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Vinters Engineering plc

(Company registered in London under no. 3543)

Directors' Report and Financial Statements

31 December 2003



Vinters Engineering plc

Report of the directors

The directors present their annual report and the audited financial statements for the year ended 31 December 2003.

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 £16.6m (2002: £37.5m).

The directors do not recommend the payment of a dividend (2002: £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 446 (2002:426).

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

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

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

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

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

Education and training

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

Employees are encouraged to take responsibility for their personal development and opportunities are available to extend their competency levels using a range of the latest education and training techniques. The use of appraisal systems and personal development planning continues to grow and opportunities for the Company to share best practice in these and other employee development and training activities are a high priority.

Vinters Engineering plc

Report of the directors (continued)

Directors and directors interests

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

D R Bale

B Baker

T C Coltman (resigned 31 December 2003)

J E Warren

J R Ashfield (appointed 15 August 2003 resigned 22 September 2003)

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			Options over Rolls-Royce Group plc Ordinary Shares			
	Shares @ 01 January 2003 or date of appointment if later	Shares @ 31 December 2003	Options @ 01 January 2003 or date of appointment if later	Options @ 31 December 2003	Exercise price (p)	Exercisable Dates
B Baker	29,046*	57,169*	63,750 5,200 2,359 2,609 77,221 148,149 74,075 3,371 15,957 74,468 - -	63,750 - 2,359 2,609 77,221 148,149 74,075 3,371 15,957 74,468 227,273 2,790	176 150 205 194 194.25 216 216 108 188 188 77 141.5	2003-2005 2003 2005 2005 2003-2010 2004-2011 2004-2011 2007 2005-2012 2005-2012 2006-2013 2006
	29,046*	57,159*	467,159	692,022		
D R Bale	12,654*	33,291*	44,500 15,444 11,584 27,778 879 69,149 -	44,500 15,444 11,584 27,778 879 69,149 177,273	176 194.25 194.25 216 108 188 77	2003-2005 2003-2010 2003-2010 2004-2011 2005 2005-2012 2006-2013
	12,654*	33,291*	169,334	346,607		
T C Coltman	55,184*	57,358*	58,500 69,499 15,444 175,296 4,398	58,500 69,499 15,444 175,296 4,398	176 194.25 194.25 216 108	2003-2005 2003-2010 2003-2010 2004-2011 2005
	55,184*	57,358*	323,137	323,137		
J E Warren	6,977*	15,770	15,444 2,255 19,098 5,639 23,936 24,602 - -	15,444 - 19,098 5,639 23,936 24,602 120,130 5,959	194.25 205 216 108 188 188 77 141.5	2003-2010 2003 2004-2011 2007 2005-2012 2005-2012 2006-2013 2008
	6,977*	15,770*	90,974	214,808		

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

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Report of the directors (continued)

	Annual Performance Related Award Plan ¹		Profit Sharing Share Scheme ²		SharePurchase Plan ³		ShareBonus Scheme ⁴	
	1.1.2003	31.12.2003	1.1.2003	31.12.2003	1.1.2003	31.12.2003	1.1.2003	31.12.2003
B Baker	18,417	40,380	4,464	3,178	-	-	-	-
D R Bale	9,345	27,728	3,309	2,409	-	-	-	3,154
T C Coltnan	10,991	5,678	4,824	3,409	99	1,306	-	2,773
J E Warren	6,459	14,237	-	-	-	-	-	-

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 SharePurchase Plan, shares vest after five years.

⁴ Under the ShareBonus Scheme, shares vest after five years.

The closing mid-market price of the ordinary shares of the Company's ultimate parent company Rolls-Royce Group plc at December 31, 2003, was 177.25p and the range during 2003 was 64.25p to 190.00p.

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 2003 was £0.3m (2002: £0.8m).

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 2003 represents 63 days (2002: 37 days) of average purchases during the year for the Company.

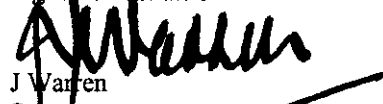
Health And Safety Policy

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

Auditors

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

Signed on behalf of the board


J E Warren
Secretary
19 July 2004

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.

