Vickers Engineering plc

(Company registered in London under no. 3543)

Report and Accounts 1999

Report of the directors

The directors present their annual report and the audited financial statements for the year ended 31 December 1999.

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 profit for the year, after taxation, amounted to £2.3m (1998: £76.7m).

The directors do not recommend the payment of a dividend (1998: £50.1m to ordinary shareholders and £0.2m to all holders of all classes of preference shares and stocks).

On 17 November 1999 (the "Unconditional Date") a recommended offer from Rolls-Royce plc ("Rolls-Royce") for the whole of the issued share capital of Vickers plc (of 250p per ordinary share) was declared wholly unconditional following which Rolls-Royce plc became the ultimate holding company of Vickers plc and its subsidiaries.

Employees

The Company recognises that its most valuable resource is its human resource and unlocking the potential of its employees so that they can contribute fully to its business success whilst enjoying maximum job satisfaction continues to have a high priority.

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

Directors and directors' interests

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

S J Abesser	(appointed 15 September 1999)
B Baker	(appointed 31 December 1999)
Baron Paul Buysse	(resigned 31 December 1999)
Sir Colin Chandler	(resigned 1 February 1999)
T C Coltman	(appointed 31 December 1999)
D A D Essex	(resigned 31 December 1999)
P Forster	(resigned 30 April 1999)
P Heiden	(appointed 31 December 1999)
A L John	
R E McKeown	(appointed 4 May 1999, resigned 15 September 1999)

None of the directors who held office at the end of the financial year had any beneficial interest in the shares of Vickers Engineering plc at the beginning or at the end of the financial year; neither did they have any beneficial interest in the shares of any subsidiary within the Vickers plc or the 'new' Rolls-Royce plc groups of companies. Details of interests of those directors in the share capital of the ultimate holding company, being Vickers plc (until 17 November 1999) or Rolls-Royce plc (after 17 November 1999) were as follows:

	Interest in Rolls-Royce after Rolls-Royce takeover		**Interest in Vickers plc prior to Rolls-Royce takeover**		
	Ordinary shares of 25p each as at 31 December 1999	Share options granted in 1999	Ordinary shares of 25p each as at 1 January 1999 or date of appointment if later	Share options granted in 1999	Share options exercised in 1999
B Baker	1,936	14,256	-	-	-
Baron Buysse	-	-	36,666	117,076	-
T C Coltman	10,400	23,293	-	-	-
D A D Essex	-	-	15,000	66,832	1,181
P Heiden	17,179	58,330	-	-	-
A L John	-	-	15,078	63,538	7,522

The share options for Messrs Baker, Coltman and Heiden include awards made under a long term incentive plan which are conditional upon performance criteria.

With effect from the Unconditional Date all outstanding options became exercisable under their respective scheme rules. In addition Rolls-Royce made an offer to holders of SAYE options which entitled such holders to accept options over Roll-Royce plc shares in exchange for options over Vickers plc shares based on a formula approved by the Inland Revenue. Rolls-Royce also offered to holders of executive share options in Vickers plc cash cancellation in exchange for the extinguishment of the right to exercise such options. In respect of the Vickers plc Performance Investment Plan, the relevant performance targets were achieved and maximum share awards were provisionally made to participants for which Rolls-Royce also offered cash cancellation of such provisional awards.

In addition to the details listed in the table above, Baron Buysse received the cash sum of £262,990 in return for the cancellation of his rights to options over 437,076 shares in Vickers plc. Mr D Essex received the cash sum of £221,335 in return for the cancellation of his rights to options over 472,753 shares in Vickers plc. Mr A L John received the cash sum of £292,316 in return for the cancellation of his rights to options over 434,624 shares in Vickers plc.

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 depreciated 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 1999 was £4.5m (1998: £6.0m).

Year 2000

A task force reporting to the Managing Director, Finance and Planning of the Vickers group of companies, co-ordinated activities throughout the group associated with Year 2000 issues. The operation of this task force was aligned with the Rolls-Royce plc group project following acquisition. Costs were borne by Vickers plc and its operating units. No significant errors or failures have occurred to date. The board continues to believe that the Company was well prepared in respect of Year 2000 issues, although no absolute guarantee can be given that errors or failures related to the Year 2000 issue will not arise in the future. The Company may also be affected by future Year 2000 related events, errors or failures at third parties with whom it deals.

