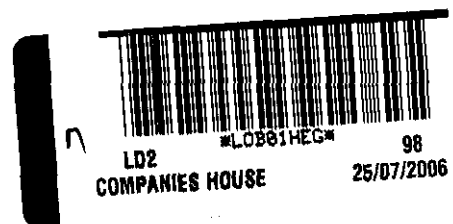


Vinters Engineering plc

Directors' Report and Financial Statements

31 December 2005



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 2005.

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 automotive industries. On 28 January 2005, Vickers Pressings, the business manufacturing components for the automotive industries was sold to Tolwood Limited.

The profits for the year, after taxation, amounted to £6.2m (2004 restated: £25.7m).

A dividend of £nil (2004: £403.3m) 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 132 (2004: 366).

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 a 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 Company operates an equal opportunities policy. The Company's policy is to provide, wherever possible, employment training and development opportunities for disabled people. It is also committed to supporting employees who become disabled and to helping employees 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 employees have the opportunity to 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
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 20p Shares		Rolls-Royce Group plc Non-cumulative redeemable convertible preference shares of 0.1p (B Shares)	
	1 January 2005	31 December 2005	1 January 2005	31 December 2005
G Allan	10,371*	8,430*	-	-
B Baker	68,797*	59,804*	72,050	-
D Bale	33,923*	21,457*	-	-
J Warren	17,478*	12,280*	-	-

*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 January 2005	31 December 2005	1 January 2005	31 December 2005	1 January 2005	31 December 2005	1 January 2005	31 December 2005
G Allan	5,992	3,364	670	-	-	-	2,121	2,715
B Baker	41,037	30,743	1,737	-	86,850	-	1,297	2,507
D Bale	28,134	16,883	1,359	-	-	-	4,430	4,574
J Warren	12,598	7,241	-	-	-	-	-	-

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.

	Options over Rolls-Royce Group plc Ordinary Shares of 20p each			
	1 January 2005	Granted in 2005	Exercised in 2005	31 December 2005
G Allan	5,277	-	-	5,277
B Baker	692,022	-	68,718	623,304
D R Bale	302,107	-	879	301,228
J Warren	214,808	251	-	215,059

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 January 2005	31 December 2005
B Baker	39,713	81,259
D R Bale	24,901	51,280
J E Warren	10,197	20,443

The market price of the ordinary shares of the Company's ultimate parent company, Rolls-Royce Group plc at December 31, 2005, was 427.50p and the range during 2005 was 236p to 430.50p.

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 2005 was £0.4m (2004: £0.4m) all of which 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 2005 represents 31 days (2004: 66 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



D J Goma
Secretary
14 July 2006

Statement of Directors' Responsibilities in respect of the Directors' Report and the Financial Statements

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

Company law requires directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with UK Accounting Standards.

The financial statements are required by law to 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; and
- 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 that 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 1985. They 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 Auditors' Report to the members of Vinters Engineering plc

We have audited the financial statements of Vinters Engineering plc for the year ended 31 December 2005, which comprise the Profit and Loss Account, the Balance Sheet, the Note of Historical Cost Profits and Losses, the Reconciliation of Movements in Shareholders Funds, the Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

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

As described in the Statement of Directors' Responsibilities on page 4, the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments 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.

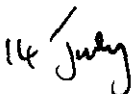
Opinion

In our opinion the financial statements:

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2005 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



2006

Vinters Engineering plc

Profit and loss account

	Note	Discontinued Operations 2005 £m	Continuing Operations 2005 £m	Total 2005 £m	Restated Total 2004 £m
For the year ended 31 December					
Turnover	2	0.9	24.0	24.9	70.6
Operating Costs		(0.8)	(22.9)	(23.7)	(64.8)
Operating profit before exceptional items	3	0.1	1.1	1.2	5.8
Exceptional items	4	0.3	-	0.3	(0.2)
Operating profit after exceptional items		0.4	1.1	1.5	5.6
Dividends receivable from subsidiary undertakings		-	-	-	7.5
Profit on ordinary activities before financing income		0.4	1.1	1.5	13.1
Net financing income	5	-	2.5	2.5	2.6
Profit on ordinary activities before taxation				4.0	15.7
Taxation	6			2.2	10.0
Profit for the financial year	17			6.2	25.7

The notes on pages 10 to 22 form part of these financial statements.