Vinters Engineering plc

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

We have audited the financial statements on pages 6 to 20.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

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

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

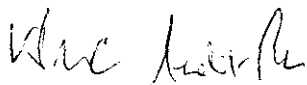
Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2003 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

19 July 2004

Vinters Engineering plc

Profit and loss account

For the year ended 31 December	Notes	Continuing Operations 2003 £m	Total 2003 £m	Continuing Operations 2002 £m	Discontinued Operations 2002 £m	Total 2002 £m
Turnover	2	61.0	61.0	36.1	48.0	84.1
Operating costs		(52.8)	(52.8)	(25.7)	3.9	(21.8)
Operating profit – before exceptional items	3	8.2	8.2	10.4	51.9	62.3
- exceptional items	4	(0.4)	(0.4)	-	(2.5)	(2.5)
Operating profit	3	7.8	7.8	10.4	49.4	59.8
Loss on disposal of business		-	-	-	(2.3)	(2.3)
Dividends receivable from subsidiary undertakings		8.2	8.2	0.9	-	0.9
Profit on ordinary activities before interest		16.0	16.0	11.3	47.1	58.4
Net interest	5	-	-	-	-	(1.6)
Profit on ordinary activities before taxation			16.0			56.8
Taxation	6		0.6			(19.3)
Profit on ordinary activities after taxation and shareholders' profit for the financial year			16.6			37.5
Profit transferred to reserves	16		16.6			37.5

The notes on pages 9 to 20 form part of these financial statements.

Vinters Engineering plc

Balance sheet

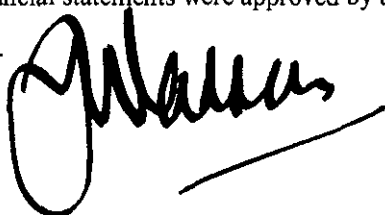
At 31 December

	Notes	2003 £m	2002 £m
Fixed Assets			
Tangible assets	8	12.2	12.5
Investments in subsidiary undertakings	9	169.5	169.9
		181.7	182.4
Current assets			
Stocks and work in progress	10	10.5	6.0
Debtors falling due within one year	11	647.0	638.5
Debtors falling due after more than one year	11	73.1	63.5
		720.1	702.0
Cash and deposits		2.0	10.0
		732.6	718.0
Creditors: amounts falling due within one year			
Borrowings	12	(23.7)	-
Other liabilities	12	(183.5)	(217.4)
		(207.2)	(217.4)
Net current assets		525.4	500.6
Total assets less current liabilities		707.1	683.0
Provisions for liabilities and charges	13	(46.5)	(39.0)
		660.6	644.0
Capital and reserves			
Called up share capital	15	171.6	171.6
Share premium account	16	65.1	65.1
Revaluation reserve	16	4.4	4.5
Other reserves	16	8.4	8.4
Profit and loss account	16	411.1	394.4
Shareholders' funds		660.6	644.0

The notes on pages 9 to 20 form part of these financial statements.

The financial statements were approved by the board of directors on 19 July 2004 and were signed on its behalf by:

Director



Vinters Engineering plc

Statement of total recognised gains and losses

	2003 £m	2002 £m
Profit for the financial year	16.6	37.5
Total recognised gains and losses for the financial year	16.6	37.5

Note of historical cost profits and losses

	2003 £m	2002 £m
Reported profit on ordinary activities before taxation	16.0	56.8
Realisation of property revaluation gains of previous years	-	1.1
Difference between historical cost depreciation charge and the actual depreciation charge of the year calculated on the revalued amount	0.1	0.3
Historical cost profit on ordinary activities before taxation	16.1	58.2
Historical cost profit for the year retained after taxation, minority interests and dividends	16.7	38.9

Reconciliation of shareholders' funds

	2003 £m	2002 £m
Opening shareholders' funds	644.0	606.5
Retained profit for the financial period	16.6	37.5
Closing shareholders' funds	660.6	644.0

Notes to the financial statements

1. Accounting Policies

Basis of preparation

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

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

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

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

Foreign currencies

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.

