

Registered number 3543

Vinters Engineering plc

Annual report and financial statements
for the year ended 31 December 2007

Directors on
24 July 2008:

G Allan
R Orgill

Secretary :

D J Goma

Registered Office: Moor Lane, Derby DE24 8BJ

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Directors' report

The directors present their annual report on the affairs of the company, together with the financial statements and auditors' report, for the year ended 31 December 2007

Business review

Defence Systems

The company is involved in the production, repair and overhaul of power generation, transmission and conversion equipment for military and commercial markets

2007 saw the business grow turnover by 22.5% to £15.2m (2006: £12.4m), whilst operating profit improved to £2.1m (2006: loss of £0.1m). The business is underpinned by two long term service contracts, FEPS and Deltic, which together account for just over 50% of the current year turnover.

During the year the business continued to develop products incorporating its Variable Speed Permanent Magnet (VSPM) technology, and has been successful in securing and delivering orders for its product to customers.

The company is exposed to risks from a failure of the supply chain and has a business continuity programme to manage the risk of a loss of a significant supplier.

Pensions

On 1 January 2007 the company's responsibility as principal employer of the Vickers Group Pension Scheme was transferred to Rolls-Royce plc. Vinters Engineering plc transferred the value of the assets and liabilities of the scheme at that date to Rolls-Royce plc and accounted for any subsequent normal contributions to the scheme as a defined contribution scheme.

Provisions

The company incurs costs in relation to claims for employer-liability claims following the insolvency of an insurance company. The provision at year-end increased from £22.6 million to £24.9 million. This provision is based on an actuarial report in respect of the potential liability for claims.

Financial risk management objectives and policies

The Rolls-Royce Group has an established, structured approach to risk management which is detailed in the consolidated accounts of Rolls-Royce Group plc. The company acts in accordance with this policy.

Cash and overdrafts are held at floating rates and the company is therefore exposed to movements in interest rates.

All material cash balances are held in sterling and therefore these balances are not exposed to movements in foreign exchange rates. All trading of the defence systems business is also denominated in sterling.

The company's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables. The main customer of the business is the UK Ministry of Defence and therefore the overall credit risk to the company is low.

In order to maintain liquidity to ensure that sufficient funds are available for ongoing operations and future developments, the company uses a mixture of long-term and short-term group debt finance. The company had investments of £370 million (2006: £370 million) at year-end, of which £273 million (2006: £273 million) relates to overseas subsidiary companies whose trading currency is not sterling.

The company is therefore exposed to movements in foreign exchange rates, mainly the United States Dollar and the Euro. The company regards its interests in overseas subsidiary companies as long-term investments.

Directors' report

and any currency risk arising through these companies is actively managed as part of the Rolls-Royce Group risk management strategy

Dividends

A dividend of £ Nil (2006 £ Nil) was paid during the year

Directors

The directors, who served throughout the year were as follows

G Allan

B Baker – resigned 31 December 2007

D Bale – resigned 27 June 2008

R Orgill – appointed 27 June 2008

J Warren – resigned 30 June 2008

Supplier payment policy

The company seeks the best possible terms from suppliers and when entering into binding purchasing contracts, gives consideration to quality, delivery, price and terms of payment. In the event of disputes, efforts are made to resolve them quickly.

The Company had the equivalent of 39 days (2006 8 days) comparative purchases outstanding at December 31, 2007 based on the average daily amount invoiced by suppliers during the year.

Directors' indemnities

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

Disclosure of information to auditors

Each of the persons who is a director at the date of approval of this report confirms that

(1) so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware, and

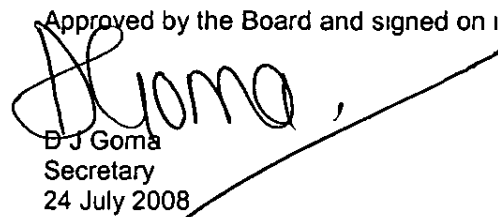
(2) the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 234ZA of the Companies Act 1985.

