

Vinters Engineering plc

Directors' Report and Financial Statements

31 December 2004

Registered No:3543



Vinters Engineering plc

Report of the directors

The directors present their annual report and the audited financial statements for the year ended 31 December 2004.

Principal activities

At the beginning of the year the principal activities of the Company were land defence systems and equipment and the manufacture of components for the marine, gas turbine and automotive industries. During the year the operations of the business manufacturing components for the marine, gas turbine and automotive industries were disposed of to a fellow subsidiary.

The profits for the year, after taxation, amounted to £23.2m (2003: £16.6m).

A dividend of £403.3m, (2003 £nil) was paid during the year.

Employees

The Company's employment policies and practices support its overall business objective by motivating and developing employees to be responsive to the needs of the business and its customers. The number of Company employees at the end of the year was 366 (2003:446).

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

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

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

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

The Company operates an equal opportunities policy. The Company's policy is to provide, whenever possible, employment opportunities and training for disabled people, to care for employees who become disabled and to make the best possible use of their skills and potential.

Education and training

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

Employees are encouraged to take responsibility for their personal development and opportunities 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.

Vinters Engineering plc

Report of the directors (continued)

Directors and directors interests

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

G Allan (appointed 7/12/2004)

B Baker

D R Bale

J E Warren

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

	Rolls-Royce Group plc Ordinary Shares of 20p each		Rolls-Royce Group plc non-cumulative redeemable convertible preference shares of 0.1p (B Shares)	
	1.1.04 or date of appointment if later	31.12.04	1.1.04 or date of appointment if later	31.12.04
G Allan	10,371*	10,371*	-	-
B Baker	57,169*	68,797*	-	72,050
D R Bale	33,291*	33,923*	-	-
J Warren	15,770*	17,478*	-	-

*The above interests include shares held in trust for the directors listed below:

	Annual Performance Related Award Plan ¹		Profit Sharing Share Scheme ²		Profit Sharing Share Scheme (B Shares)		ShareBonus Plan ³	
	1.1.2004 ⁴	31.12.2004	1.1.2004 ⁴	31.12.2004	1.1.2004 ⁴	31.12.2004	1.1.2004 ⁴	31.12.2004
G Allan	5,992	5,992	670	670	-	-	2,121	2,121
B Baker	40,380	41,037	3,178	1,737	-	86,850	-	1,297
D Bale	27,728	28,134	2,409	1,359	-	-	3,154	4,430
J Warren	14,237	12,598	-	-	-	-	-	-

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

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

³ Under the ShareBonus Plan shares vest after five years.

⁴ Or date of appointment if later.

Options over Rolls-Royce Group plc Ordinary Shares of 20p each				
	as at 1 January 2004	Share options granted in 2004	Share options exercised in 2004	Total share options as at 31 December 2004
G Allan	5,277	-	-	5,277
B Baker	692,022	-	-	692,022
D R Bale	346,607	-	44,500	302,107
J Warren	214,808	-	-	214,808

Vinters Engineering plc

Report of the directors (continued)

Conditional awards were granted under the Rolls-Royce Group plc Performance Share Plan (PSP) whereby shares released are dependent upon certain performance criteria being achieved over a three year performance period.

	PSP	
	1.1.2004	31.12.2004
B Baker	-	39,713
D R Bale	-	24,901
J E Warren	-	10,197

The market price of the ordinary shares of the Company's ultimate parent company, Rolls-Royce Group plc at December 31, 2004, was 247p and the range during 2004 was 167.5p to 269p.

Tangible Fixed Assets

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

Research and Development

The Company devotes a substantial amount of time and effort to research and development activities and expenditure for 2004 was £0.4m (2003: £0.3m) of which £0.2m relates to continuing operations. This is expected to continue at a similar level for the foreseeable future.

Prompt Payment

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

The amount of trade creditors shown in the balance sheet at 31 December 2004 represents 66 days (2003: 63 days) of average purchases during the year for the Company.

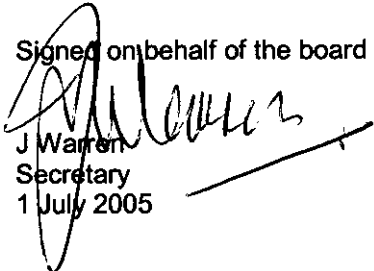
Health And Safety Policy

The Company confirms that it complies with the Health and Safety Policy and Procedures of its parent company, Rolls-Royce Group plc. These are described in the annual report of Rolls-Royce Group plc.