Vinters Engineering plc

Notes to the financial statements (continued)

1. Accounting Policies (continued)

Pensions

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

Tangible assets

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

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

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

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

Stocks and work in progress

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

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

Warranty

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

Vinters Engineering plc

Notes to the financial statements (continued)

2. Segmental information

	Turnover		Profit on ordinary activities before interest								Segmental net assets/(liabilities)	
	2003 £m	2002 £m	Before exceptional items	Exceptional items	Other non- trading items	Profit before interest	Before exceptional items	Exceptional items	Other non- trading items	Profit before interest	2003 £m	2002 £m
			2003 £m	2003 £m	2003 £m	2003 £m	2002 £m	2002 £m	2002 £m	2002 £m		
Principal activities												
Marine	9.7	12.3	1.3	(0.1)	1.3	2.5	3.3	-	0.9	4.2	7.2	8.1
Turbine Components	9.1	9.7	0.9	(0.1)	1.2	2.0	2.4	-	-	2.4	1.2	1.8
Defence Systems	42.2	14.1	6.0	(0.2)	5.7	11.5	4.7	-	-	4.7	9.4	11.5
Total continuing operations	61.0	36.1	8.2	(0.4)	8.2	16.0	10.4	-	0.9	11.3	17.8	21.4
Total discontinued operations	-	48.0	-	-	-	-	51.9	(2.5)	(2.3)	47.1		
Unallocated net assets											189.0	142.5
Sales to third parties	61.0	84.1										
Profit/(loss) on ordinary activities before interest			8.2	(0.4)	8.2	16.0	62.3	(2.5)	(1.4)	58.4		
Total segmental net assets											206.8	163.9

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

Other non-trading items comprises dividends receivable from subsidiary undertakings £8.2m (2002 £0.9m) and loss on disposal of business £nil (2002 loss £2.3m).

	Turnover by destination	
	2003 £m	2002 £m
Geographical segments		
United Kingdom	50.9	23.1
North America	0.6	0.3
Continental Europe	8.2	8.7
Asia / Pacific	1.2	3.2
Rest of the World	0.1	0.8
Total continuing operations	61.0	36.1
Discontinued operations	-	48.0
Sales to third Parties	61.0	84.1

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

	2003 £m	2002 £m
Reconciliation of total net assets to segmental net assets		
Net assets as shown in the balance sheet	660.6	644.0
Exclude interest-bearing assets and liabilities:		
Cash and deposits	(2.0)	(10.0)
Net balances with subsidiary undertakings	(233.6)	(228.2)
Loan to parent undertaking	(241.9)	(241.9)
Borrowings falling due within one year	23.7	-
Total segmental net assets	206.8	163.9

Vinters Engineering plc

Notes to the financial statements (continued)

3. Operating profit / (loss)

	2003 £m	2002 £m
Operating profit is stated after charging		
Depreciation:		
On owned assets	1.7	3.1
Research and Development	0.3	0.8
Fees paid to the auditors and their associates:		
Audit	0.1	0.1

4. Exceptional items

	2003 £m	2002 £m
Loss on sale of investment in subsidiary undertaking	-	(2.5)
Write down of investment in subsidiary undertakings	(0.4)	-
Total	(0.4)	(2.5)

5. Net Interest

	2003 £m	2002 £m
Interest payable and similar charges on bank loans and overdrafts	-	(0.1)
Interest payable to group companies	-	(1.5)
Interest payable on other borrowings	(0.5)	-
Interest payable	(0.5)	(1.6)
Interest receivable	0.5	-
Net interest	-	(1.6)

Vinters Engineering plc

Notes to the financial statements (continued)

6. Taxation

	2003 £m	2002 £m
Current tax:		
Group relief (receivable)/payable at 30% (2002: 30%) on profits of the period	(0.6)	16.3
Adjustments to group relief payable in respect of previous periods	(3.0)	-
Total current tax (credit)/charge	(3.6)	16.3
Deferred tax charge – origination and reversal of timing differences	3.0	3.0
	(0.6)	19.3
Reconciliation of Tax (Credit)/Charge:		
Profit on ordinary activities before tax	16.0	56.8
Nominal charge at UK corporation tax rate of 30%	4.8	17.0
Expenses not deductible for tax purposes	0.1	2.3
Income not taxable	(2.5)	-
Other timing differences for period	(3.0)	(3.0)
Adjustments for prior periods	(3.0)	-
Current tax (credit)/charge	(3.6)	16.3

7. Directors and employees

No remuneration has been received by the directors in respect of their services to the Company (2002: £Nil).