Auditors

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

Approved by the Board and signed on its behalf by



D J Goma
Secretary
24 July 2008

Statement of directors' responsibilities in respect of the directors' report and 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 the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

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 judgments 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 its 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 (the "financial statements") of Vinters Engineering plc for the year ended 31 December 2007 which comprise the Profit and Loss Account, the Balance Sheet, 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 auditors' 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' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of directors' responsibilities on page number 3.

Our responsibility is to audit the financial statements in accordance with relevant United Kingdom 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 whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, 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 2007 and of its loss for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London

Profit and loss account

For the year ended 31 December 2007

	Notes	2007 £m	2006 £m
Turnover	2	15 2	12 4
Cost of sales	2	(12 1)	(14 1)
Gross profit / (loss)	2	3 1	(1 7)
Administrative expenses	2	(9 4)	(21 7)
Operating loss		(6 3)	(23 4)
Income from shares in group undertakings		-	25 9
(Loss) / profit on ordinary activities before finance charges		(6 3)	2 5
Finance charges (net)	3	(0 7)	5 0
(Loss) / profit on ordinary activities before taxation	4	(7 0)	7 5
Tax on (loss) / profit on ordinary activities	6	2 8	3 6
(Loss) / profit on ordinary activities after taxation and (loss) / profit for the financial year	17	(4 2)	11 1

All results have been derived from continuing activities

Statement of total recognised gains and losses
For the year ended 31 December 2007

	Notes	2007 £m	2006 £m
(Loss) / Profit for the financial year		(4 2)	11 1
Actuarial gains		-	24 9
Deferred tax on actuarial gains		-	(8 5)
Total recognised gains and losses relating to the year		(4 2)	27 5

Balance sheet
31 December 2007

	Notes	2007 £m	2006 £m
Fixed assets			
Tangible assets	8	5 4	5 4
Investments	9	370 5	370 5
		<u>375 9</u>	<u>375 9</u>
Current assets			
Stocks	10	3 5	4 2
Debtors- due within one year	11	15 1	12 5
Cash at bank and in hand		8 5	5 0
		<u>27 1</u>	<u>21 7</u>
Creditors · Amounts falling due within one year	12	(111 3)	(118 4)
Net current liabilities		<u>(84 2)</u>	<u>(96 7)</u>
Total assets less current liabilities		291 7	279 2
Creditors Amounts falling due after more than one year	13	(19 1)	(19 1)
Provisions for liabilities and charges	14	(38 1)	(34 0)
Net assets excluding pension asset / (liabilities)		234 5	226 1
Pension asset / (liabilities)	15	-	12 5
Net assets		<u>234 5</u>	<u>238 6</u>
Capital and reserves			
Called-up share capital	16	171 6	171 6
Share premium account	17	65 1	65 1
Revaluation reserve	17	2 1	2 2
Other reserves	17	8 4	8 4
Profit and loss account	17	(12 7)	(8 7)
Shareholders' funds	18	<u>234 5</u>	<u>238 6</u>

The financial statements on pages 5 to 25 were approved by the board of directors on 24 July 2008 and signed on its behalf by



G Allan
Director

Notes to the financial statements

31 December 2007

1 Significant accounting policies

The principal accounting policies are summarised below

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards, on the historical cost basis except where FRS requires an alternative treatment

The Company is exempt by virtue of section 228 of the Companies Act 1985 from the requirement to prepare group financial statements

As permitted by Financial Reporting Standard 1 "Cash flow statements" (Revised 1996), no cash flow statement has been prepared, as a consolidated cash flow statement has been prepared by the ultimate parent company

The financial statements have been prepared on the going concern basis, notwithstanding net current liabilities of £84.2m, 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.

Foreign currency translation

Assets and liabilities denominated in foreign currencies are translated into sterling at the rate ruling at the year end. Exchange differences arising on foreign exchange transactions and the retranslation of assets and liabilities into sterling at the rate ruling at the year end are taken into account in determining profit before taxation.

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.

