

Vickers Engineering plc

(Company registered in London under no. 3543)

Directors' Report and Financial Statements

31 December 2001



Report of the directors

The directors present their annual report and the audited financial statements for the year ended 31 December 2001.

Principal activities

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

The profits for the year, after taxation, amounted to £20.0m (2000: £38.2m).

The directors do not recommend the payment of a dividend (2000: £nil).

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 1009 (2000:1661).

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 is a high priority.

Directors and directors interests

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

D R Bale
B Baker
T C Coltman
P Heiden
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 Vickers Engineering plc at the beginning or at the end of the financial year. Details of interests of those directors in the share capital of the ultimate holding company were as follows:

Rolls-Royce plc Ordinary 20p Shares			Options over Rolls-Royce plc Ordinary Shares			
	Shares @ 01 January 2001 or date of appointment if later	Shares @ 31 December 2001	Options @ 01 January 2001 or date of appointment if later	Options @ 31 December 2001	Exercise price (p)	Exercisable Dates
D R Bale	4,458	9,156*	44,500 1,380 15,444 11,584	44,500 - 15,444 11,584 27,778 879	176 150 194.25 194.25 216 108	2001-2005 2001 2003-2010 2003-2010 2004 -2011 2005
	4,458	9,156*	72,908	100,185		
B Baker	6,686	12,698*	63,750 11,647 5,200 2,359 2,609 77,221	63,750 - 5,200 2,359 2,609 77,221 148,149 74,075 3,371	176 LTIP 150 205 194 194.25 216 216 108	2001-2005 2002 2003 2005 2005 2003-2010 2004 - 2011 2004 - 2011 2007
	6,686	12,698*	162,786	376,734		
T C Coltman	27,833	50,062*	58,500 23,293 4,204 15,444 69,499	58,500 - - 15,444 69,499 175,296 4,398	176 LTIP 205 194.25 194.25 216 108	2001-2005 2002 2001 2003-2010 2003-2010 2004 - 2011 2005
	27,833	50,062*	170,940	323,137		
J E Warren	803	2,341*	6,900 2,255 15,444	- 2,255 15,444 19,098 5,639	150 205 194.25 216 108	2001 2003 2003-2010 2004-2011 2007
	803	2,341*	24,599	42,436		

Mr P Heiden is a member of the Rolls-Royce plc Board of Directors and his director's interests and emoluments are disclosed in that company's Annual Report and Financial Statements.

*The above interests under ordinary 20p shares include shares held in trust for the following directors:

	Annual Performance Related Award Scheme ¹		Profit Sharing Share Scheme ²	
	1.1.2001	31.12.2001	1.1.2001	31.12.2001
D R Bale	2,808	5,045	900	1,981
B Baker	4,011	8,485	1,286	2,727
T C Coltnan	6,618	11,931	1,415	3,127
J E Warren	803	2,341	-	-

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

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

The closing mid-market price of the ordinary shares of the Company's ultimate parent company Rolls-Royce plc at December 31, 2001, was 166.5p and the range during 2001 was 121p to 250p.

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 2001 was £2.9m (2000: £5.0m).

Prompt Payment

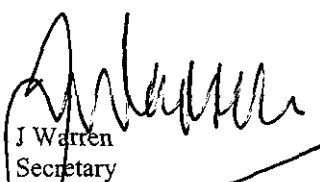
In the United Kingdom, the Company has subscribed to the Prompt Payment Code as published by, and available from, the Confederation of British Industry. The main features of the Code are that payment terms are agreed at the outset of a transaction and are adhered to by the parties concerned, that the 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 2001 represents 54 days (2000: 46 days) of average purchases during the year for the Company.

Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution for the 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
25th April 2002

Statement of director's responsibilities

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

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

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

Independent auditors' report to the members of Vickers Engineering plc

We have audited the financial statements on pages 7 to 24.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 5, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 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 2001 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit plc
KPMG Audit plc

Chartered Accountants
Registered Auditor
London

28 May 2002

Accounting Policies

Basis of preparation

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

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

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

Foreign currencies

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

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

Turnover

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

Profit

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

Research and development expenditure

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

Operating leases

Rentals under operating leases are charged to profit as incurred.