Auditors

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

Signed on behalf of the board


J Warren
Secretary
1 July 2005

Vinters Engineering plc

Statement of director's responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss for that period. In preparing those financial statements, the directors are required to:

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

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have the general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Vinters Engineering plc

Report of the Independent auditors to the members of Vinters Engineering plc

We have audited the financial statements on pages 6 to 21.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 4, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you, if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the Company is not disclosed.

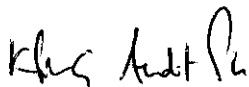
Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the Company's affairs as at 31 December 2004 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



KPMG Audit Plc

Chartered Accountants
Registered Auditor
London

1 July 2005

Vinters Engineering plc

Profit and loss account

For the year ended 31 December	Note	Discontinued Operations 2004 £m	Continuing Operations 2004 £m	Total 2004 £m	Total 2003 £m
Turnover	2	22.7	47.9	70.6	61.0
Operating Costs		(22.3)	(42.0)	(64.3)	(52.8)
Operating profit before exceptional items	3	0.4	5.9	6.3	8.2
Exceptional items	4	(0.1)	(0.1)	(0.2)	(0.4)
Operating profit after exceptional items	3	0.3	5.8	6.1	7.8
Dividends receivable from subsidiary undertakings		-	7.5	7.5	8.2
Profit on ordinary activities before interest		0.3	13.3	13.6	16.0
Net interest	5	-	(1.4)	(1.4)	-
Profit on ordinary activities before taxation				12.2	16.0
Taxation	6			11.0	0.6
Profit attributable to ordinary shareholders				23.2	16.6
Dividends				(403.3)	-
(Loss) / Profit transferred to reserves	16			(380.1)	16.6

There are no recognised gains or losses other than those disclosed in the profit and loss account above.

The notes on pages 9 to 21 form part of these financial statements.

Vinters Engineering plc

Balance sheet

On 31 December, 2004

	Notes	2004 £m	2003 £m
Fixed Assets			
Tangible assets	8	6.4	12.2
Investments in subsidiary undertakings	9	394.1	169.5
		400.5	181.7
Current assets			
Stocks	10	9.9	10.5
Debtors - amounts falling due within one year.	11	15.2	647.0
Debtors - amounts falling due after one year.	11	70.0	73.1
		85.2	720.1
Cash and deposits		2.3	2.0
		97.4	732.6
Creditors - amounts falling due within one year			
Borrowings	12	(24.0)	(23.7)
Other Creditors	12	(130.7)	(183.5)
		(154.7)	(207.2)
Net current (liabilities) / assets		(57.3)	525.4
Total assets less current liabilities		343.2	707.1
Creditors - amounts falling due after one year.			
Other Creditors		(19.0)	-
Provisions for liabilities and charges	13	(43.7)	(46.5)
Net assets		280.5	660.6
Capital and reserves			
Called up share capital	15	171.6	171.6
Share premium account	16	65.1	65.1
Revaluation reserve	16	2.2	4.4
Other reserves	16	8.4	8.4
Profit and loss account	16	33.2	411.1
Shareholders' funds		280.5	660.6

The notes on pages 9 to 21 form part of these financial statements.

The financial statements were approved by the board of directors on 1 July 2005 and were signed on its behalf by:

G Allan
Director



Vinters Engineering plc**Note of historical cost profits and losses**

	2004 £m	2003 £m
Reported profit on ordinary activities before taxation	12.2	16.0
Difference between historical cost depreciation charge and the actual depreciation charge of the year calculated on the revalued amount	0.2	0.1
Difference between profit on disposal at historic cost and revalued amount	2.0	-
Historical cost profit on ordinary activities before taxation	14.4	16.1
Historical cost (loss)/profit for the year retained after taxation, minority interests and dividends	(377.9)	16.7

Reconciliation of shareholders' funds

	2004 £m	2003 £m
Opening shareholders' funds	660.6	644.0
Retained (loss)/profit for the financial period	(380.1)	16.6
Closing shareholders' funds	280.5	660.6

Vinters Engineering plc

Notes to the financial statements

1. Accounting Policies

Basis of preparation

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

The financial statements have been prepared on the going concern basis, notwithstanding net current liabilities of £57.3m which the directors believe to be appropriate for the following reasons. The company is dependent for its working capital on funds provided to it by Rolls-Royce plc, a parent of the company. Rolls-Royce plc has provided the company with an undertaking that for at least 12 months from the date of approval of these financial statements, it will continue to make available such funds as are needed by the company and in particular will not seek repayment of the amounts currently made available. This should enable the company to continue in operational existence for the foreseeable future by meeting its liabilities as they fall due for payment. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