Research and development

Research and development expenditure is written off as incurred.

Pension costs

Contributions to Rolls-Royce plc Group pension schemes are charged to the profit and loss account so as to spread the cost of pensions at a substantially level percentage of payroll costs over employees' service lives.

Notes to the financial statements

31 December 2007

1 Significant accounting policies (continued)

Share-based payment

The Company, on behalf of its parent company, provides share-based payment arrangements to certain employees. These are equity-settled arrangements and are measured at fair value (excluding the effect of non-market based vesting conditions) at the date of grant. The fair value is expensed on a straight-line basis over the vesting period, based on the Company's estimate of shares or options that will eventually vest. The costs of these share-based payments are treated as a capital contribution from the parent company. Any payments made by the Company to its parent company, in respect of these arrangements, are treated as a return of this capital contribution.

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

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

See note 7 for further description of the share-based payment plans.

Financial instruments

FRS 26 requires the classification of financial instruments into separate categories for which the accounting requirement is different. Borrowings have been classified as other liabilities and are held at amortised cost and not revalued.

Interest

Interest receivable/payable is credited/charged to the profit and loss account using the effective interest method.

Taxation

The tax charge on the profit or loss for the year comprises current and deferred tax.

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.

Stocks

Stocks and work in progress are valued at the lower of cost and net realisable value on a first-in, first-out basis. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the stocks to their present location and condition. Net realisable value represents the estimated selling prices less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Notes to the financial statements

31 December 2007

1 Significant accounting policies (continued)

Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and any provision for impairments in value

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

- i) Land and buildings, as advised by the Company's professional advisors
 - a) Freehold buildings – five to 45 years (average 23 years)
 - b) Leasehold buildings – lower of advisors' estimates or period of lease
 - c) No depreciation is provided on freehold land
- ii) Plant and equipment – five to 25 years (average 16 years)
- iii) No depreciation is provided on assets in the course of construction

Investments

Fixed asset investments are shown at cost less provision for impairment. Current asset investments are stated at the lower of cost and net realisable value

Leases

i) As Lessee

Assets financed by leasing agreements which give rights approximating to ownership (finance leases) have been capitalised at their fair value and depreciation is provided on the basis of the Company depreciation policy. The capital elements of future obligations under finance leases are included as liabilities in the balance sheet and the current year's interest element, having been allocated to accounting periods to give a constant periodic rate of charge on the outstanding liability, is charged to the profit and loss account. The annual payments under all other lease arrangements, known as operating leases, are charged to the profit and loss account on a straight-line basis

ii) As Lessor

Amounts receivable under finance leases are included within debtors and represent the total amount outstanding under the lease agreements less unearned income. Finance lease income, having been allocated to accounting periods to give a constant periodic rate of return on the net investment, is included in turnover

Rentals receivable under operating leases are included in turnover on an accruals basis

Provisions

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

Notes to the financial statements

31 December 2007

2 Segment information

Classes of business

	Defence Systems		Unallocated		Company	
	2007 £m	2006 £m	2007 £m	2006 £m	2007 £m	2006 £m
Turnover	<u>15.2</u>	<u>12.4</u>	<u>-</u>	<u>-</u>	<u>15.2</u>	<u>12.4</u>
Operating (loss)/profit	<u>2.1</u>	<u>(0.1)</u>	<u>(8.4)</u>	<u>(23.3)</u>	<u>(6.3)</u>	<u>(23.4)</u>
Other items reported after operating profit	-	-	-	25.9	-	25.9
Finance charges (net)					<u>(0.7)</u>	<u>5.0</u>
(Loss) / Profit on ordinary activities before taxation					<u>(7.0)</u>	<u>7.5</u>
Segment net assets	<u>15.7</u>	<u>13.7</u>	<u>218.8</u>	<u>224.9</u>		
Net assets					<u>234.5</u>	<u>238.6</u>