Taxation

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 groups' finances. The pension costs relating to these schemes including those related to past service, are assessed in accordance with the recommendations of independent actuaries. Full actuarial valuations are made at regular intervals. Variations from the regular costs of defined benefit schemes are allocated over the average remaining service lives of current employees.

Tangible assets

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

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

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

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

Stocks and work in progress

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

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

Warranty

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

Profit and loss account

For the year ended 31 December	Notes	Continuing operations 2001 £m	Discontinued Operations 2001 £m	Total 2001 £m	Continuing Operations 2000 £m	Discontinued operations 2000 £m	Total 2000 £m
Turnover	1	148.5	-	148.5	253.6	48.5	302.1
Operating costs		(95.2)	-	(95.2)	(220.2)	(45.9)	(266.1)
Operating profit – before exceptional items	2,3	53.3	-	53.3	33.4	2.6	36.0
- exceptional items	3	-	-	-	-	-	-
Operating profit/(loss)	2	53.3	-	53.3	33.4	2.6	36.0
Profit less losses including provision for losses on disposal of businesses	3	-	0.3	0.3	-	(77.4)	(77.4)
Write down of investment in subsidiary undertaking	3	(17.5)	-	(17.5)	(168.3)	-	(168.3)
Profit/(Loss) on ordinary activities before dividends receivable and interest	2,3	35.8	0.3	36.1	(134.9)	(74.8)	(209.7)
Dividends receivable from subsidiary undertakings				-			272.6
Net interest	4			(2.2)			(4.6)
Profit on ordinary activities before taxation				33.9			58.3
Taxation	5			(13.9)			(20.1)
Profit on ordinary activities after taxation and shareholders' profit for the financial year				20.0			38.2
Profit transferred to reserves	15			20.0			38.2

The notes on pages 13 to 24 form part of these financial statements.

Balance sheet

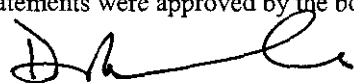
At 31 December

	Notes	2001 £m	2000 £m
Fixed Assets			
Tangible assets	8	18.5	26.7
Investments in subsidiary undertakings	9	190.4	207.9
		208.9	234.6
Current assets			
Stocks and work in progress	10	10.0	8.3
Debtors falling due within one year	11	718.1	749.3
Debtors falling due after more than one year	11	54.2	57.4
		772.3	806.7
Cash and deposits		44.2	32.9
		826.5	847.9
Creditors: amounts falling due within one year			
Borrowings	12	(30.4)	(26.5)
Other liabilities	12	(355.4)	(424.5)
		(385.8)	(451.0)
Net current assets		440.7	396.9
Total assets less current liabilities		649.6	631.5
Creditors: amounts falling due after more than One year	12	-	(8.7)
Provisions for liabilities and charges	13	(43.1)	(36.3)
		606.5	586.5
Capital and reserves			
Called up share capital	14	171.6	171.6
Share premium account	15	65.1	65.1
Revaluation reserve	15	5.9	11.0
Other reserves	15	8.4	8.4
Profit and loss account	15	355.5	330.4
Shareholders' funds		606.5	586.5

The notes on pages 13 to 24 form part of these financial statements.

The financial statements were approved by the board of directors on 25th April 2002 and were signed on its behalf by:

Director



Statement of total recognised gains and losses

	2001 £m	2000 £m
Profit for the financial year	20.0	38.2
Currency translation differences on foreign currency net investments	-	(0.4)
Total recognised gains and losses for the financial year	20.0	37.8

Note of historical cost profits and losses

	2001 £m	2000 £m
Reported profit on ordinary activities before taxation	33.9	58.3
Difference between historical cost depreciation charge and the actual Depreciation charge of the year calculated on the revalued amount	0.3	0.3
Historical cost profit on ordinary activities before taxation	34.2	58.6
Historical cost profit for the year retained after taxation, Minority interests and dividends	20.3	38.5

