

Registered number: 3543

THURSDAY



LD5 *L2ZWUBZM* 30/07/2009 196
COMPANIES HOUSE

Vinters Engineering plc

Annual report and financial statements
for the year ended 31 December 2008

Directors on
27 July 2009:

G Allan
D J Goma
R Orgill

Secretary:

D J Goma

Registered Office: Moor Lane, Derby DE24 8BJ

Contents

	Page
Directors' report	1
Statement of directors' responsibilities	3
Independent auditors' report	4
Profit and loss account	5
Balance sheet	6
Notes to the financial statements	7

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 2008.

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.

2008 saw the business grow turnover by 50% to £22.8 million (2007: £15.2 million), whilst operating profit improved to £4.4 million (2007: £2.1 million). The business is underpinned by two long-term service contracts, FEPS and Deltic, which together account for 30% of the current year turnover.

During the year an insurance settlement, to finance the replacement of stock destroyed by fire at a third party warehouse, was agreed. The resultant provision release and the receipt of compensation for a contract lost as a result of the fire, are key drivers behind the move to profitability in 2008.

Throughout 2008 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.

Provisions

The company incurs costs in relation to employer-liability claims following the insolvency of an insurance company. The provision at year-end was £25.0 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 that 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 (2007: £371 million) at year-end, of which £273 million (2007: £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 and any currency risk arising through these companies is actively managed as part of the Rolls-Royce Group risk management strategy.

Directors' report

Dividends

No dividends were paid during the year (2007: £nil)

Directors

The directors, who served throughout the year except as noted, were as follows:

G Allan

D Bale – resigned 27 June 2008

D Goma – appointed 29 July 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 an average payment timescale of 55 days at December 31, 2008 (2007: 51 days).

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

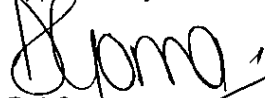
(2) the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

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

Auditors

The auditors, KPMG Audit Plc, have indicated their willingness to continue in office and a resolution that they be reappointed will be proposed at the annual general meeting.

Approved by the Board and signed on its behalf by:



D J Goma

Secretary

27 July 2009

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 of Vinters Engineering plc for the year ended 31 December 2008 which comprise the Profit and Loss Account, the Balance Sheet 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 UK Accounting Standards (UK 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 UK 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

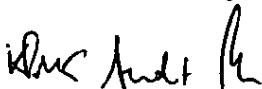
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the 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 2008 and of its profit 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

27 July 2009

Profit and loss account

For the year ended 31 December 2008

	Notes	2008 £m	2007 £m
Turnover	2	22.8	15.2
Cost of sales		(16.7)	(12.1)
Gross profit		6.1	3.1
Administrative expenses		(1.7)	(9.4)
Profit / (loss) on ordinary activities before finance charges		4.4	(6.3)
Finance charges (net)	3	-	(0.7)
Profit / (loss) on ordinary activities before taxation	4	4.4	(7.0)
Tax on profit / (loss) on ordinary activities	6	(1.3)	2.8
Profit / (loss) for the financial year	17	3.1	(4.2)

All results have been derived from continuing activities.

There were no recognised gains or losses in either the current year or the previous year, other than the profit for the year and loss for the prior year as shown above.

Balance sheet
31 December 2008

	Notes	2008 £m	2007 £m
Fixed assets			
Tangible assets	8	5.7	5.4
Investments	9	369.9	370.5
		<u>375.6</u>	<u>375.9</u>
Current assets			
Stocks	10	5.0	3.5
Debtors - due within one year	11	3.3	15.1
Cash at bank and in hand		33.1	8.5
		<u>41.4</u>	<u>27.1</u>
Creditors: Amounts falling due within one year	12	(135.1)	(111.3)
Net current liabilities		<u>(93.7)</u>	<u>(84.2)</u>
Total assets less current liabilities		281.9	291.7
Creditors: Amounts falling due after more than one year	13	(19.1)	(19.1)
Provisions for liabilities and charges	14	(25.1)	(38.1)
Net assets		<u>237.7</u>	<u>234.5</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	2.1
Other reserves	17	8.4	8.4
Profit and loss account	17	(9.5)	(12.7)
Capital employed	18	<u>237.7</u>	<u>234.5</u>

The financial statements on pages 5 to 21 were approved by the board of directors on 27 July 2009 and signed on its behalf by:



G Allan
Director

Notes to the financial statements

31 December 2008

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.

The company is a wholly owned subsidiary of Rolls-Royce plc and is included in the consolidated financial statements of Rolls-Royce plc, which are publicly available. Consequently, the company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS1.

The financial statements have been prepared on the going concern basis, notwithstanding net current liabilities of £93.7m (2007: £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 2008

1 Significant accounting policies (continued)

Share-based payments

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. The amount recognised as an expense is adjusted to reflect the actual number of shares or options that will vest, except where additional shares vest as a result of the Total Shareholder Return performance condition in the Performance Share Plan. 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 plans – using the binomial pricing model;
- ii) Performance Share Plan – using a pricing model adjusted to reflect non-entitlement to dividends (or equivalent) and the Total Shareholder Return market-based performance condition;
- iii) Annual Performance Related Award plan deferred shares 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 2008

1 Significant accounting policies (continued)

Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and any provision for impairment.