3 Finance charges (net)

	2007 £m	2006 £m
Interest payable and similar charges	<u>(0.7)</u>	<u>(1.3)</u>
Net interest receivable / (payable)	<u>(0.7)</u>	<u>(1.3)</u>
Finance charges on post retirement benefits		
Expected return on pension scheme assets	-	32.1
Interest on pension scheme liabilities	-	(25.8)
Net other finance charges	<u>-</u>	<u>6.3</u>
Finance charges (net)	<u>(0.7)</u>	<u>5.0</u>

Notes to the financial statements

31 December 2007

4 Loss / profit on ordinary activities before taxation

Loss / profit on ordinary activities before taxation is stated after charging (crediting)

	2007 £m	2006 £m
Depreciation of tangible fixed assets		
- owned	0.4	0.4
Research and development - current year expenditure	0.3	0.5
Auditors' remuneration – fees for the audit of the company	0.1	0.1
	<u>0.1</u>	<u>0.1</u>

5 Staff costs and directors remuneration

The average monthly number of employees (including executive directors) was

	2007 Number	2006 Number
Defence Systems	<u>90</u>	<u>110</u>

	2007 £m	2006 £m
Their aggregate remuneration comprised		
Wages and salaries	3.5	3.4
Social security costs	0.3	0.2
Share based payments	0.1	0.1
Other pension costs (see note 15)	0.3	1.9
	<u>4.2</u>	<u>5.6</u>

No remuneration has been received by the directors in respect of their services to the Company (2006 £Nil)

Notes to the financial statements

31 December 2007

6 Tax on profit on ordinary activities

The tax credit comprises

	2007 £m	2006 £m
Current tax		
UK corporation tax – group relief receivable	(2 0)	(9 8)
Total current tax	<u>(2 0)</u>	<u>(9 8)</u>
Deferred tax		
Origination and reversal of timing differences	(0 8)	6 2
Total deferred tax	<u>(0 8)</u>	<u>6 2</u>
Total tax on profit on ordinary activities	<u>(2 8)</u>	<u>(3 6)</u>

The differences between the total current tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows

	2007 £m	2006 £m
(Loss) / profit on ordinary activities before tax	<u>(7 0)</u>	<u>7 5</u>
Tax on (loss) / profit on ordinary activities at standard UK corporation tax rate of 30% (2006 - 30%)	(2 1)	2 2
Effects of		
Expenses not deductible for tax purposes	(0 1)	1 9
Income not taxable	-	(7 8)
Capital allowances in excess of depreciation	0 2	0 1
Other timing differences	-	(6 2)
Current tax credit for period	<u>(2 0)</u>	<u>(9 8)</u>

Notes to the financial statements

31 December 2007

7 Share based payments

Share-based payment schemes in operation during the period

Performance Share Plan (PSP)

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

ShareSave share option plan

Based on a three or five year monthly savings contract, eligible employees are granted share options with an exercise price of up to 20 per cent below the share price when the contract is entered into. Vesting of the options is not subject to the achievement of a performance target. The scheme is HM Revenue & Customs approved.

Executive Share Option Plan (ESOP)

This plan involves the grant of market value share options to participants. The options are subject to a non-market based performance condition (growth in EPS). The options have a maximum contractual life of ten years. Following the introduction of the PSP, it is not intended to grant any further executive share options.

Annual Performance Related Award (APRA) plan deferred shares

Deferred shares awarded as part of the APRA plan. One third of the value of any annual bonus is delivered in the form of a deferred share award. The release of deferred share awards is not dependent on the achievement of any further performance conditions other than that participants remain an employee of the Group for two years from the date of the award in order to retain the full number of shares. During the two year deferral period, participants are entitled to receive dividends on the deferred shares.

Share Incentive Plan (SIP)

This is the 'Free Share' element of the Share Incentive Plan. Eligible employees may receive shares with a value of up to one and a half weeks' salary as part of any bonus paid. There are no conditions attached to the shares.

In accordance with the transitional provisions of FRS 20 Share-based payment, the Company has recognised an expense in respect of all grants under these plans made after November 7, 2002 and unvested at January 1, 2005.

