

Registered number: 3543

## Vinters Engineering plc

Annual report and financial statements  
for the year ended 31 December 2010

Directors on  
28<sup>th</sup> June 2011:

G Allan  
D J Goma  
R Orgill

Secretary:

D J Goma



Registered Office: Moor Lane, Derby DE24 8BJ

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## Directors' report

The directors present their annual report on the affairs of the Company, together with the financial statements and auditors' report, for the year ended 31 December 2010

### 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

2010 turnover fell slightly by 4% to £20.3 million (2009 £21.2 million), with operating profit increasing to £5.7 million (2009 £2.2 million)

The year on year increase in operating profit was as a result of risk mitigation activities on our major Ministry of Defence stock replacement project which resulted in the release of a provision on completion of a number of programmes including a 500 hours validation and test programme. This was offset by a decrease in margin on the Deltic contract.

The business continues to be underpinned by two long-term service contracts, FEPS and Deltic, which together account for circa 39% of the current year turnover.

Throughout 2010 the business continued to develop products including its IPMDS (Intelligent Power Management & Distribution System) and a USA Department of Defence development programme awarded in 2009 was completed during the year.

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. Operating performance during 2010 was a £6.0 million loss (2009 £1.3 million profit) caused primarily by a £4.3 million charge associated with the revaluation of the provision, (2009 £4.7 million release).

The provision at year-end was £24.5 million (2009 20.3 million).

### 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 £369.9 million (2009 £369.9 million) at year-end, of which £273 million (2009 £273 million) relates to overseas subsidiary companies whose trading currency is not sterling.

## Directors' report

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.

### Dividends

A dividend of £125,000,000 was paid during the year (2009 £Nil)

### Directors

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

G Allan  
D J Goma  
R Orgill

### 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 22 days at December 31, 2010 (2009 23 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.

### Statement as to disclosure of information to auditors

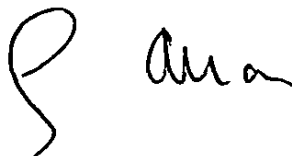
So far as each of the persons who were directors of the Company at the date of approval of this directors' report is aware, there is no relevant audit information of which the Company's auditors are individually unaware. Each director has taken all the steps that s/he ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

### Auditors

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and KPMG Audit Plc will therefore continue in office.

Approved by the Board and signed on its behalf by

G Allan  
Director  
28<sup>th</sup> June 2011



## Statement of directors' responsibilities in respect of the directors' report and the financial statements

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

Company law requires 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)

Under company law the directors must not approve the financial statements unless they are satisfied that they 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 adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. 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 auditor's report to the members of Vinters Engineering plc

We have audited the financial statements of Vinters Engineering plc for the year ended 31<sup>st</sup> December 2010 set out on pages 5 to 22. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice)

This report is made solely to the company's members, as a body, in accordance with sections 495 and 496 of the Companies Act 2006. 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

As explained more fully in the Statement of directors' responsibilities on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

### Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at [www.frc.org.uk/apb/scope/private.cfm](http://www.frc.org.uk/apb/scope/private.cfm)

### Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31<sup>st</sup> December 2010 and of its profit for the year then ended,
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

### Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

*AJ Sykes* 28/6/11

AJ Sykes (Senior Statutory Auditor)  
for and on behalf of KPMG Audit Plc, Statutory Auditor  
Chartered Accountants  
15 Canada Square  
London  
E14 5GL

## Profit and Loss Account

For the year ended 31 December 2010

	Notes	2010 £m	2009 £m
<b>Turnover</b>	2	20 3	21 2
Cost of sales		(12 6)	(16 9)
<b>Gross profit</b>		7 7	4 3
Administrative expenses		(8 0)	(0 8)
<b>Operating (loss)/profit</b>		(0 3)	3 5
Income from shares in group undertakings		77 6	145 8
<b>Profit on ordinary activities before finance charges</b>		77 3	149 3
Finance income (net)	3	0 2	0 1
<b>Profit on ordinary activities before taxation</b>	4	77 5	149 4
Tax on profit on ordinary activities	6	0 1	(1 1)
<b>Profit for the financial year</b>		77 6	148 3

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 for the prior year as shown above

**Balance Sheet**  
31 December 2010

	Notes	2010 £m	2009 £m
<b>Fixed assets</b>			
Tangible assets	8	5 6	5 9
Investments	9	369 9	369 9
		<u>375 5</u>	<u>375 8</u>
<b>Current assets</b>			
Stocks	10	4 4	4 3
Debtors - due within one year	11	86 7	108 8
Cash at bank and in hand		25 9	52 4
		<u>117 0</u>	<u>165 5</u>
<b>Creditors. Amounts falling due within one year</b>	12	(129 1)	(134 7)
<b>Net current (liabilities)/assets</b>		<u>(12 1)</u>	<u>30 8</u>
<b>Total assets less current liabilities</b>		363 4	406 6
<b>Provisions for liabilities and charges</b>	13	(24 7)	(20 6)
<b>Net assets</b>		<u>338 7</u>	<u>386 0</u>
<b>Capital and reserves</b>			
Called-up share capital	15	171 6	171 6
Share premium account	16	65 1	65 1
Revaluation reserve	16	2 1	2 1
Other reserves	16	8 4	8 4
Profit and loss account	16	91 5	138 8
<b>Total shareholders' funds</b>	17	<u>338 7</u>	<u>386 0</u>

The financial statements on pages 5 to 22 were approved by the board of directors on 28<sup>th</sup> June 2011 and signed on its behalf by