Reconciliation of shareholders' funds

	Ordinary share capital £m	Share premium account £m	Revaluation Reserve £m	Other Reserves £m	Profit and loss account £m	2001 £m	2000 £m
Opening shareholders' funds	171.6	65.1	11.0	8.4	330.4	586.5	548.7
Retained profit for the financial period	-	-	-	-	20.0	20.0	38.2
Currency translation differences on foreign currency net investments	-	-	-	-	-	-	(0.4)
Reserves reclassified	-	-	(5.1)	-	5.1	-	-
Closing shareholders' funds	171.6	65.1	5.9	8.4	355.5	606.5	586.5

Notes to the financial statements

1. Segmental information

	Turnover		Profit on ordinary activities before interest						Segmental net assets/(liabilities)	
			Before exceptional items	Exceptional Items	After exceptional items	Before exceptional items	Exceptional Items	After Exceptional Items		
	2001 £m	2000 £m	2001 £m	2001 £m	2001 £m	2000 £m	2000 £m	2000 £m	2001 £m	2000 £m
Principal activities										
Marine	10.0	9.8	2.8	-	2.8	0.5	-	0.5	8.6	8.2
Turbine Components	9.8	12.7	5.2	-	5.2	0.6	-	0.6	3.7	4.2
Defence Systems	128.7	231.1	45.3	-	45.3	32.3	-	32.3	(36.2)	(87.6)
			53.3	-	53.3	33.4	-	33.4		
						33.4	-	33.4		
Write down of investment in subsidiary undertaking			-	(17.5)	-	-	(168.3)	(168.3)		
Non-recurring corporate costs			-	-	-	-	-	-		
Total continuing operations	148.5	253.6	53.3	(17.5)	35.8	33.4	(168.3)	(134.9)		
Total discontinued operations	-	48.5	-	0.3	0.3	2.6	(77.4)	(74.8)		
Unallocated net assets									393.6	288.7
Sales to third parties	148.5	302.1								
Profit/(loss) on ordinary activities before dividends receivable and interest			53.3	(17.2)	36.1	36.0	(245.7)	(209.7)		
Total segmental net assets									369.7	213.5

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

1. Segmental information (continued)

	Turnover by destination	
	2001 £m	2000 £m
Geographical segments		
United Kingdom	124.3	161.5
North America	0.2	0.5
Continental Europe	8.3	5.9
Asia / Pacific	15.5	85.5
Rest of the World	0.2	0.2
Total continuing operations	148.5	253.6
Discontinued operations	-	48.5
Sales to third Parties	148.5	302.1

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

	2001 £m	2000 £m
Reconciliation of total net assets to segmental net assets		
Net assets as shown in the balance sheet	624.0	586.5
Exclude interest-bearing assets and liabilities:		
Cash and deposits	(41.2)	(32.9)
Net loans to subsidiary undertaking	-	(123.1)
Loan to parent undertaking	(243.5)	(243.5)
Borrowings falling due within one year	30.4	26.5
Total segmental net assets	369.7	213.5

2. Operating profit / (loss)

	2001 £m	2000 £m
Operating profit is stated after charging		
Depreciation:		
On owned assets	3.8	6.0
Research and Development	2.9	5.0
Fees paid to the auditors and their associates:		
Audit	0.1	0.2

3. Exceptional items

	2001 £m	2000 £m
Profits less losses including provision for losses on disposal of businesses	0.3	(77.4)
Write down of investment in subsidiary undertaking	(17.5)	(168.3)
Total	(17.2)	(245.7)

4. Net Interest

	2001 £m	2000 £m
Interest payable and similar charges on bank loans and overdrafts	-	(0.1)
Interest payable to group companies	(3.0)	(5.1)
Interest payable	(3.0)	(5.2)
Interest receivable	0.8	0.6
Net interest	(2.2)	(4.6)