Based on this undertaking the directors believe that it remains appropriate to prepare the financial statements on a going concern basis. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

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

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

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

Foreign currencies

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

Turnover

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

Profit

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

Vinters Engineering plc

Notes to the financial statements (continued)

1. Accounting Policies (continued)

Research and development expenditure

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

Operating leases

Rentals under operating leases are charged to profit as incurred.

Taxation

Provision for taxation is made at the current rate and for deferred taxation at the projected rate on all timing differences which have originated, but not reversed at the balance sheet date.

Pensions

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

Tangible assets

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

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

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

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

Stocks and work in progress

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

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

Warranty

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

Vinters Engineering plc

Notes to the financial statements (continued)

2. Segmental analysis

	Turnover		Profit before interest		Net assets	
	2004 £m	2003 £m	2004 £m	2003 £m	2004 £m	2003 £m
Principal activities						
Defence Systems	47.9	42.2	5.8	4.0	11.0	5.4
Unallocated	-	-	7.5	10.7	267.0	646.5
Total continuing operations	47.9	42.2	13.3	14.7	278.0	651.9
Marine	10.7	9.7	-	0.8	-	6.5
Automotive Pressings	12.0	9.1	0.3	0.5	2.5	2.2
Total discontinued operations	22.7	18.8	0.3	1.3	2.5	8.7
Total	70.6	61.0	13.6	16.0	280.5	660.6
Geographical analysis by destination						
United Kingdom	60.5	50.9				
Rest of Europe	7.0	8.2				
North America	0.4	0.6				
Asia/Pacific	2.6	1.2				
Other	0.1	0.1				
Sales to third parties	70.6	61.0				

	2004				2003			
	Underlying Profit before interest £m	Exceptional items £m	Other non-trading items £m	Profit before interest £m	Underlying Profit before interest £m	Exceptional items £m	Other non-trading items £m	Profit before interest £m
Principal activities								
Defence Systems	5.9	(0.1)	-	5.8	4.0	-	-	4.0
Unallocated	-	-	7.5	7.5	2.9	(0.4)	8.2	10.7
Total continuing operations	5.9	(0.1)	7.5	13.3	6.9	(0.4)	8.2	14.7
Marine	-	-	-	-	0.8	-	-	0.8
Automotive Pressings	0.4	(0.1)	-	0.3	0.5	-	-	0.5
Discontinued operations	0.4	(0.1)	-	0.3	1.3	-	-	1.3

Other non-trading items comprises dividends receivable from subsidiary undertakings £7.5m (2003 £8.2m).

2003 has been re-presented in order to more accurately reflect the allocation of assets at the year end and transactions during the year.

All net assets, turnover and profit before interest and tax originates from the United Kingdom.

Vinters Engineering plc**Notes to the financial statements (continued)****3. Operating profit**

	2004 £m	2003 £m
<hr/> Operating profit is stated after charging		
Depreciation:		
On owned assets	1.6	1.7
Research and Development	0.4	0.3
Fees paid to the auditors and their associates:		
Audit	0.1	0.1

4. Exceptional items

	2004 £m	2003 £m
Write down of investment in subsidiary undertakings	-	(0.4)
Restructuring costs	(0.2)	-
Total	(0.2)	(0.4)

5. Net Interest

	2004 £m	2003 £m
Interest payable and similar charges on bank loans and overdrafts	(1.4)	-
Interest payable on other borrowings	-	(0.5)
Interest payable	(1.4)	(0.5)
Interest receivable	-	0.5
Net interest	(1.4)	-

Vinters Engineering plc

Notes to the financial statements (continued)

6. Taxation

	2004 £m	2003 £m
Current tax:		
Group relief payable / (receivable) at 30% (2003: 30%) on profits of the period	2.9	(0.6)
Adjustments to group relief payable in respect of previous periods	(11.9)	(3.0)
Total current tax credit	(9.0)	(3.6)
Deferred tax (credit) / charge – origination and reversal of timing differences	(2.0)	3.0
	(11.0)	(0.6)
Reconciliation of Tax Credit:		
Profit on ordinary activities before tax	12.2	16.0
Nominal charge at UK corporation tax rate of 30%	3.7	4.8
Expenses not deductible for tax purposes	0.3	0.1
Income not taxable	(2.2)	(2.5)
Capital allowances for period in excess of depreciation	0.2	-
Other timing differences for period	0.9	(3.0)
Adjustments for prior periods	(11.9)	(3.0)
Current tax credit	(9.0)	(3.6)

7. Directors and employees

No remuneration has been received by the directors in respect of their services to the Company (2003: £Nil).