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 1999 represents 47 days (1998: 47 days) of average purchases during the year for the Company.

Auditors

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

Signed on behalf of the board

Andrew John
Commercial director and secretary

17 March 2000

Statement of directors' responsibilities

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

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

Report of the auditors to the members of Vickers Engineering plc

We have audited the financial statements on pages 6 to 25.

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. 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 1999 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc

Chartered Accountants
Registered Auditor
London

17 March 2000

Accounting policies

Basis of preparation

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

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

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

Foreign currencies

Assets and liabilities in foreign currencies are translated into sterling at the rates ruling at the balance sheet date, and the profit and loss accounts and cash flows of overseas businesses at average rates of the year.

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 sales 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 recognised by reference to the stage of completion of 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

The charge for taxation is based upon the profit for the year and takes into account deferred taxation on timing differences, including those relating to pensions benefits, to the extent that a liability or an asset is expected to arise.

No provision is made for United Kingdom and foreign taxation, which would arise in the event of the distribution of the retained profits of overseas businesses unless such distribution is proposed.

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:

	per annum
Freehold buildings	2%-4%
Leasehold buildings (or at higher rates 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 at costs incurred less those transferred to the profit and loss account, after deducting provision for foreseeable losses and payments on account not matched with turnover.

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

Warranty

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

Profit and loss account

For the year ended 31 December	Notes	Continuing operations 1999 £m	Discontinued operations 1999 £m	Total 1999 £m	Continuing operations 1998 £m	Discontinued operations 1998 £m	Total 1998 £m
Turnover	2, 3	**356.3**	**-**	**356.3**	389.1	58.9	448.0
Operating costs		**(353.1)**	-	**(353.1)**	(422.7)	(58.1)	(480.8)
Operating profit - before exceptional items	2, 3	**15.3**	-	**15.3**	11.0	0.8	11.8
- exceptional items	4	**(12.1)**	-	**(12.1)**	(44.6)	-	(44.6)
Operating profit/(loss)	3	**3.2**	-	**3.2**	(33.6)	0.8	(32.8)
Profits less losses including provision for losses on disposal of businesses	5	**-**	**(6.2)**	**(6.2)**	-	68.9	68.9
Non-recurring corporate costs	4	**0.9**	-	**0.9**	(6.6)	-	(6.6)
(Loss)/profit on ordinary activities before interest	2, 3	**4.1**	**(6.2)**	**(2.1)**	(40.2)	69.7	29.5
Dividends receivable from subsidiary undertakings				**-**			50.0
Net interest	6			**4.4**			10.5
Profit on ordinary activities before taxation				**2.3**			90.0
Taxation	7			**-**			(13.3)
Profit on ordinary activities after taxation and shareholders' profit for the financial year				**2.3**			76.7
Dividends – equity and non-equity	8			**-**			(50.3)
Premium on repayment of preference shares and stock				-			(0.7)
Profit transferred to reserves	18			**2.3**			25.7

The notes on pages 12 to 25 form part of these financial statements.

Balance sheet

At 31 December	Notes	1999 £m	1998 £m
Fixed assets			
Tangible assets	11	**39.6**	42.6
Investments in subsidiary undertakings	12	**476.6**	473.5
		516.2	516.1
Current assets			
Stocks and work in progress	13	**30.9**	19.0
Debtors falling due within one year	14	**768.6**	381.4
Debtors falling due after more than one year	14	**35.9**	32.5
		804.5	413.9
Cash and deposits		**34.2**	328.4
		869.6	761.3
Creditors: amounts falling due within one year			
Borrowings	15	**(147.9)**	(11.6)
Other liabilities	15	**(644.8)**	(658.8)
		(792.7)	(670.4)
Net current assets		**76.9**	90.9
Total assets less current liabilities		**593.1**	607.0
Creditors: amounts falling due after more than one year			
Borrowings	15	**-**	(6.0)
Other liabilities	15	**(6.1)**	(0.2)
		(6.1)	(6.2)
Provisions for liabilities and charges	16	**(38.3)**	(57.5)
		548.7	543.3
Capital and reserves			
Called up share capital	17	**171.1**	171.1
Share premium account	18	**65.6**	65.6
Revaluation reserve	18	**11.3**	11.7
Other reserves	18	**8.4**	8.4
Profit and loss account	18	**292.3**	286.5
Shareholders' funds		**548.7**	543.3

The notes on pages 12 to 25 form part of these financial statements.