The Company recognised a total expense of £0.1m (2006 £0.1m).

The movements in awards under the various share plans are shown in the tables below.

	Number of shares awarded	
	2007	2006
	Thousands	Thousands
PSP		
Outstanding at January 1	5	-
Awarded during the year	2	5
Forfeited during the year	-	-
Vested during the year	-	-
Outstanding at December 31	7	5

Notes to the financial statements

31 December 2007

7 Share based payments (continued)

	2007		2006	
	Number of share options Thousands	Weighted average exercise price Pence	Number of share options Thousands	Weighted average exercise price Pence
ShareSave				
Outstanding at January 1	348	153p	483	158p
Granted during the year	37	416p	-	-
Forfeited during the year	(6)	142p	-	168p
Exercised during the year	(12)	142p	(135)	140p
Outstanding at December 31	367	180p	348	153p
Exercisable at December 31	-	-	11	141p

	Number of shares awarded	
	2007	2006
	Thousands	Thousands
Deferred shares under APRA		
Outstanding at January 1	1	-
Awarded during the year	4	1
Forfeited during the year	-	-
Vested during the year	-	-
Outstanding at December 31	5	1

	Number of shares awarded	
	2007	2006
	Thousands	Thousands
Free shares under SIP		
Awarded during the year	3	4

Options were exercised on a regular basis during the year. The average share price during the year was 510p (2006 439p)

Fair values

The weighted average fair values per share for PSP awards, ShareSave grants, APRA deferred share awards, and SIP Free Share awards included in the expense for the year were as follows

	2007	2006	2005	2004	2003
	Pence	Pence	Pence	Pence	Pence
PSP	557	494	282	249	-
ShareSave - 3 year	230	-	131	-	61
ShareSave - 5 year	264	-	154	-	71
APRA deferred share awards	502	448	260	220	-
SIP Free Share awards	499	462	257	231	-

Details of the assumptions used in the calculation of these fair values are set out below. Expected volatility was based on the historical volatility of the Rolls-Royce Group plc share price over the seven years prior to the grant or award date. Expected dividends were based on payments to shareholders over the five years prior to the grant or award date.

Notes to the financial statements

31 December 2007

7 Share based payments (continued)

PSP awards

The fair value of shares awarded under the PSP are calculated using the market value of shares at the time of the award, adjusted to take into account non-entitlement to dividends (or equivalent) during the vesting period and the TSR performance condition. The PSP fair values were calculated using the following assumptions

	2007	2006	2005	2004
Weighted average share price	501p	444p	262p	233p
Expected dividends	8 30p	7 92p	7 81p	7 61p
Volatility	29%	32%	34%	35%
Correlation	26%	19%	19%	22%
Expected life	3 years	3 years	3 years	3 years
Risk free interest rate	5 2%	4 3%	4 9%	5 2%

The PSP has a TSR market-based performance condition, such that the Rolls-Royce Group plc TSR over the performance period will be compared with the TSR of the companies constituting the FTSE 100 index on the date of grant. If the Rolls-Royce Group plc TSR exceeds the median TSR of the FTSE 100, the number of shares that vest will be increased by 25 per cent. The fair value of an award of shares under the PSP has been adjusted to take into account this market-based performance condition using a pricing model based on expectations about volatility and the correlation of share price returns in the group of FTSE 100 companies and which incorporates into the valuation the interdependency between share price performance and TSR vesting. This adjustment increases the fair value relative to the share price at the date of grant.

ShareSave awards

The fair value of options granted under the ShareSave plan are calculated using a binomial pricing model with the following assumptions

	2007	2005	2003
Weighted average share price	553p	351p	173p
Exercise price	416p	298p	142p
Volatility	37%	40%	43%
Expected dividends	8 80p	7 86p	7 61p
Expected life ¹ - 3 year ShareSave	3 3-3 8 years	3 3-3 8 years	3 2-3 7 years
- 5 year ShareSave	5 3-5 8 years	5 3-5 8 years	5 2-5 7 years
Close periods			
From January 1	6 weeks	6 weeks	6 weeks
From July 1	1 month	1 month	1 month
Risk free interest rate	5 0%	4 4%	4 6%

¹ The binomial pricing model assumes that participants will exercise options at the beginning of the six month window if the share price is greater than the exercise price. Otherwise it assumes that options are held until the expiration of their contractual term. This results in an expected life that falls somewhere between the start and end of the exercise window.