(a) Number of employees (average)	2003	2002
Marine	177	184
Turbine Components	153	150
Defence	125	532
	455	866
(b) Employment costs	2003 £m	2002 £m
Employee costs, including those of executive directors:		
Wages and salaries	10.6	21.3
Social security costs	0.8	1.3
Other pension costs	(10.7)	(9.7)
	0.7	12.9

Vinters Engineering plc

Notes to the financial statements (continued)

8. Tangible assets

	Land & Buildings £m	Plant & Equipment £m	Total £m
Gross book value			
At 1 January 2003	7.9	19.1	27.0
Capital expenditure	-	1.4	1.4
Disposals	-	(0.4)	(0.4)
Reclassification	2.7	(2.7)	-
At 31 December 2003	10.6	17.4	28.0
Depreciation			
At 1 January 2003	2.6	11.9	14.5
Provided during the year	0.3	1.4	1.7
Disposals	-	(0.4)	(0.4)
At 31 December 2003	2.9	12.9	15.8
Net book value at			
31 December 2003	7.7	4.5	12.2
31 December 2002	5.3	7.2	12.5
Gross book value of non-depreciable assets at:			
31 December 2003	0.5	-	0.5
31 December 2002	0.5	-	0.5
Land and buildings			
Land and buildings at cost or valuation comprise:			£m
Cost			5.9
Valuation at November 1988			<u>4.7</u>
			10.6
Land and buildings at net book value comprise:			£m
Freehold			7.0
Long Leasehold			<u>0.7</u>
			7.7

Vinters Engineering plc

Notes to the financial statements (continued)

9. Investments in subsidiary undertakings

	Cost £m	Provisions £m	Total £m
At 1 January 2003	352.4	(182.5)	169.9
Write-downs		(0.4)	(0.4)
At 31 December 2003	352.4	(182.9)	169.5

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 20.

10. Stocks and work in progress

	2003 £m	2002 £m
Work in progress	5.7	4.2
Instalments on account	(0.7)	(0.5)
Net work in progress	5.0	3.7
Materials, bought out components and general stores	5.5	2.3
Total stocks and work in progress	10.5	6.0

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

11. Debtors

	2003 £m	2002 £m
Amounts falling due within one year		
Trade debtors	7.1	8.0
Amounts owed by subsidiary undertakings	362.9	358.4
Loan to parent undertaking	241.9	241.9
Loan to ultimate parent undertaking	34.1	29.1
Other debtors	0.6	-
Prepayments and accrued income	0.4	1.1
	647.0	638.5
Amounts falling due after more than one year		
Pension prepayment	73.1	63.5
Total debtors	720.1	702.0

Vinters Engineering plc

Notes to the financial statements (continued)

12. Creditors

	2003 £m	2002 £m
Amounts falling due within one year		
Bank loans and overdrafts	23.7	-
Borrowings	23.7	-
Trade creditors	5.3	2.3
Amounts owed to other group undertakings	147.3	150.3
Group tax relief payable	-	16.3
Accruals and deferred income	3.7	0.5
Taxation on profits	21.7	17.8
Other taxation and social security	0.2	0.4
Other creditors	5.3	29.8
Other liabilities	183.5	217.4
Total amounts falling due within one year	207.2	217.4

13. Provisions for liabilities and charges

	Warranty £m	Disposals £m	Other liabilities £m	Deferred Taxation £m	Total £m
At 1 January 2003	1.0	12.6	4.4	21.0	39.0
Amount (credited)/charged to profit and loss account	1.0	7.9	(4.4)	3.0	7.5
At 31 December 2003	2.0	20.5	-	24.0	46.5

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

	2003 £m	2002 £m
Deferred Taxation		
Accelerated capital allowances	2.0	2.0
Other timing differences	22.0	19.0
Net deferred tax liability	24.0	21.0

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

Capital gains on revaluation of properties and rolled-over gains	1.0	1.0
	1.0	1.0

Notes to the financial statements (continued)

14. Pensions

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

The pension cost relating to the scheme is assessed in accordance with SSAP 24 'Accounting for Pension Cost', based on the advice of independent qualified actuaries using the projected unit method. The latest actuarial valuation of the scheme was at March 31, 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 (2002: £9.7m).

The market value of the scheme at the date of the latest actuarial valuation was £554.9m. 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 £73.1m (2002: £63.5m) are included in debtors, being the differences between the accumulated amounts paid into the pension fund and the accumulated pension costs.

FRS 17 Disclosures

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

The valuations with respect to UK schemes have been based on the most recent actuarial valuation (as noted above) and updated by the scheme actuary to December 31, 2003 by a qualified actuary taking account of the requirements of FRS 17.