The financial statements were approved by the board of directors on 17 March 2000 and were signed on its behalf by:

Andrew John

Statement of total recognised gains and losses

	1999 £m	1998 £m
Profit for the financial year	**2.3**	25.7
Currency translation differences on foreign currency net investments	**3.1**	(0.3)
Total recognised gains and losses for the financial year	**5.4**	25.4

Note of historical cost profits and losses

	1999 £m	1998 £m
Reported profit on ordinary activities before taxation	**2.3**	90.0
Realisation of property revaluation gains of previous years	-	12.3
Difference between historical cost depreciation charge and the actual depreciation charge of the year calculated on the revalued amount	**0.4**	0.7
Historical cost profit on ordinary activities before taxation	**2.7**	103.0
Historical cost profit for the year retained after taxation, minority interests and dividends	**2.7**	38.7

Reconciliation of shareholders' funds

	Ordinary share capital	Share premium account	Revaluation reserve	Other reserves	Profit and loss account	**1999**	1998
	£m	£m	£m	£m	£m	**£m**	£m
Opening shareholders' funds	171.1	65.6	11.7	8.4	286.5	**543.3**	377.2
New share capital subscribed	-	-				**-**	4.3
Profit for the year					2.3	**2.3**	76.7
Dividends					-	**-**	(50.3)
Premium on repayment of preference shares and stock					-	**-**	(0.7)
Retained profit for the financial period					2.3	**2.3**	25.7
Currency translation differences on foreign currency net investments					3.1	**3.1**	(0.3)
Repayment of preference shares and stock					-	**-**	(8.4)
Goodwill written back on disposals					-	**-**	144.8
Reserves reclassified			(0.4)		0.4	**-**	-
Closing shareholders' funds	171.1	65.6	11.3	8.4	292.3	**548.7**	543.3

Notes to the financial statements

1. Discontinued operations

In 1998, discontinued operations comprise the businesses of Cosworth.

2. Segmental information

	Turnover		Profit on ordinary activities before interest: Before exceptional items	Exceptional items	After exceptional items	Before exceptional items	Exceptional items	After exceptional items	Segmental net assets/(liabilities)	
	1999	1998	1999	1999	1999	1998	1998	1998	1999	1998
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Principal activities										
Marine	**11.0**	11.8	**0.8**	**(0.7)**	**0.1**	0.7	(0.6)	0.1	**9.8**	8.7
Turbine Components	**53.9**	48.7	**2.9**	**(0.2)**	**2.7**	2.0	-	2.0	**27.3**	25.8
Defence Systems	**291.4**	328.6	**11.6**	**-**	**11.6**	8.3	(44.0)	(35.7)	**(90.8)**	(134.1)
			15.3	**(0.9)**	**14.4**	11.0	(44.6)	(33.6)		
Costs associated with the takeover by Rolls-Royce plc			**-**	**(11.2)**	**(11.2)**	-	-	-		
			15.3	**(12.1)**	**3.2**	11.0	(44.6)	(33.6)		
Non-recurring corporate costs			**-**	**0.9**	**0.9**	-	(6.6)	(6.6)		
Total continuing operations	**356.3**	389.1	**15.3**	**(11.2)**	**4.1**	11.0	(51.2)	(40.2)		
Discontinued operations	**-**	58.9	-	**(6.2)**	**(6.2)**	0.8	68.9	69.7		
Total discontinued operations	**-**	58.9	-	**(6.2)**	**(6.2)**	0.8	68.9	69.7		
Unallocated net assets									**484.3**	493.0
Taxation									**0.8**	(9.5)
Sales to third parties	**356.3**	448.0								
Profit/(loss) on ordinary activities before interest			**15.3**	**(17.4)**	**(2.1)**	11.8	17.7	29.5		
Total segmental net assets									**431.4**	383.9