Deferred shares under APRA and Free Shares under SIP

The fair value of shares awarded under these plans is calculated as the share price on the date of award.

8 Tangible fixed assets

	Land and buildings		Plant and machinery	Assets under construction	Total
	Freehold	Long leasehold £m	£m	£m	£m
Cost or valuation					
At 1 January 2007	4.5	1.1	3.3	0.2	9.1
Additions	0.4	-	-	-	0.4
Transfers	0.2	-	-	(0.2)	-
At 31 December 2007	<u>5.1</u>	<u>1.1</u>	<u>3.3</u>	<u>-</u>	<u>9.5</u>
Depreciation					
At 1 January 2007	0.9	0.6	2.2	-	3.7
Charge for the year	0.2	-	0.2	-	0.4
At 31 December 2007	<u>1.1</u>	<u>0.6</u>	<u>2.4</u>	<u>-</u>	<u>4.1</u>
Net book value					
At 31 December 2007	<u>4.0</u>	<u>0.5</u>	<u>0.9</u>	<u>-</u>	<u>5.4</u>
At 31 December 2006	<u>3.6</u>	<u>0.5</u>	<u>1.1</u>	<u>0.2</u>	<u>5.4</u>

The cost of non-depreciable land included above is £0.3m (2006: £0.3m)

Land and buildings

	2007 £m	2006 £m
Land and buildings at cost or valuation comprise		
Cost	4.7	4.1
Valuation	<u>1.5</u>	<u>1.5</u>
	<u>6.2</u>	<u>5.6</u>

9 Fixed asset investments

	2007 £m	2006 £m
Subsidiary undertakings	<u>370 5</u>	<u>370 5</u>
Subsidiary undertakings		£m
Cost		
At 1 January 2007		538 9
Disposals on liquidation		-
At 31 December 2007		<u>538 9</u>
Provisions for impairment		
At 1 January 2007		168 4
Disposals on liquidation		-
At 31 December 2007		<u>168 4</u>
Net book value		<u>370 5</u>

Principal investments

The company has investments in the following subsidiary undertakings. To avoid a statement of excessive length, details of investments which are not significant have been omitted.

Principal investments

The company has investments in the following subsidiary undertakings

	Country of incorporation or principal business address	Principal activity
Vinters International Limited	UK	Holding Company
Powerfield Specialist Engines Limited	UK	Defence Systems
Powerfield Limited	UK	Defence Systems
Ross Ceramics Limited	UK	Turbine Components
Rolls-Royce AB *	Sweden	Marine
Rolls-Royce OY AB *	Finland	Marine
Rolls-Royce Marine AS *	Norway	Marine
Ulstein Turbine AS *	Norway	Marine

The whole of the 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.

Notes to the financial statements

31 December 2007

10 Stocks

	2007 £m	2006 £m
Raw materials and consumables	3 0	3 0
Work in progress	0 5	1 2
	<u>3 5</u>	<u>4 2</u>

There is no material difference between the balance sheet value of stocks and their replacement cost

11 Debtors

	2007 £m	2006 £m
Amounts falling due within one year		
Trade debtors	5 1	2 4
Amounts owed by group undertakings	2 0	9 8
Other debtors	8 0	-
Prepayments and accrued income	-	0 3
	<u>15 1</u>	<u>12 5</u>

12 Creditors. Amounts falling due within one year

	2007 £m	2006 £m
Bank loans and overdrafts	5 1	16 5
Trade creditors	1 5	0 3
Amounts owed to subsidiary undertakings	100 8	100 2
Amounts owed to group undertakings	0 2	0 3
Other taxation and social security	0 2	0 1
Other creditors	3 0	0 6
Accruals and deferred income	0 5	0 4
	<u>111 3</u>	<u>118 4</u>