Vinters Engineering plc

Balance sheet


On 31 December, 2005

	Notes	2005 £m	Restated 2004 £m
Fixed Assets			
Tangible assets	8	5.5	6.4
Investments in subsidiary undertakings	9	393.8	394.1
		399.3	400.5
Current assets			
Stocks	10	6.0	9.9
Debtors - amounts falling due within one year.	11	5.5	15.2
Cash and deposits		4.3	2.3
		15.8	27.4
Creditors - amounts falling due within one year			
Borrowings	12	(25.0)	(24.0)
Other Creditors	12	(120.1)	(130.7)
		(145.1)	(154.7)
Net current (liabilities)		(129.3)	(127.3)
Total assets less current liabilities		270.0	273.2
Creditors - amounts falling due after one year:			
Other Creditors	12	(19.1)	(19.0)
Provisions for liabilities and charges	13	(21.8)	(22.6)
Post retirement benefit obligations	14	(17.5)	(43.8)
Net assets		211.6	187.8
Capital and reserves			
Called up share capital	16	171.6	171.6
Share premium account	17	65.1	65.1
Revaluation reserve	17	2.2	2.2
Other reserves	17	8.4	8.4
Profit and loss account	17	(35.7)	(59.5)
Shareholders' funds		211.6	187.8

The notes on pages 10 to 22 form part of these financial statements.

The financial statements were approved by the board of directors on 14 July 2006 and were signed on its behalf by:

G Allan
Director



Vinters Engineering plc

Note of historical cost profits and losses

	2005 £m	Restated 2004 £m
Reported profit on ordinary activities before taxation	4.0	15.7
Difference between historical cost depreciation charge and the actual depreciation charge in the year calculated on the revalued amount	-	0.2
Difference between profit on disposal at historic cost and revalued amount	-	2.0
Historical cost profit on ordinary activities before taxation	4.0	17.9
Historical cost profit / (loss) for the year retained after taxation and dividends	6.2	(375.4)

Reconciliation of movements in shareholders' funds

	2005 £m	2004 £m
Opening shareholders' funds as previously reported	280.5	660.6
Prior year adjustment (note 23)	(92.7)	(118.3)
Opening shareholders' funds as restated	187.8	542.3
Profit for the financial year	6.2	25.7
Dividends paid	-	(403.3)
Actuarial gains net of deferred taxation	17.6	23.1
Closing shareholders' funds	211.6	187.8

Vinters Engineering plc

Statement of Total Recognised Gains and Losses

	2005 £m	Restated 2004 £m
Actuarial gains (note 14)	25.4	33.8
Deferred taxation on actuarial gains	(7.8)	(10.7)
Profit for the financial year	6.2	25.7
Total gains and losses recognised during the year	23.8	48.8
Prior year adjustment (note 23)	(92.7)	
Total gains since last annual report	(68.9)	

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.

In these financial statements FRS 21 'Events after the balance sheet date' has been adopted for the first time. There is no impact on current and prior year retained profit and net assets.

In these financial statements the presentation requirements of FRS 25 'Financial instruments: presentation and disclosure' have been adopted for the first time. There is no impact on current and prior year profit for the financial year and net assets.

The company has adopted the recognition and measurement requirements of FRS17 'Retirement Benefits' from 1 January 2005, and comparatives have been restated. The impact of the restatement is detailed in note 23.

The financial statements have been prepared on the going concern basis, notwithstanding net current liabilities of £129.3m, 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.

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.

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.

Vinters Engineering plc

Notes to the financial statements (continued)

1. Accounting Policies (continued)

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 a defined benefit scheme, the assets of which are administered by trustees and are independent of the group's finances. Pensions are accounted for under FRS17 'Post Retirement Benefits'. Obligations are measured at the discounted present value whilst plan assets are recorded at fair value. The service and financing costs are recognised separately in the profit and loss account; service costs are spread systematically over the lives of employees and financing costs are recognised in the periods in which they arise. Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses.

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.