(a) Number of employees (average)	2004	2003
Marine	169	177
Automotive Pressings	190	153
Defence	126	125
	485	455
(b) Employment costs	2004 £m	2003 £m
Employee costs, including those of executive directors:		
Wages and salaries	11.1	10.6
Social security costs	0.9	0.8
Other pension costs	1.6	(10.7)
	13.6	0.7

Vinters Engineering plc

Notes to the financial statements (continued)

8. Tangible assets

	Land & Buildings £m	Plant & Equipment £m	Total £m
Gross book value			
At 1 January 2004	10.6	17.4	28.0
Additions at cost	0.3	0.6	0.9
On disposal of business	(5.4)	(9.2)	(14.6)
Disposals	-	(1.7)	(1.7)
At 31 December 2004	5.5	7.1	12.6
Depreciation			
At 1 January 2004	2.9	12.9	15.8
Provided during the year	0.3	1.3	1.6
On disposal of business	(2.0)	(7.5)	(9.5)
Disposals	-	(1.7)	(1.7)
At 31 December 2004	1.2	5.0	6.2
Net book value at			
31 December 2004	4.3	2.1	6.4
31 December 2003	7.7	4.5	12.2
Gross book value of non-depreciable assets at:			
31 December 2004	0.3	-	0.3
31 December 2003	0.5	-	0.5
Land and buildings			
Land and buildings at cost or valuation comprise:			£m
Cost			4.0
Valuation at November 1988			<u>1.5</u>
			5.5
Land and buildings at net book value comprise:			£m
Freehold			3.7
Long Leasehold			<u>0.6</u>
			4.3

Vinters Engineering plc

Notes to the financial statements (continued)

9. Investments in subsidiary undertakings

	Cost £m	Provisions £m	Total £m
At 1 January 2004	352.4	(182.9)	169.5
Additions	224.6	-	224.6
At 31 December 2004	577.0	(182.9)	394.1

During the year the company subscribed for an additional £224.6m of ordinary share capital in Vinters International Ltd.

The principal subsidiary undertakings of the Company are listed on page 20 and 21.

10. Stocks

	2004 £m	2003 £m
Raw materials	6.6	5.5
Work in progress	3.3	5.7
Progress payments received	-	(0.7)
Net work in progress	3.3	5.0
Total stocks	9.9	10.5

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

11. Debtors

	2004 £m	2003 £m
Amounts falling due within one year		
Trade debtors	7.9	7.1
Amounts owed by subsidiary undertakings	-	362.9
Amounts owed by other group undertakings	6.6	-
Loan to parent undertaking	-	241.9
Loan to ultimate parent undertaking	-	34.1
Other debtors	0.6	0.6
Prepayments and accrued income	0.1	0.4
	15.2	647.0
Amounts falling due after more than one year		
Pension prepayment	70.0	73.1
Total debtors	85.2	720.1

Vinters Engineering plc

Notes to the financial statements (continued)

12. Creditors

	2004 £m	2003 £m
Bank loans and overdrafts	24.0	23.7
Borrowings – amounts falling due within one year	24.0	23.7
Trade creditors	7.1	5.3
Amounts owed to subsidiary undertakings	117.3	-
Amounts owed to other group undertakings	-	147.3
Group tax relief payable	2.9	-
Accruals and deferred income	2.7	3.7
Taxation on profits	-	21.7
Other taxation and social security	0.3	0.2
Other creditors	0.4	5.3
Other Creditors – amounts falling due within one year	130.7	183.5
Creditors – amounts falling due within one year	154.7	207.2
Amounts owed to subsidiary undertakings	19.0	-
Other Creditors – amounts falling due after one year	19.0	-
Creditors – amounts falling due after one year	19.0	-

13. Provisions for liabilities and charges

	Warranty £m	Disposals £m	Deferred Taxation £m	Total £m
At 1 January 2004	2.0	20.5	24.0	46.5
Utilised	-	(4.9)	(2.0)	(6.9)
Unused amounts reversed	(0.7)	-	-	(0.7)
Charged to the profit and loss account	0.1	4.9	-	5.0
On disposal of business	(0.2)	-	-	(0.2)
At 31 December 2004	1.2	20.5	22.0	43.7

The provisions above relate to a number of liabilities which are long term in nature and the timing of their utilisation is uncertain.