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

2. Segmental information (continued)

	Turnover by destination	
	1999	1998
	£m	£m
Geographical segments		
United Kingdom	**323.7**	367.1
North America	**2.8**	3.4
Continental Europe	**17.5**	14.8
Asia/Pacific	**11.8**	2.7
Rest of the World	**0.5**	1.1
Total continuing operations	**356.3**	389.1
Discontinued operations	-	58.9
Sales to third parties	**356.3**	448.0

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

Reconciliation of total net assets to segmental net assets	1999	1998
	£m	£m
Net assets as shown in the balance sheet	**548.7**	543.3
Exclude interest-bearing assets and liabilities:		
Cash and deposits	**(34.2)**	(328.4)
Net loans to subsidiary undertakings	**12.5**	380.0
Loan to parent undertaking	**(243.5)**	(228.6)
Borrowings falling due within one year	**147.9**	11.6
Borrowings falling due after more than one year	-	6.0
Total segmental net (liabilities)/assets	**431.4**	383.9

3. Operating profit/(loss)

For the year ended 31 December	Continuing operations Before exceptional 1999 £m	Continuing operations Exceptional items 1999 £m	Total 1999 £m	Continuing operations Before exceptional 1998 £m	Continuing operations Exceptional items 1998 £m	Discontinued operations 1998 £m	Total 1998 £m
Turnover	**356.3**	**-**	**356.3**	389.1	-	58.9	448.0
Cost of sales	**(319.4)**	**(0.2)**	**(319.6)**	(354.3)	(44.6)	(48.4)	(447.3)
Gross profit	**36.9**	**(0.2)**	**36.7**	34.8	(44.6)	10.5	0.7
Administrative expenses	**(21.5)**	**(11.9)**	**(33.4)**	(22.9)	-	(7.8)	(30.7)
Distribution costs	**(1.1)**	**-**	**(1.1)**	(1.9)	-	(3.2)	(5.1)
Other operating income	**1.0**	**-**	**1.0**	1.0	-	1.3	2.3
Operating profit	**15.3**	**(12.1)**	**3.2**	11.0	(44.6)	0.8	(32.8)

	1999 £m	1998 £m
Operating profit is stated after charging:		
Depreciation:		
On owned assets	**7.8**	12.4
Research and development	**4.5**	6.0
Fees paid to the auditors and their associates:		
Audit	**0.4**	0.3
Non-audit:	**2.3**	2.8
Operating lease charges:		
Hire of plant and machinery	**-**	0.1
Other lease charges	**0.3**	2.2

The non-audit fees paid in 1999 related principally to Vickers plc's acquisition of Ulstein. In 1998 these fees related principally to work in respect of disposals of businesses.

4. Exceptional items

	1999 £m	1998 £m
Exceptional operating costs		
Reorganisation costs and asset write-downs		
- Marine	**(0.7)**	(0.6)
- Turbine	**(0.2)**	-
- Defence	**-**	(44.0)
Costs associated with the takeover by Rolls-Royce plc	**(11.2)**	-
	(12.1)	(44.6)
Profits less losses including provision for losses on disposal of businesses (note 5)	**(6.2)**	68.9
Non-recurring corporate costs	**0.9**	(6.6)
Total	**(17.4)**	17.7

4. Exceptional items (continued)

Non-recurring corporate costs

A fundamental restructuring of the Company has been undertaken with the sale of the Medical and Automotive businesses. The non-recurring corporate costs relate to the associated relocation and reorganisation of the Vickers group's head office function.

5. Disposal of businesses

This arises from additional losses on the disposal of businesses sold in previous years.

