work in progress	<u>700</u>	<u>200</u>
	<u>2,400</u>	<u>1,300</u>

16 Trade and other receivables

	2017 £ 000	2016 £ 000
Trade receivables	500	1,400
Amounts owed by joint ventures and associates	800	800
Amounts owed by group undertakings	10,000	10,500
Other receivables	<u>-</u>	<u>100</u>
Total current trade and other receivables	<u>11,300</u>	<u>12,800</u>

17 Trade and other payables

	2017 £ 000	2016 £ 000
Trade payables	200	300
Accruals and deferred income	3,800	3,000
Amounts owed to group undertakings	<u>52,200</u>	<u>121,800</u>
	<u>56,200</u>	<u>125,100</u>

Vinters Engineering Limited

Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

18 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 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 £0.2m (2016: £0.2m) representing its contributions paid to the Group for the period.

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

19 Share-based payments

Share based payments in the year were £10,000 (2016: £22,000).

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

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.

Vinters Engineering Limited

Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

19 Share-based payments (continued)

As share options are exercised throughout the year, the weighted average share price during the year of 756p (2016: 711p) is representative of the weighted average share price at the date of exercise. The closing price at 31 December 2017 was 847p (2016: 668p).

Share options outstanding

	ShareSave Number Thousand	ShareSave Weighted average remaining contractual life Years
At 31 December 2017		
600p – 699p	14	2.20
700p – 799p	17	4.10
900p – 999p	5	1.10
	36	2.90

	ShareSave Number Thousand	ShareSave Weighted average remaining contractual life Years
At 31 December 2016		
500p - 599p	18	0.10
600p – 699p	15	3.20
900p – 999p	11	1.30
	44	1.40

The range of exercise prices of options outstanding at 31 December 2017 was between 617p and 962p (2016 - 525p and 962p).

20 Other provisions

Vinters Engineering Limited

Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

20 Other provisions (continued)

	Retained liabilities from disposed companies £ 000
At 1 January 2017	30,900
Provisions used	(800)
Released	(9,500)
At 31 December 2017	<u>20,600</u>
Current liabilities	<u>20,600</u>

This relates to long-tail disease liability provisions resulting from businesses previously owned by the Group. The provision is expected to be utilised over the next 30-40 years.

21 Share capital

Allotted, called up and fully paid shares

	2017		2016	
	No. 000	£ 000	No. 000	£ 000
Ordinary shares of £0.50 each	<u>343,298</u>	<u>171,600</u>	<u>343,298</u>	<u>171,600</u>

22 Dividends

The director is proposing a final dividend of £Nil (2016 - £Nil) per share totalling £Nil (2016 - £Nil). This dividend has not been accrued in the statement of financial position.

23 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, Rolls-Royce Holdings plc (RRHplc) the ultimate parent company of the company) concluded deferred prosecution agreements with the Serious Fraud Office (SFO), an independent United Kingdom government department, and the US Department of Justice and a leniency agreement with the MPF, the Brazilian federal prosecutors. Prosecutions of individuals may follow and other investigations or enforcement action may be commenced. In addition, we could still be affected by actions from customers and customers' financiers. The Directors of RRHplc are not currently aware of any matters that are likely to lead to a financial loss, but cannot anticipate all the possible actions that may be taken or their potential consequences. There are no financial consequences of these agreements on this company.

Vinters Engineering Limited

Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

24 Parent and ultimate parent undertaking

The company's immediate parent is Vinters Limited.

The ultimate parent is Rolls-Royce Holdings plc.

The most senior parent entity producing publicly available financial statements is Rolls-Royce Holdings plc. These financial statements are available upon request from 62 Buckingham Gate, London, SW1E 6AT

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 62 Buckingham Gate, London, SW1E 6AT.

25 Non adjusting events after the financial period

On 1 June 2018 the Company sold its investment in L'Orange business, part of Rolls-Royce Power Systems, to Woodward Inc. for €673m.