	2004 £m	2003 £m
Deferred Taxation		
Accelerated capital allowances	1.0	2.0
Other timing differences	21.0	22.0
Net deferred tax liability	22.0	24.0

The potential liability for taxation, which has not been provided in the amounts shown above because such tax would become payable only if the properties were sold without it being possible to claim rollover relief is:

Capital gains on revaluation of properties and rolled-over gains.	0.7	1.0
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Vinters Engineering plc

Notes to the financial statements (continued)

14. Pensions

The Company's pension scheme is a funded defined benefit type and the assets of the scheme are held in a separate trustee administered fund.

The pension cost relating to the scheme is assessed in accordance with SSAP 24 'Accounting for Pension Cost', based on the advice of independent qualified actuaries using the projected unit method. The latest actuarial valuation of the scheme was at March 31, 2004. The principal assumptions used were that in the long term the average returns on investments would be 2.0% per annum higher than the average increase in pay and 3.6% per annum higher than the average increase in pensions. Assets were valued on a market related basis.

The net pension charge / (credit) for the Company was £1.6m (2003: credit £10.7m).

The market value of the scheme at the date of the latest actuarial valuation was £469.3m. The actuarial value of the assets of the scheme represented 79.3% of the value of the projected accrued liabilities.

The difference between the value of the assets and the value of the projected liabilities (after allowing for expected future increases in earnings and discretionary pension increases) is being amortised over 8.5 years, being the average expected remaining service lives of the pensionable employees.

Prepayments of £70.0m (2003: £73.1m) are included in debtors, being the differences between the accumulated amounts paid into the pension fund and the accumulated pension costs.

FRS 17 Disclosures

The full implementation of FRS 17 'Retirement Benefits' has been deferred, however certain disclosures are required which are included below.

The valuations with respect to UK schemes have been based on the most recent actuarial valuation (as noted above) and updated by the scheme actuary to December 31, 2004 by a qualified actuary taking account of the requirements of FRS 17.

The principal actuarial assumptions were as follows:

	2004 UK Schemes %	2003 UK Schemes %
Rate of increase in salaries	4.4	4.3
Rate of increase of pensions in payment and deferment	2.7	2.8
Discount rate	5.3	5.4
Inflation assumption	2.9	2.8

The assets in the principal schemes and the expected rates of return at December 31, 2003 were as follows:

	2004 Expected long-term rate of return %	2004 Market value £m	2003 Expected long-term rate of return %	2003 Market value £m
Equities	7.55	292	8.30	349
Sovereign debt	4.55	71	4.80	56
Corporate bonds	5.05	81	5.10	59
Other	4.80	5	4.00	4
Total market value of assets		450		468
Present value of scheme liabilities		(513)		(566)
Deficit in the scheme		(63)		(98)
Related deferred tax asset		19		30
Net pension liability		(44)		(68)

Vinters Engineering plc

Notes to the financial statements (continued)

14. Pensions (continued)

Amounts charged to profit and loss account	2004 £m	2003 £m
Operating profit		
Current service charge	4.3	6.4
Curtailment / Settlement	(2.3)	-
	2.0	6.4
Finance income		
Expected return on pension scheme assets	(33.8)	(29.3)
Interest on pension scheme liabilities	29.8	27.1
	4.0	(2.2)
Total charge/(credit)	2.0	4.2
Movement in scheme deficits during the year	2004 £m	2003 £m
At January 1	(98.4)	(94.3)
Current service cost	(4.3)	(6.4)
Contributions	-	-
Curtailment / Settlement	2.3	-
Finance income	4.0	2.2
Actuarial gain	33.8	0.1
At December 31	(62.6)	(98.4)
History of experience gains and losses and amount recognised in statement of total recognised gains and losses	2004 £m	2003 £m
Difference between the expected and actual return on scheme assets		
Amount	11.5	48.7
Percentage of scheme assets	3%	10%
Experience gains and losses on scheme liabilities		
Amount	38.9	5.5
Percentage of the present value of scheme liabilities	8%	1%
Effect of changes in assumptions underlying the present value of scheme liabilities		
Amount	(16.6)	(54.1)
Percentage of the present value of scheme liabilities	(3%)	(10%)
Total amount recognised in the statement of total recognised gains and losses		
Amount	33.8	0.1
Percentage of the present value of scheme liabilities	7%	0%