5. Taxation

	2001 £m	2000 £m
Current tax:		
Group relief payable at 30% (2000: 30%) on profits of the period	13.0	9.5
Adjustments to group relief payable in respect of previous periods	(6.9)	0.4
Total current tax	6.1	9.9
Deferred tax – origination and reversal of timing differences	7.8	10.2
	13.9	20.1
Reconciliation of Tax Charge:		
Profit on ordinary activities before tax	33.9	58.3
Nominal charge at UK corporation tax rate of 30%	10.2	17.5
Expenses not deductible for tax purposes	5.8	73.2
Income not taxable	-	(81.8)
Capital allowances for period in excess of depreciation	0.5	1.8
Other timing differences for period	(3.5)	(1.2)
Adjustments for prior periods	(6.9)	0.4
Current tax	6.1	9.9

6. 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, 2001. The principal assumptions used were that in the long term the average returns on investments would be 2.25% per annum higher than the average increase in pay and 4% per annum higher than the average increase in pensions. Assets were valued on a market related basis.

The net pension credit for the Company was £9.6m (2000: credit £2.9m).

The market value of the scheme at the date of the latest actuarial valuation was £521.2m. The actuarial value of the assets of the scheme represented 129% 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 £53.4m (2000: £41.8m) are included in debtors, being the differences between the accumulated amounts paid into the pension fund and the accumulated pension costs.

FRS 17 Disclosures

FRS 17 'Retirement Benefits' will replace SSAP 24 'Accounting for Pension Costs' for periods ending on or after June 22, 2003. In the transition period certain disclosures are required which are included below.

The valuations with respect to UK schemes have been based on the most recent actuarial valuations (as noted above) and updated by the scheme actuary to December 31, 2001 taking account of the requirements of FRS 17.

The principal actuarial assumptions were as follows:

	UK Schemes
	%
Rate of increase in salaries	4.0
Rate of increase of pensions in payment and deferment	2.5
Discount rate	6.0
Inflation assumption	2.5

The assets in the principal schemes and the expected rates of return at December 31, 2001 were as follows:

	Expected long-term rate of return	Market value £m
	%	
Equities	8.5	421
Sovereign debt	5.0	78
Corporate bonds	6.0	7
Other	7.5	15
Total market value of assets	-	521
Present value of scheme liabilities	-	(472)
Surplus in the scheme	-	49
Related deferred tax liability	-	(15)
Net pension asset	-	34

If the above amounts had been recognised in the financial statements, the net assets for the Company at December 31, 2001 would be reduced by £10m with a matching reduction in profit and loss reserve. This has been calculated after taking account of the pensions prepayments and provisions and other post-retirement benefits, net of related deferred tax.

7. Directors and employees

No remuneration has been received by the directors in respect of their services to the company (2000: £Nil).

(a) Number of employees (average)	2001	2000
Marine	182	183
Turbine Components	141	657
Defence	686	821
	1009	1661

(b) Employment costs	2001 £m	2000 £m
Employee costs, including those of executive directors:		
Wages and salaries	25.7	39.8
Social security costs	2.2	3.5
Other pension costs	(9.6)	(2.9)
	18.3	40.4

8. Tangible assets

	Land & Buildings £m	Plant & Equipment £m	Total £m
Gross book value			
At 1 January 2001	38.5	50.1	88.6
Capital expenditure	-	1.3	1.3
Disposals	(19.5)	(14.9)	(34.4)
At 31 December 2001	19.0	36.5	55.5
Depreciation			
At 1 January 2001	23.3	38.6	61.9
Provided during the year	0.7	3.1	3.8
Disposals	(14.0)	(14.7)	(28.7)
At 31 December 2001	10.0	27.0	37.0

Net book value at

31 December 2001	9.0	9.5	18.5
31 December 2000	15.2	11.5	26.7

Gross book value of non-depreciable assets at:

31 December 2001	1.9	-	1.9
31 December 2000	5.8	-	5.8

Land and buildings	Freehold £m	Long leasehold £m
The net book value of land and buildings at the end of the year comprises:		
Cost	3.1	0.3
Valuation as at November 1988	4.7	0.5
Directors' valuation as at November 1992	0.4	-
	8.2	0.8

£m

On an historical cost basis land and buildings would have been included as follows:

Cost	8.8
Accumulated depreciated	(6.1)
	2.7

9. Investments in subsidiary undertakings

	Cost £m	Provisions £m	Total £m
At 1 January 2001	390.4	(182.5)	207.9
Provision raised in year	-	(17.5)	-
At 31 December 2001	390.4	(200.0)	190.4

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

The principal subsidiary undertakings of the Company are listed on page 23.