6. Net interest

	1999 £m	1998 £m
Interest payable and similar charges on bank loans and overdrafts	**(7.3)**	(2.5)
Interest on finance leases	**-**	(0.5)
Interest payable to group companies	**3.0**	(1.5)
Interest payable	**(4.3)**	(4.5)
Interest receivable	**8.7**	15.0
Net interest	**4.4**	10.5

7. Taxation

	1999 £m	1998 £m
United Kingdom taxation:		
Corporation Tax	**(7.3)**	(21.2)
Deferred taxation	**7.3**	7.9
	-	(13.3)

The United Kingdom Corporation Tax charge has been computed at 30.25% (1998: 31.0%) and the deferred taxation charge at 30.0% (1998: 30.0%).

The taxation charge of £37,000 for the year ended 31 December 1999 includes the following tax credits in respect of exceptional items:

- a tax credit of £0.7m in relation to the exceptional items of £12.1m included within the operating profit;
- no tax benefit has been recognised in relation to the profits less losses on disposal of businesses of £6.2m nor the reversal of non-recurring corporate costs of £0.9m profit.

8. Dividends

	1999 £m	1998 £m
Non-equity - preference paid March and July 1998	-	(0.2)
Equity - ordinary:		
Dividend paid to Vickers plc July 1998	-	(50.1)
	-	(50.3)

9. Pensions

The Company operates the Vickers Group Pension Scheme ("VGPS"). This is a funded defined benefit scheme and the pension cost is assessed in accordance with the advice of qualified actuaries using the projected unit cost method. The assets of the scheme are held in a separate trustee-administered fund.

The net pension charge was £0.6m (1998: £2.3m).

At the date of the last actuarial valuation in March 1998 the market value of VGPS assets was £512.9m. In accordance with the relevant accounting standard, the scheme's actuaries have carried out a valuation for the purpose of assessing the pension cost. This indicates that the actuarial valuations of the assets of the scheme were approximately 111% of the benefits that had accrued to members. On the same basis, the actuarial surplus of the scheme totalled £36.1m. The assumptions that had the most significant effect on the results of the valuation were those relating to the rate of return on investments and the rates of increases in salaries and pensions. It has been assumed that the investment return will be 8% per annum, that salary increases will average 6% per annum and that present and future pensions will increase at the rate of 4% per annum. Differences between the amounts charged in the financial statements and the amounts paid to the schemes are shown in note 14 (£35.9m (1998: £32.5m) as prepayments falling due after more than one year).

10. Directors and employees

(a) Directors' emoluments	1999 £m	1998 £m
The aggregate amounts in respect of the directors are as follows:		
Emoluments	**2.2**	2.2
Pension contributions	**0.8**	0.7
Compensation for loss of office	**1.3**	0.5
	4.3	3.4
The amounts in respect of the highest paid director are as follows:		
Emoluments	**1.0**	0.9
Pensions contributions	**0.4**	0.3
Compensation for loss of office	**0.8**	-
	2.2	1.2

(b) Number of employees	1999	1998
The average number of employees during the year was made up as follows:		
Production	**1,215**	1,783
Selling, distribution and administration	**965**	1,373
	2,180	3,156

(c) Employment costs	1999 £m	1998 £m
Employee costs, including those of executive directors:		
Wages and salaries	**65.1**	73.5
Social security costs	**4.6**	5.7
Other pension costs	**0.6**	2.3
	70.3	81.5

11. Tangible assets

	Land & buildings	Plant, machinery & vehicles	Office furniture & equipment	Construction in progress	Total
	£m	£m	£m	£m	£m
Gross book value					
At 1 January 1999	40.0	56.7	17.9	0.4	115.0
Capital expenditure	-	4.3	1.5	(0.1)	5.7
Transfers	-	-	0.3	(0.3)	-
Disposals	(0.9)	(1.9)	(1.2)	-	(4.0)
At 31 December 1999	**39.1**	**59.1**	**18.5**	**-**	**116.7**
Depreciation					
At 1 January 1999	21.5	38.8	12.1	-	72.4
Provided during the year	1.4	4.4	2.0	-	7.8
Disposals	(0.2)	(1.7)	(1.2)	-	(3.1)
At 31 December 1999	**22.7**	**41.5**	**12.9**	**-**	**77.1**
Net book value at					
31 December 1999	**16.4**	**17.6**	**5.6**	**-**	**39.6**
31 December 1998	18.5	17.9	5.8	0.4	42.6
Gross book value of non-depreciable assets at					
31 December 1999	**5.8**	**-**	**-**	**-**	**5.8**
31 December 1998	5.8	-	-	-	5.8