The principal actuarial assumptions were as follows:

	2003 UK Schemes %	2002 UK Schemes %
Rate of increase in salaries	4.3	4.0
Rate of increase of pensions in payment and deferment	2.8	2.5
Discount rate	5.4	6.0
Inflation assumption	2.8	2.5

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

	2003 Expected long-term rate of return %	2003 Market value £m	2002 Expected long-term rate of return %	2002 Market value £m
Equities	8.30	349	8.00	332
Sovereign debt	4.80	56	4.40	47
Corporate bonds	5.10	59	5.00	22
Other	4.00	4	4.25	10
Total market value of assets	-	468	-	411
Present value of scheme liabilities	-	(566)	-	(505)
Deficit in the scheme	-	(98)	-	(94)
Related deferred tax asset	-	30	-	28
Net pension liability	-	(68)	-	(66)

Vinters Engineering plc

Notes to the financial statements (continued)

14. Pensions (continued)

Amounts charged to profit and loss account	2003 £m	2002 £m
Operating profit		
Current service charge	6.4	5.8
Finance income		
Expected return on pension scheme assets	(29.3)	(40.0)
Interest on pension scheme liabilities	27.1	27.7
	(2.2)	(12.3)
Total charge/(credit)	4.2	(6.5)
Movement in scheme deficits during the year	£m	£m
At January 1, 2003	(94.3)	49.3
Current service cost	(6.4)	(5.8)
Contributions	-	0.6
Finance income	2.2	12.3
Actuarial loss	0.1	(150.7)
At December 31, 2003	(98.4)	(94.3)

History of experience gains and losses and amount recognised in statement of total recognised gains and losses

	2003 £m	2002 £m
Difference between the expected and actual return on scheme assets		
Amount	48.7	(129.8)
Percentage of scheme assets	10%	(32%)
Experience gains and losses on scheme liabilities		
Amount	5.5	3.8
Percentage of the present value of scheme liabilities	1%	1%
Effect of changes in assumptions underlying the present value of scheme liabilities		
Amount	(54.1)	(24.7)
Percentage of the present value of scheme liabilities	(10%)	(5%)
Total amount recognised in the statement of total recognised gains and losses		
Amount	0.1	(150.7)
Percentage of the present value of scheme liabilities	0%	0%

Net assets

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

	2003 £m	2002 £m
Net assets per balance sheet	660.6	644.0
Net pension (liability)/asset	(68.9)	(66.0)
Pension prepayment ¹	(49.4)	(44.4)
Total FRS 17 pension adjustment	(118.3)	(110.4)
Net assets under FRS 17	542.3	533.6

¹Pension prepayment currently recorded: £73.1m (2002 £63.5m) less related deferred tax liability of £21.9m (2002 £19.1m)

Vinters Engineering plc

Notes to the financial statements (continued)

14. Pensions (continued)

Profit and loss reserve

	2003 £m	2002 £m
Profit and loss reserve	411.1	394.4
Total FRS 17 pension adjustment	(118.3)	(110.4)
Profit and loss reserve under FRS 17	292.8	284.0

15. Share capital

	2003 £m	2002 £m
Issued share capital allotted, called up and fully paid – 343,297,724 ordinary shares of 50p each	171.6	171.6
Authorised share capital – 457,000,000 ordinary shares of 50p each	228.5	228.5

16. Reserves

	Profit and loss reserve £m	Share premium £m	Revaluation Reserve £m	Other reserves £m
At 1 January 2003	394.4	65.1	4.5	8.4
Retained profit for the year	16.6	-	-	-
Reserves reclassified	0.1	-	(0.1)	-
At 31 December 2003	411.1	65.1	4.4	8.4

The amount of unrealised exchange gain (net of losses) on net borrowings at 31 December 2003 included in reserves amounted to £nil (2002 £nil).

17. Capital commitments

	2003 £m	2002 £m
Outstanding contracts for capital expenditure	0.0	0.0

Vinters Engineering plc

Notes to the financial statements (continued)

18. Contingent liabilities

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

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

19. Related party transactions

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

20. Ultimate parent company

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

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

21. Principal subsidiary undertakings

Defence Systems:

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

Turbine components

- Ross Ceramics Limited, Denby, Derby
- + Vickers Pressings Limited, 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

Corporate

- Vinters International Limited
- ◆ Divisions of the Company
- * 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

Note

All of the companies shown are incorporated and operate principally in the countries indicated.