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 – 5 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 – 5 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 2008

2 Segment information

Classes of business:

	Defence Systems		Unallocated		Company	
	2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m
Turnover	22.8	15.2	-	-	22.8	15.2
Profit/(loss) on ordinary activities before finance charges	4.4	2.1	-	(8.4)	4.4	(6.3)
Finance charges (net)					-	(0.7)
Profit/(loss) on ordinary activities before taxation					4.4	(7.0)
Segment net assets	20.2	15.7	217.5	218.8		
Net assets					237.7	234.5

3 Finance charges (net)

	2008 £m	2007 £m
Interest payable and similar charges	-	(0.7)
	-	(0.7)

Notes to the financial statements

31 December 2008

4 Profit / (loss) on ordinary activities before taxation

Profit / (loss) on ordinary activities before taxation is stated after charging (crediting):

	2008 £m	2007 £m
Depreciation of tangible fixed assets		
- owned	0.3	0.4
Research and development - current year expenditure	0.5	0.3
Operating lease charges – land and buildings	0.4	0.4
Auditors' remuneration - fees for the audit of the company	0.1	0.1
	<u> </u>	<u> </u>

5 Staff costs and directors remuneration

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

	2008 Number	2007 Number
Defence Systems	87	90
	<u> </u>	<u> </u>

	2008 £m	2007 £m
Their aggregate remuneration comprised:		
Wages and salaries	2.9	3.5
Social security costs	0.2	0.3
Share based payments	0.1	0.1
Other pension costs (see note 15)	0.3	0.3
	<u> </u>	<u> </u>
	3.5	4.2

No remuneration has been received by the directors in respect of their services to the Company (2007: £Nil).

Notes to the financial statements

31 December 2008

6 Tax on profit/(loss) on ordinary activities

	2008 £m	2007 £m
Current tax		
UK corporation tax – group relief payable/(receivable)	1.2	(2.0)
Total current tax	<u>1.2</u>	<u>(2.0)</u>
Deferred tax		
Origination and reversal of timing differences	0.1	(0.8)
Total deferred tax	<u>0.1</u>	<u>(0.8)</u>
Total tax on profit on ordinary activities	<u>1.3</u>	<u>(2.8)</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.

	2008 £m	2007 £m
Profit/(loss) on ordinary activities before tax	<u>4.4</u>	<u>(7.0)</u>
Tax on profit/(loss) on ordinary activities at standard UK corporation tax rate of 28.5% (2007: 30%)	1.2	(2.1)
Effects of:		
Expenses not deductible for tax purposes	-	(0.1)
Capital allowances in excess of depreciation	-	0.2
Current tax charge/(credit) for period	<u>1.2</u>	<u>(2.0)</u>

Notes to the financial statements

31 December 2008

7 Share-based payments

Share-based payment plans in operation during the year

The company had the following share-based payment plans in operation during the year:

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 plan is HM Revenue & Customs approved.

Annual Performance Related Award (APRA) plan deferred shares

Deferred shares are 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 employed by 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, or equivalent, on the deferred shares.

Share Incentive Plan (SIP)

There is a 'Free Share' element of the UK 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.

During the year the Company recognised a total expense of £0.1m (2007 £0.1m).

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

	Number of shares awarded	
	2008 Thousands	2007 Thousands
PSP		
Outstanding at January 1	7	5
Awarded during the year	7	2
Forfeited during the year	-	-
Vested during the year	-	-
Outstanding at December 31	14	7

Notes to the financial statements

31 December 2008

7 Share based payments (continued)

	2008	2008	2007	2007
	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	367	180p	348	153p
Granted during the year	-	-	37	416p
Forfeited during the year	(6)	142p	(6)	142p
Exercised during the year	(248)	142p	(12)	142p
Outstanding at December 31	113	266p	367	180p
Exercisable at December 31	-	-	-	-

	Number of shares awarded	
	2008	2007
	Thousands	Thousands
Deferred shares under APRA		
Outstanding at January 1	5	1
Awarded during the year	2	4
Forfeited during the year	-	-
Vested during the year	(1)	-
Outstanding at December 31	6	5

	Number of shares awarded	
	2008	2007
	Thousands	Thousands
Free shares under SIP		
Awarded during the year	5	3

Options were exercised on a regular basis during the year. The average share price during the year was 382p (2007: 510p).

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:

	2008	2007	2006	2005	2004	2003
	Pence	Pence	Pence	Pence	Pence	Pence
PSP	458	557	494	282	249	-
ShareSave - 3 year	-	230	-	131	-	61
ShareSave - 5 year	-	264	-	154	-	71
APRA deferred share awards	440	502	448	260	220	-
SIP Free Share awards	439	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. Until 2007, expected dividends were based on Rolls-Royce Group plc's payments to shareholders

Notes to the financial statements

31 December 2008

over the five years prior to the grant or award date. From 2008, expected dividends were based on the payments to shareholders in respect of 2007.