Land and buildings	Freehold £m	Long leasehold £m
The net book value of land and buildings at the end of the year comprises:		
Cost	4.6	1.0
Valuation as at November 1988	9.8	0.6
Directors' valuation as at November 1992	0.4	-
	14.8	**1.6**

	£m
On an historical cost basis land and buildings would have been included as follows:	
Cost	24.0
Accumulated depreciation	(18.9)
	5.1

12. Investments in subsidiary undertakings

	Cost £m	Provisions £m	Total £m
At 1 January 1999	486.9	(13.4)	473.5
Additions	3.1	-	3.1
Disposals	-	-	-
At 31 December 1999	**490.0**	**(13.4)**	**476.6**

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 24 and 25.

13. Stocks and work in progress

	1999 £m	1998 £m
Long-term contract work in progress	**91.0**	145.8
Instalments on account	**(71.2)**	(139.9)
	19.8	5.9
Other work in progress	**7.8**	6.7
Instalments on account	**(0.7)**	(0.2)
	7.1	6.5
Net work in progress	**26.9**	12.4
Materials, bought out components and general stores	**3.7**	6.6
Finished goods	**0.3**	-
Total stocks and work in progress	**30.9**	19.0

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

14. Debtors

	1999 £m	1998 £m
Amounts falling due within one year		
Trade debtors	**43.1**	52.5
Amounts owed by subsidiary undertakings	**472.9**	72.5
Loan to parent undertaking	**243.5**	228.6
Other debtors	**4.3**	4.1
Deferred tax (note 16)	**-**	7.3
Group tax relief receivable	**4.3**	-
Prepayments and accrued income	**0.5**	16.4
	768.6	381.4
Amounts falling due after more than one year		
Pension prepayment	**35.9**	32.5
	35.9	32.5
Total debtors	**804.5**	413.9

15. Creditors

	1999 £m	1998 £m
Amounts falling due within one year		
Bank loans and overdrafts	**147.9**	11.6
Borrowings	**147.9**	11.6
Customer advances	**55.6**	79.1
Trade creditors	**45.7**	53.4
Amounts owed to subsidiary undertakings	**485.4**	452.6
Loan from associated undertaking	**8.2**	8.2
Accruals and deferred income	**6.6**	8.0
Taxation on profits	**3.5**	16.8
Other taxation and social security	**3.4**	3.9
Other creditors	**36.4**	36.8
Other liabilities	**644.8**	658.8
Total amounts falling due within one year	**792.7**	670.4
Amounts falling due after more than one year		
Bank loans	-	6.0
Borrowings	-	6.0
Other liabilities - other creditors	**6.1**	0.2
Total amounts falling due after more than one year	**6.1**	6.2
Bank loans repayable in:		
One to two years	-	6.0

16. Provisions for liabilities and charges

	Warranty £m	Disposals £m	Re-organisation £m	Other liabilities £m	Deferred taxation £m	Total £m
At 1 January 1999	8.2	13.4	31.8	4.1	-	57.5
Provided	1.7	7.1	4.7	1.6	(7.3)	7.8
Used	(0.1)	(12.5)	(17.3)	(0.6)	-	(30.5)
Released	-	(0.9)	(0.9)	(2.0)	-	(3.8)
Advance Corporation Tax utilised	-	-	-	-	-	-
Deferred tax asset transferred from debtors (note 14)	-	-	-	-	7.3	7.3
At 31 December 1999	**9.8**	**7.1**	**18.3**	**3.1**	-	**38.3**