Notes to the financial statements

31 December 2007

13 Creditors. Amounts falling due after more than one year

	2007 £m	2006 £m
Amounts owed to subsidiary undertakings	<u>19 1</u>	<u>19 1</u>

14 Provisions for liabilities and charges

	Disposals £m	Deferred Taxation £m	Total £m
At 1 January 2007	33 2	0 8	34 0
Charged to profit and loss account	9 4	-	9 4
Unused amounts reversed	(0 4)	-	(0 4)
Utilised in year	<u>(4 1)</u>	<u>(0 8)</u>	<u>(4 9)</u>
At 31 December 2007	<u>38 1</u>	<u>-</u>	<u>38 1</u>

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

Deferred tax

Deferred tax is provided as follows

	2007 £m	2006 £m
Accelerated capital allowances	0 2	1 0
Other timing differences	<u>(0 2)</u>	<u>(0 2)</u>
	<u>-</u>	<u>0 8</u>

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	<u>0 6</u>	<u>0 7</u>
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Notes to the financial statements

31 December 2007

15 Pension

On 1 January 2007 the company's responsibility as principal employer of the Vickers Group Pension Scheme was transferred to Rolls-Royce plc. Vinters Engineering plc transferred the value of the assets and liabilities of the scheme at that date to Rolls-Royce plc and accounted for any subsequent normal contributions to the scheme as a defined contribution scheme.

The Company is now a participating employer of Vickers Group Pension Scheme, The Rolls-Royce Pension Fund and Rolls-Royce Group Pension Scheme, which are multi-employer defined benefit schemes. The assets of the schemes are held in separate funds administered by trustees and invested in them independently of the finances of the Group. The schemes are funded by annual contributions from

- a) the company
- b) scheme members

The employer is unable to identify the share of the underlying assets and liabilities of the schemes and in accordance with FRS 17 Retirement Benefits, has accounted for contributions as if the schemes were defined contribution schemes.

On this basis, the amount of employer contributions for 2007 was £0.3 million.

The FRS 17 disclosure relating to the schemes is given in the group financial statements of Rolls-Royce plc.

FRS17 Disclosures relating to the 2006 financial year

The principal actuarial assumptions were as follows:

	2006 %
Rate of increase in salaries	4.4
Rate of increase in pensions in payment and deferment	2.9
Discount rate	5.1
Inflation assumption	2.9

The mortality assumptions adopted for the pension schemes are derived from the PA92 actuarial tables published by the Institute of Actuaries.

Other demographic assumptions have been set on advice from the Actuary, having regard to the latest trends in scheme experience and other relevant data. The assumptions are reviewed and updated as necessary as part of the periodic actuarial valuation of the schemes.

Actuarial gains of £Nil (2006: £24.9m) have been reported in the statement of total recognised gains and losses. Cumulative actuarial losses from January 1, 2002 reported in the statement of recognised income and expense are £66.4m (2006: £66.4m).

Notes to the financial statements

31 December 2007

15 Pensions (continued)

Amounts recognised in the balance sheet.

	2007 £m	2006 £m
Present value of funded obligations	-	(552.5)
Fair value of scheme assets	-	571.8
Surplus / (Deficit)	-	19.3
Related deferred tax (liability) / asset	-	(6.8)
Net surplus / (liability)	-	12.5

Changes in present value of defined benefit obligations

	2007 £m	2006 £m
At January 1	(552.5)	(559.9)
Current service cost	-	(4.7)
Finance cost	-	(25.8)
Contributions	-	(0.8)
Net benefits paid out	-	20.1
Actuarial gain/(loss)	-	18.6
Transfer to Rolls-Royce plc	(552.5)	-
At December 31	-	(552.5)

Current service cost and contributions include £ Nil (2006 £2.8m) incurred by other subsidiary companies