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:

	2008	2007	2006	2005	2004
Weighted average share price	430p	501p	444p	262p	233p
Expected dividends	13.00p	8.30p	7.92p	7.81p	7.61p
Volatility	29%	29%	32%	34%	35%
Correlation	29%	26%	19%	19%	22%
Expected life	3 years	3 years	3 years	3 years	3 years
Risk free interest rate	4.1%	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.

Notes to the financial statements

31 December 2008

8 Tangible fixed assets

	Land and buildings		Plant and machinery £m	Total £m
	Freehold £m	Long leasehold £m		
Cost or valuation				
At 1 January 2008	5.1	1.1	3.3	9.5
Additions	0.4	-	0.2	0.6
At 31 December 2008	<u>5.5</u>	<u>1.1</u>	<u>3.5</u>	<u>10.1</u>
Depreciation				
At 1 January 2008	1.1	0.6	2.4	4.1
Charge for the year	0.2	-	0.1	0.3
At 31 December 2008	<u>1.3</u>	<u>0.6</u>	<u>2.5</u>	<u>4.4</u>
Net book value				
At 31 December 2008	<u>4.2</u>	<u>0.5</u>	<u>1.0</u>	<u>5.7</u>
At 31 December 2007	<u>4.0</u>	<u>0.5</u>	<u>0.9</u>	<u>5.4</u>

The cost of non-depreciable land included above is £0.7m (2007: £0.3m).

Land and buildings:

	2008 £m	2007 £m
Land and buildings at cost or valuation comprise:		
Cost	5.0	4.7
Valuation	1.6	1.5
	<u>6.6</u>	<u>6.2</u>

Notes to the financial statements

31 December 2008

9 Fixed asset investments

	2008 £m	2007 £m
Subsidiary undertakings	<u>369.9</u>	<u>370.5</u>
Subsidiary undertakings		
		£m
Cost		
At 1 January 2008		538.9
Disposals on liquidation		<u>(167.9)</u>
At 31 December 2008		<u>371.0</u>
Provisions for impairment		
At 1 January 2008		168.4
Disposals on liquidation		<u>(167.3)</u>
At 31 December 2008		<u>1.1</u>
Net book value		<u>369.9</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 2008

10 Stocks

	2008 £m	2007 £m
Raw materials and consumables	3.9	3.0
Work in progress	1.1	0.5
	<u>5.0</u>	<u>3.5</u>

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

11 Debtors

	2008 £m	2007 £m
Amounts falling due within one year:		
Trade debtors	3.3	5.1
Amounts owed by group undertakings	-	2.0
Other debtors	-	8.0
	<u>3.3</u>	<u>15.1</u>

12 Creditors: Amounts falling due within one year

	2008 £m	2007 £m
Bank loans and overdrafts	8.1	5.1
Trade creditors	2.1	1.5
Amounts owed to subsidiary undertakings	100.3	100.8
Amounts owed to group undertakings	1.5	0.2
Other taxation and social security	-	0.2
Other creditors	22.2	3.0
Accruals and deferred income	0.9	0.5
	<u>135.1</u>	<u>111.3</u>

Notes to the financial statements

31 December 2008

13 Creditors: Amounts falling due after more than one year

	2008 £m	2007 £m
Amounts owed to subsidiary undertakings	<u>19.1</u>	<u>19.1</u>

14 Provisions for liabilities and charges

	Retained liabilities from disposed companies £m	Deferred Taxation £m	Total £m
At 1 January 2008	38.1	-	38.1
Charged to profit and loss account	-	0.1	0.1
Unused amounts reversed	<u>(13.1)</u>	<u>-</u>	<u>(13.1)</u>
At 31 December 2008	<u>25.0</u>	<u>0.1</u>	<u>25.1</u>

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

Deferred tax

Deferred tax is provided as follows:

	2008 £m	2007 £m
Accelerated capital allowances	0.1	0.2
Other timing differences	<u>-</u>	<u>(0.2)</u>
	<u>0.1</u>	<u>-</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>
-------------------------------------------------------------------	------------	------------

Notes to the financial statements

31 December 2008

15 Pensions

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 2008 was £0.3 m (2007: £0.3m).

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

16 Share capital

	2008 £m	2007 £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

	Share premium account £m	Revaluation reserve £m	Other reserves £m	Profit and loss account £m
At 1 January 2008	65.1	2.1	8.4	(12.7)
Profit for the financial year	-	-	-	3.1
Share based payments	-	-	-	0.1
At 31 December 2008	<u>65.1</u>	<u>2.1</u>	<u>8.4</u>	<u>(9.5)</u>

Notes to the financial statements

31 December 2008

18 Reconciliation of movements in shareholders' funds

	2008 £m	2007 £m
Opening shareholders' funds	234.5	238.6
Profit/(loss) for the financial year	3.1	(4.2)
Share based payments	0.1	0.1
Closing shareholders' funds	<u>237.7</u>	<u>234.5</u>

19 Financial commitments

Annual commitments under non-cancellable operating leases are as follows:

	2008 Land and buildings £m	2007 Land and buildings £m
Expiry date		
- between two and five years	0.1	0.1
- after five years	0.3	0.3
	<u>0.4</u>	<u>0.4</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 FRS 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.