Deferred taxation	**1999 £m**	1998 £m
Excess capital allowances over accumulated depreciation	**4.4**	3.7
Other timing differences - United Kingdom	**(4.4)**	(11.0)
Net deferred tax asset (note 14)	-	(7.3)
The potential liability for taxation, which has not been provided in the amounts shown above because payment is unlikely to be required in the foreseeable future, is:		
Excess capital allowances over accumulated depreciation	-	2.0
Other timing differences	**(11.3)**	(13.8)
Capital gains on revaluation of properties and rolled-over gains	**19.0**	19.0
	7.7	7.2

17. Share capital

	1999	1998
	£m	£m
Issued share capital allotted, called up and fully paid - 342,219,378 ordinary shares of 50p each	**171.1**	171.1
Authorised share capital - 457,000,000 ordinary shares of 50p each	**228.5**	228.5

18. Reserves

	Profit and loss reserve	Share premium	Revaluation reserve	Other reserves
	£m	£m	£m	£m
At 1 January 1999	286.5	65.6	11.7	8.4
Exchange adjustment	3.1	-	-	-
Retained profit for the year	2.3	-	-	-
Reserves reclassified	0.4	-	(0.4)	-
At 31 December 1999	**292.3**	**65.6**	**11.3**	**8.4**

The amount of unrealised exchange gain (net of losses) on net borrowings at 31 December 1999 included in reserves amounted to £3.0m (1998 net losses £0.1m).

19. Capital commitments

	1999	1998
	£m	£m
Outstanding contracts for capital expenditure	**0.8**	2.5

20. Operating lease commitments

	Property leases		Other operating leases	
	1999	1998	**1999**	1998
	£m	£m	**£m**	£m
Annual rentals payable on leases expiring:				
Within one year	**-**	-	**-**	0.1
Beyond five years	**0.6**	2.3	**-**	-
	0.6	2.3	**-**	0.1

21. 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.

22. Related party transactions

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

23. Ultimate holding company

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

24. Principal subsidiary undertakings

Defence Systems

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

Turbine Components

Ross & Catherall Limited, Killamarsh, Sheffield
Ross Catherall Ceramics Limited, Denby, Derby
Trucast Limited, Ryde, Isle of Wight
* Trucast Inc., Newberry, South Carolina, USA
* Certified Alloy Products Inc., Long Beach, California, USA
◊ Vickers Aerospace Components, Shrewsbury
◊ Vickers Airmotive, Shrewsbury
◊ Vickers Precision Machining, Crewe
◊ Vickers Pressings, Newcastle-upon-Tyne

24. Principal subsidiary undertakings (cont)

Marine

* Kamewa AB, Kristinehamn, Sweden
  * FF Jet Ltd AB, Kokkala, Finland
* Kamewa Finland OY, trading as Aquamaster and Rauma, Rauma, Finland
  * Kamewa Korea Limited, Pusan, South Korea
◊ Michell Bearings, Newcastle-upon-Tyne
  Brown Brothers & Company Limited, Edinburgh
* Ulstein Industrier AS Norway
* Ulstein Trading Limited AS, Norway
* Ulstein Propeller AS, Norway
* Ulstein UK Limited, United Kingdom
* Ulstein Brattvaag AS, Norway
* Ulstein Bergen AS, Norway
* Ulstein Automation AS, Norway
* Ulstein Turbine AS Norway
* Ulstein Nor AS, Norway
* Ulstein USA Inc., USA
* Ulstein Frydenbo AS, Norway
* Ulstein Tenfjord AS, Norway
* Ulstein Stoperier AS, Norway
* Ulstein Ship Technology AS, Norway
* Ulstein Nordvestconsult AS, Norway
* Ulstein Maritime Industries Inc., USA
* Bird-Johnson Co, USA
  ⇒ Viking Reisebyra AS (50%), Norway
  ⇒ Cogen AS (20.74%), Norway
  ⇒ Industrial Development Corporation of Scandanavia AS (33.3%), Norway

Other Activities
  Vickers Properties Limited, Swindon

◊ Divisions of the Company
* The whole of the issued share capital of each of the companies shown is held by Vickers Engineering plc or, where indicated by an asterisk, by one of its wholly-owned subsidiary undertakings.
⇒ Jointly or partly owned company of Ulstein Holding ASA

Note

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