Changes in fair value of scheme assets

	2007 £m	2006 £m
At January 1	571.8	533.6
Expected return on assets	-	32.1
Contributions by employer	-	19.1
Contributions by employees	-	0.8
Benefits paid out	-	(20.1)
Actuarial gain/(loss)	-	6.3
Transfer to Rolls-Royce plc	(571.8)	-
At December 31	-	571.8
Actual return on plan assets	-	38.4

Notes to the financial statements

31 December 2007

15 Pensions (continued)

The fair value of the scheme assets and the expected rates of return at December 31 were as follows

	Expected rate of return %	2007 Market value £m	Expected rate of return %	2006 Market value £m
Equities	-	-	7.5	349.5
Sovereign debt	-	-	4.9	154.5
Corporate bonds	-	-	4.5	92.4
Other	-	-	5.0	(24.6)
		<u>-</u>		<u>571.8</u>

The scheme assets do not include any financial instruments of the Vinters Engineering plc group, nor any property occupied by, or other assets used by, the group

The expected rate of return on individual categories of scheme assets are determined by reference to gilt yields. The expectation is that the return from equities and corporate bonds will exceed the return from gilts by 3% per annum and 0.45% per annum respectively. The overall expected rate of return is calculated by weighting the individual returns expected from each asset class in accordance with the actual asset balance in the schemes investment portfolio.

History of plans

The history of the plans for the current and prior years is as follows

	2007 £m	2006 £m	2005 £m	2004 £m	2003 £m
Present value of defined benefit obligation	-	(552.5)	(559.9)	(512.6)	(566.7)
Fair value of scheme assets	-	571.8	533.6	448.9	468.3
Asset / (Deficit)	<u>-</u>	<u>19.3</u>	<u>(26.3)</u>	<u>(63.7)</u>	<u>(98.4)</u>
Actuarial gains/(losses) on scheme assets	-	6.3	62.3	11.5	48.7
Experience losses on scheme liabilities	-	18.6	(36.9)	22.3	(48.6)
Total amount recognised in the statement of total recognised gains and losses	<u>-</u>	<u>24.9</u>	<u>25.4</u>	<u>33.8</u>	<u>0.1</u>

Notes to the financial statements

31 December 2007

16 Share capital

	2007 £m	2006 £m
<i>Authorised</i>		
457,000,000 ordinary shares of 50p each	<u>228 5</u>	<u>228 5</u>
<i>Allotted, called-up and fully-paid</i>		
343,297,724 ordinary shares of 50p each	<u>171 6</u>	<u>171 6</u>

17 Reserves

	Revaluation reserve £m	Share premium account £m	Profit and loss account £m	Other reserves £m	Total £m
At 1 January 2007	2 2	65 1	(8 7)	8 4	67 0
Loss for the financial year	-	-	(4 2)	-	(4 2)
Realised revaluation surplus	(0 1)	-	0 1	-	-
Share based payments	-	-	0 1	-	0 1
At 31 December 2007	<u>2 1</u>	<u>65 1</u>	<u>(12 7)</u>	<u>8 4</u>	<u>62 9</u>

18 Reconciliation of movements in shareholders' funds

	2007 £m	2006 £m
Opening shareholders' funds	238 6	210 9
(Loss) / profit for the financial year	(4 2)	11 1
Other recognised gains and losses relating to the year (net)	-	16 4
Share based payments	<u>0 1</u>	<u>0 2</u>
Closing shareholders' funds	<u>234 5</u>	<u>238 6</u>

Notes to the financial statements

31 December 2007

19 Financial commitments

Annual commitments under non-cancellable operating leases are as follows

	2007 Land and buildings £m	2006 Land and buildings £m
Expiry date		
- between two and five years	0.1	0.1
- after five years	0.3	0.7
	<u>0.4</u>	<u>0.8</u>

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

20 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.

21 Related party transactions

The Company has taken advantage of the exemption in Financial Reporting Standard 8 not to disclose related party transactions with other group companies.

22 Ultimate Parent Company

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