Dividends on shares presented within shareholders' funds

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the Company. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

Vinters Engineering plc

Notes to the financial statements (continued)

2. Segmental analysis

	Turnover		Profit before interest		Net assets	
	2005 £m	2004 £m	2005 £m	Restated 2004 £m	2005 £m	Restated 2004 £m
Principal activities						
Defence Systems	24.0	47.9	1.1	5.3	13.8	11.0
Unallocated	-	-	-	7.5	197.8	174.3
Total continuing operations	24.0	47.9	1.1	12.8	211.6	185.3
Marine	-	10.7	-	-	-	-
Automotive Pressings	0.9	12.0	0.6	0.3	-	2.5
Unallocated	-	-	(0.2)	-	-	-
Total discontinued operations	0.9	22.7	0.4	0.3	-	2.5
Total	24.9	70.6	1.5	13.1	211.6	187.8
Geographical analysis by destination						
United Kingdom	24.9	60.5				
Rest of Europe	-	7.0				
North America	-	0.4				
Asia/Pacific	-	2.6				
Other	-	0.1				
Sales to third parties	24.9	70.6				

	2005				Restated 2004			
	Underlying Profit before financing income £m	Exceptional Items £m	Other non-trading items £m	Profit before financing income £m	Underlying Profit before financing income £m	Exceptional items £m	Other non-trading items £m	Profit before financing income £m
Principal activities								
Defence Systems	1.1	-	-	1.1	5.4	(0.1)	-	5.3
Unallocated	-	-	-	-	-	-	7.5	7.5
Total continuing operations	1.1	-	-	1.1	5.4	(0.1)	7.5	12.8
Marine	-	-	-	-	-	-	-	-
Automotive Pressings	0.1	0.5	-	0.6	0.4	(0.1)	-	0.3
Unallocated	-	(0.2)	-	(0.2)	-	-	-	-
Discontinued operations	0.1	0.3	-	0.4	0.4	(0.1)	-	0.3

Other non-trading items comprises dividends receivable from subsidiary undertakings £nil (2004 £7.5m).

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**

	2005 £m	2004 £m
<hr/> Operating profit is stated after charging		
Depreciation:		
On owned assets	0.5	1.6
Research and Development	0.4	0.4
Fees paid to the auditors and their associates:		
Audit	0.1	0.1

4. Exceptional items

	2005 £m	2004 £m
Profit on disposal of businesses	0.3	-
Restructuring costs	-	(0.2)
Total	0.3	(0.2)

5. Net Financing Costs

	2005 £m	Restated 2004 £m
Interest payable and similar charges on bank loans and overdrafts	(1.0)	(1.4)
Bank interest receivable	0.6	-
Net interest payable	(0.4)	(1.4)
Finance charges on post retirement benefits:		
Expected return on pension scheme assets	29.2	33.8
Interest on pension scheme liabilities	(26.3)	(29.8)
Net financing income	2.5	2.6

Vinters Engineering plc

Notes to the financial statements (continued)

6. Taxation

	2005 £m	Restated 2004 £m
Current tax:		
Group relief payable / (receivable) at 30% (2004: 30%) on profits of the period	(2.3)	2.9
Adjustments to group relief payable in respect of previous periods	(3.5)	(11.9)
Total current tax credit	(5.8)	(9.0)
Deferred tax charge / (credit) – origination and reversal of timing differences	3.6	(1.0)
	(2.2)	(10.0)
Reconciliation of Tax Credit:		
Profit on ordinary activities before tax	4.0	15.7
Nominal charge at UK corporation tax rate of 30%	1.2	4.7
Expenses not deductible for tax purposes	0.1	0.3
Income not taxable	-	(2.2)
Capital allowances for period in excess of depreciation	-	0.2
Other timing differences for period	(3.6)	(0.1)
Adjustments for prior periods	(3.5)	(11.9)
Current tax credit	(5.8)	(9.0)

7. Directors and employees

No remuneration has been received by the directors in respect of their services to the Company (2004: £Nil).

(a) Number of employees (average)	2005	2004
Marine	-	169
Automotive Pressings	-	190
Defence	130	126
	130	485
(b) Employment costs	2005 £m	Restated 2004 £m
Employee costs, including those of executive directors:		
Wages and salaries	4.1	11.1
Social security costs	0.3	0.9
Other pension costs (note 14)	2.4	2.0
	6.8	14.0

Vinters Engineering plc

Notes to the financial statements (continued)

8. Tangible assets

	Land & Buildings £m	Plant & Equipment £m	Total £m
Cost:			
At 1 January 2005	5.5	7.1	12.6
Additions at cost	0.1	0.2	0.3
On disposal of business	-	(4.1)	(4.1)
Other Disposals	-	-	-
At 31 December 2005	5.6	3.2	8.8
Depreciation:			
At 1 January 2005	1.2	5.0	6.2
Provided during the year	0.2	0.3	0.5
On disposal of business	-	(3.4)	(3.4)
Other Disposals	-	-	-
At 31 December 2005	1.4	1.9	3.3
Net book value at:			
31 December 2005	4.2	1.3	5.5
31 December 2004	4.3	2.1	6.4
Gross book value of non-depreciable assets at:			
31 December 2005	0.3	-	0.3
31 December 2004	0.3	-	0.3
Land and buildings			
Land and buildings at cost or valuation comprise:			£m
Cost			4.1
Valuation at November 1988			<u>1.5</u>
			5.6
Land and buildings at net book value comprise:			£m
Freehold			3.6
Long Leasehold			<u>0.6</u>
			4.2