Net assets

If the above net pensions liabilities had been recognised in the financial statements, the net assets and profit and loss reserve would be as follows:

	2004 £m	2003 £m
Net assets per balance sheet	280.5	660.6
Net pension (liability)/asset	(43.8)	(68.9)
Pension prepayment ¹	(48.9)	(49.4)
Total FRS 17 pension adjustment	(92.7)	(118.3)
Net assets under FRS 17	187.8	542.3

1. Pension prepayment currently recorded: £70.0m (2003 £73.1m) less related deferred tax liability of £21.1m (2003 £21.9m)

Vinters Engineering plc

Notes to the financial statements (continued)

14. Pensions (continued)

Profit and loss reserve

	2004 £m	2003 £m
Profit and loss reserve	33.2	411.1
Total FRS 17 pension adjustment	(92.7)	(118.3)
Profit and loss reserve under FRS 17	(59.5)	292.8

15. Share capital

	2004 £m	2003 £m
Issued share capital allotted, called up and fully paid – 343,297,724 ordinary shares of 50p each	171.6	171.6
Authorised share capital – 457,000,000 ordinary shares of 50p each	228.5	228.5

16. Reserves

	Profit and loss reserve £m	Share premium £m	Revaluation Reserve £m	Other reserves £m
At 1 January 2004	411.1	65.1	4.4	8.4
Retained (loss) for the year	(380.1)	-	-	-
Transfer from realised profits	2.2	-	(2.2)	-
At 31 December 2004	33.2	65.1	2.2	8.4

The amount of unrealised exchange gain (net of losses) on net borrowings at 31 December 2004 included in reserves amounted to £nil (2003 £nil).

17. Capital commitments

At 31st December 2004 there were no outstanding contracts for capital expenditure.

Vinters Engineering plc

Notes to the financial statements (continued)

18. Contingent liabilities

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

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

19. Related party transactions

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

20. Ultimate parent company

The Company is a subsidiary undertaking of Vinters plc, a company incorporated in Great Britain and registered in England and Wales.

The largest group in which the results of the Company are consolidated is that headed by Rolls-Royce Group plc, incorporated in Great Britain. The smallest group in which the results of the Company are consolidated is that headed by Rolls-Royce plc, incorporated in Great Britain. The consolidated financial statements of these groups are available to the public and may be obtained from 65 Buckingham Gate, London, SW1E 6AT.

21. Disposal of Business

On the 31st December 2004, for £6.8m consideration, the company disposed of the assets of Michell Bearings business to Rolls-Royce Power Engineering plc. A table of net assets disposed is shown below. The profit on disposal was £nil.

	£m
Tangible fixed assets	5.1
Stock	1.0
Debtors	3.5
Creditors	(2.1)
Overdraft	<u>(0.7)</u>
	<u>6.8</u>

Vinters Engineering plc

Notes to the financial statements (continued)

22. Principal subsidiary undertakings

Defence Systems:

- + Powerfield Specialist Engines Limited (formerly trading as Vickers Specialist Engines), Crewe
- + Powerfield Limited, Crewe

Automotive Pressings

- + Vickers Pressings Limited, Newcastle-upon-Tyne #

Turbine components

Ross Ceramics Limited, Denby, Derby

Marine

- * Rolls-Royce AB, (formerly known as Kamewa AB) Kristinehamn, Sweden
- * Rolls-Royce OY AB, (trading as Aquamaster and Rauma), Rauma, Finland
- ◆ Michell Bearings, Newcastle-upon-Tyne
- * Rolls-Royce Marine AS, Norway
- * Ulstein Turbine AS, Norway

Corporate

Vinters International Limited

- ◆ Division of the Company sold to Rolls-Royce Power Engineering plc 31/12/2004.
- * The whole of the indicated share capital of each of the companies shown is held by Vinters Engineering plc or, where indicated by an asterisk, by one of its wholly-owned subsidiary undertakings.
- + Powerfield Specialist Engines Limited, Powerfield Limited and Vickers Pressings Limited act as agents for Vinters Engineering plc.
- # Sold 28/01/2005

All of the companies shown are wholly owned and incorporated and operate principally in the UK unless otherwise stated.