10. Stocks and work in progress

	2001 £m	2000 £m
Long term contract work in progress	4.2	6.0
Instalments on account	-	(2.3)
	4.2	3.7
Other work in progress	4.0	2.4
Instalments on account	(0.5)	(0.5)
	3.5	1.9
Net work in progress	7.7	5.6
Materials, bought out components and general stores	2.2	2.6
Finished goods	0.1	0.1
Total stocks and work in progress	10.0	8.3

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

11. Debtors

	2001 £m	2000 £m
Amounts falling due within one year		
Trade debtors	12.7	22.2
Amounts owed by subsidiary undertakings	451.6	405.7
Loan to parent undertaking	243.5	243.5
Other debtors	10.0	77.3
Prepayments and accrued income	0.3	0.6
	718.1	749.3
Amounts falling due after more than one year		
Pension prepayment	53.4	41.8
Other debtors	0.8	15.6
	54.2	57.4
Total debtors	772.3	806.7

12. Creditors

	2001 £m	2000 £m
Amounts falling due within one year		
Bank loans and overdrafts	30.4	26.5
Borrowings	30.4	26.5
Customer advances	0.6	44.8
Trade creditors	20.0	36.0
Amounts owed to subsidiary undertakings	238.6	273.1
Group tax relief payable	13.0	9.5
Loan from associated undertaking	-	-
Accruals and deferred income	-	-
Taxation on profits	19.3	19.3
Other taxation and social security	0.6	1.0
Other creditors	63.3	40.8
Other liabilities	355.4	424.5
Total amounts falling due within one year	385.8	451.0
Amounts falling due after more than one year		
Loan from associated undertaking	-	8.2
Other liabilities – other creditors	-	0.5
Total amounts falling due after more than one year	-	8.7

13. Provisions for liabilities and charges

	Warranty £m	Disposals £m	Re- Organisation £m	Other liabilities £m	Deferred Taxation £m	Total £m
At 1 January 2001	12.6	7.1	1.4	5.0	10.2	36.3
Provided	0.7	-	-	-	-	0.7
Used	(0.2)	(0.1)	(1.1)	(0.3)	-	(1.7)
Amount credited/(charged) to profit and loss account	-	-	-	-	7.8	7.8
At 31 December 2001	13.1	7.0	0.3	4.7	18.0	43.1

	2001 £m	2000 £m
Deferred Taxation		
Accelerated capital allowances	2.0	2.5
Other timing differences	16.0	7.7
Net deferred tax liability	18.0	10.2

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	2.0	19.0
	2.0	19.0

14. Share capital

	2001 £m	2000 £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

15. Reserves

	Profit and loss reserve £m	Share premium £m	Revaluation Reserve £m	Other reserves £m
At 1 January 2001	330.4	65.1	11.0	8.4
Retained profit for the year	20.0	-	-	-
Reserves reclassified	5.1	-	(5.1)	-
At 31 December 2001	355.5	65.1	5.9	8.4

The amount of unrealised exchange gain (net of losses) on net borrowings at 31 December 2001 included in reserves amounted to £2.6m (2000 net gain £2.6m).

16. Capital commitments

	2001 £m	2000 £m
Outstanding contracts for capital expenditure	0.2	0.2

17. 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.

18. Related party transactions

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

19. Ultimate holding company

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

22. Principal subsidiary undertakings

Defence Systems:

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

Turbine components

Ross Catherall Ceramics Limited, Denby, Derby

- ◆ Vickers Pressings, Newcastle-upon-Tyne

Marine

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

Other activities:

Vickers Properties Limited, United Kingdom

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

Note

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