Vinters Engineering plc

Notes to the financial statements (continued)

9. Investments in subsidiary undertakings

	Cost £m	Provisions £m	Total £m
At 1 January 2005	577.0	(182.9)	394.1
Additions	-	(0.2)	(0.2)
Disposals	(11.1)	11.0	(0.1)
At 31 December 2005	565.9	(172.1)	393.8

The principal subsidiary undertakings of the Company are listed on page 22.

10. Stocks

	2005 £m	2004 £m
Raw materials	0.6	6.6
Work in progress	5.4	3.3
Progress payments received	-	-
Net work in progress	5.4	3.3
Total stocks	6.0	9.9

11. Debtors

	2005 £m	Restated 2004 £m
Amounts falling due within one year		
Trade debtors	2.6	7.9
Amounts owed by other group undertakings	0.6	6.6
Group relief receivable from other group undertakings	2.3	-
Other debtors	-	0.6
Prepayments and accrued income	-	0.1
Total Debtors	5.5	15.2

Vinters Engineering plc

Notes to the financial statements (continued)

12. Creditors

	2005 £m	2004 £m
Bank loans and overdrafts	25.0	24.0
Borrowings – amounts falling due within one year	25.0	24.0
Trade creditors	1.7	7.1
Amounts owed to subsidiary undertakings	117.4	117.3
Amounts owed to other group undertakings	0.2	-
Group tax relief payable	-	2.9
Accruals and deferred income	0.5	2.7
Taxation on profits	-	-
Other taxation and social security	-	0.3
Other creditors	0.3	0.4
Other Creditors – amounts falling due within one year	120.1	130.7
Creditors – amounts falling due within one year	145.1	154.7
Amounts owed to subsidiary undertakings	19.1	19.0
Other Creditors – amounts falling due after one year	19.1	19.0
Creditors – amounts falling due after one year	19.1	19.0

13. Provisions for liabilities and charges

	Warranty £m	Disposals £m	Deferred Taxation £m	Total £m
At 31 December 2004 (as previously stated)	1.2	20.5	22.0	43.7
Prior year adjustment	-	-	(21.1)	(21.1)
At 1 January 2005	1.2	20.5	0.9	22.6
Utilised	-	(0.5)	-	(0.5)
Unused amounts reversed	(1.2)	-	-	(1.2)
Charged to the profit and loss account	-	0.7	0.2	0.9
On disposal of business	-	-	-	-
At 31 December 2005	-	20.7	1.1	21.8

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

Vinters Engineering plc

13. Provisions for liabilities and charges (continued)

Deferred Taxation	2005 £m	Restated 2004 £m
Accelerated capital allowances	1.1	1.0
Other timing differences	-	(0.1)
	1.1	0.9

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	0.7
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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. Employees are entitled to retirement benefits based on their final salaries and length of service.

The valuation of the scheme is based on the most recent funding valuation, updated by the scheme actuary to 31 December 2005. The most recent full funding valuation of the scheme was at 31 March 2004.

The principal actuarial assumptions were as follows:

	2005 UK Schemes %	2004 UK Schemes %	2003 UK Schemes %
Rate of increase in salaries	4.4	4.4	4.3
Rate of increase of pensions in payment and deferment	2.6	2.7	2.8
Discount rate	4.7	5.3	5.4
Inflation assumption	2.9	2.9	2.8

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

	2005 Expected long-term rate of return %	2005 Market value £m	2004 Expected long-term rate of return %	2004 Market value £m	2003 Expected long-term rate of return %	2003 Market value £m
Equities	7.1	329	7.55	292	8.30	349
Sovereign debt	4.1	71	4.55	72	4.80	56
Corporate bonds	4.5	122	5.05	81	5.10	59
Other	4.3	13	4.80	5	4.00	4
Total market value of assets		535		450		468
Present value of scheme liabilities		(560)		(513)		(566)
Deficit in the scheme		(25)		(63)		(98)
Related deferred tax asset		7		19		30
Net pension liability		(18)		(44)		(68)

Vinters Engineering plc

Notes to the financial statements (continued)

14. Pensions (continued)

Amounts charged to profit and loss account	2005 £m	2004 £m
Operating profit		
Current service charge	2.4	4.3
Curtailment / Settlement	-	(2.3)
	2.4	2.0
Finance income		
Expected return on pension scheme assets	(29.2)	(33.8)
Interest on pension scheme liabilities	26.3	29.8
	(2.9)	(4.0)
Total (credit)	(0.5)	(2.0)
Movement in scheme deficits during the year	2005 £m	2004 £m
At January 1	(62.6)	(98.4)
Current service cost *	(4.6)	(4.3)
Contributions *	13.9	-
Curtailment / Settlement	-	2.3
Finance income	2.9	4.0
Actuarial gain	25.4	33.8
At December 31	(25.0)	(62.6)

* Current service cost and contributions in 2005 include £2.2m incurred by other subsidiary companies.

History of experience gains and losses and amount recognised in statement of total recognised gains and losses	2005 £m	2004 £m	2003 £m
Difference between the expected and actual return on scheme assets:			
Amount	62.3	11.5	48.7
Percentage of scheme assets	12%	3%	10%
Experience gains and losses on scheme liabilities:			
Amount	(9.4)	38.9	5.5
Percentage of the present value of scheme liabilities	(2%)	8%	1%
Effect of changes in assumptions underlying the present value of scheme Liabilities:			
Amount	(27.5)	(16.6)	(54.1)
Percentage of the present value of scheme liabilities	(3%)	(3%)	(10%)
Total amount recognised in statement of total recognised gains and losses:			
Amount	25.4	33.8	0.1
Percentage of the present value of scheme liabilities	5%	7%	0%

15. Operating Leases

Annual commitments under operating leases were as follows:-

Leases of land and buildings which expire:	2005 £m	2004 £m
After 5 years	0.8	0.8

Vinters Engineering plc

Notes to the financial statements (continued)

16. Share capital

	2005 £m	2004 £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

17. Reserves

	Profit and loss reserve restated £m	Share premium £m	Revaluation Reserve £m	Other reserves £m
At 1 January 2005	(59.5)	65.1	2.2	8.4
Retained profit for the year	6.2	-	-	-
Actuarial gains net of deferred taxation	17.6	-	-	-
At 31 December 2005	(35.7)	65.1	2.2	8.4

The amount of unrealised exchange gain (net of losses) on net borrowings at 31 December 2005 included in reserves amounted to £nil (2004: £nil).

18. Capital commitments

At 31st December 2005 there were no outstanding contracts for capital expenditure.

19. 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.

20. 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.

Vinters Engineering plc

Notes to the financial statements (continued)

21. 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.

22. Disposal of business

On 28 January 2005, the company disposed of the business and assets of Vickers Pressings Limited to Tollwood Limited, for a consideration of £2.8m. A table of net assets disposed is shown below. The overall profit on disposal was £0.5m.

	£m
Tangible fixed assets	0.7
Stock	1.3
Debtors	3.5
Creditors	(4.1)
	<hr/>
	1.4
	<hr/>

23. Adoption of new accounting standard

As stated in note 1, the Company adopted FRS17 from 1 January 2005, with comparative figures for 2004 being adjusted. FRS17 requires separate recognition of the operating and financing costs of defined benefit pension schemes in the profit and loss account. The cash funding of the plans is designed, in consultation with independent qualified actuaries, to ensure that present and future contributions should be sufficient to meet future liabilities.

The impact arising from this change is summarised as follows:

	At 1 January 2004 £m	Year ended 31 December 2004 £m
Profit and loss account		
Adjustments to operating profit		(0.5)
Adjustments to financing costs		4.0
Adjustment to profit before taxation		3.5
Net assets		
Eliminate amounts recognised under SSAP24:		
Prepaid pension contributions	(73.1)	(70.0)
Include FRS17 pension liability	(98.4)	(62.6)
	(171.5)	(132.6)
Related taxation effect	53.2	39.9
Adjustment to net assets	(118.3)	(92.7)

Vinters Engineering plc

Notes to the financial statements (continued)

24. Principal subsidiary undertakings

Defence Systems:

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

Automotive Pressings

- + Vickers Pressings, 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
- * Rolls-Royce Marine AS, Norway
- * Ulstein Turbine AS, Norway

Corporate

Vinters International Limited

- * 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.
- # Business and assets of Vickers Pressings Sold 28 January 2005 to Tolwood Limited

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