G Allan  
Director



Registered number 3543



## Notes to the financial statements

31 December 2010

### 1 Significant accounting policies

The principal accounting policies are summarised below

#### Basis of preparation

The financial statements have been prepared on the going concern basis, 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 399 of the Companies Act 2006 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 Company has taken advantage of the exemption in FRS8 not to disclose related party transactions with other group companies

#### 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 2010

### 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 (TSR) 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.

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 2010

### 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 2010

**2 Segment information**

	Defence Systems		Unallocated		Company	
	2010 £m	2009 £m	2010 £m	2009 £m	2010 £m	2009 £m
<b>Turnover</b>	<u>20.3</u>	<u>21.2</u>	-	-	<u>20.3</u>	<u>21.2</u>
<b>Operating profit/(loss)</b>	<u>5.7</u>	<u>2.2</u>	<u>(6.0)</u>	<u>1.3</u>	<u>(0.3)</u>	<u>3.5</u>
Income from shares in group undertakings	-	-	77.6	145.8	77.6	145.8
<b>Profit on ordinary activities before finance charges</b>	<u>5.7</u>	<u>2.2</u>	<u>71.6</u>	<u>147.1</u>	<u>77.3</u>	<u>149.3</u>
Finance income (net)					<u>0.2</u>	<u>0.1</u>
<b>Profit on ordinary activities before taxation</b>					<u>77.5</u>	<u>149.4</u>
<b>Segment net assets</b>	<u>28.4</u>	<u>22.2</u>	<u>310.3</u>	<u>363.8</u>		
<b>Net assets</b>					<u>338.7</u>	<u>386.0</u>

**3 Finance income (net)**

	2010 £m	2009 £m
Interest receivable and similar income	<u>0.2</u>	<u>0.1</u>

## Notes to the financial statements

31 December 2010

### 4 Profit on ordinary activities before taxation

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

	2010	2009
	£m	£m
Depreciation of tangible fixed assets - owned	0.3	0.3
Research and development - current year expenditure	0.3	0.5
Operating lease charges - land and buildings	0.3	0.3
Auditor's remuneration - fees for the audit of the Company	0.1	0.1
	<u>0.3</u>	<u>0.1</u>

### 5 Staff costs and directors remuneration

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

	2010	2009
	Number	Number
Defence Systems	<u>97</u>	<u>92</u>

	2010	2009
	£m	£m
Their aggregate remuneration comprised		
Wages and salaries	3.6	3.2
Social security costs	0.3	0.3
Share based payments	0.1	0.1
Other pension costs (see note 14)	0.3	0.3
	<u>4.3</u>	<u>3.9</u>

No remuneration has been received by the directors in respect of their services to the Company (2009 £Nil)

## Notes to the financial statements

31 December 2010

### 6 Tax on profit on ordinary activities

	2010 £m	2009 £m
<b>Current tax</b>		
Group relief payable at 28% (2009 28%)	-	1 1
<b>Total current tax</b>	<u>-</u>	<u>1 1</u>
<b>Deferred tax</b>		
Origination and reversal of timing differences in respect of prior periods	(0 1)	-
<b>Total deferred tax</b>	<u>(0 1)</u>	<u>-</u>
<b>Total tax on profit on ordinary activities</b>	<u>(0 1)</u>	<u>1 1</u>

The 2010 and 2011 Chancellor's Budgets announced measures to reduce the UK corporation tax rate from 28% to 23% by 2014. The first reduction in the rate to 27% was substantively enacted in July 2010 and was effective from 1 April 2011, as this was the only rate change to be substantively enacted prior to the year end, the closing deferred tax liability has been restated accordingly and the resulting credit has been recognised in the P&L. A subsequent reduction in the rate to 26% was announced in March 2011 and is also effective from 1 April 2011. Had this and the other tax rate changes been substantively enacted on or before the balance sheet date there would have been no significant effect on the deferred tax liability.

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:

	2010 £m	2009 £m
<b>Profit on ordinary activities before tax</b>	<u>77 5</u>	<u>149 4</u>
Tax on profit on ordinary activities at standard UK corporation tax rate of 28% (2009 28%)	21 7	41 8
Income not taxable	(21 7)	(40 7)
<b>Current tax charge for period</b>	<u>-</u>	<u>1 1</u>

## Notes to the financial statements

31 December 2010

### 7 Share-based payments

#### Effect of share-based payment transactions on the Company's results

	2010 £m	2009 £m
Total expense recognised for equity-settled share-based payment transactions	<u>0.1</u>	<u>0.1</u>

#### Share-based payment plans in operation during the year

During the year, the Company participated in the following share-based payment plans operated by Rolls-Royce Group plc

##### *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) over a three-year period.

##### *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*

A proportion of the APRA annual incentive scheme 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 Company 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.

Notes to the financial statements

31 December 2010

**7 Share-based payments (continued)**

**Movements in the Company's share-based payment plans during the year**

	ShareSave		PSP	APRA
	Number	Weighted average exercise price	Number	Number
	Thousands	Pence	Thousands	Thousands
Outstanding at January 1, 2009	113	266	14	6
Granted	35	387	-	5
Forfeited	(9)	309	-	-
Exercised	(48)	197	(4)	(3)
Outstanding at December 31, 2009	91	372	10	8

Outstanding at January 1, 2010	91	372	10	8
Granted	-	-	4	1
Additional entitlements arising from TSR performance	-	-	3	-
Forfeited	(2)	389	-	-
Exercised	(1)	350	(5)	(3)
Outstanding at December 31, 2010	88	372	12	6

As share options are exercised throughout the year, the weighted average share price during the year of 579p (2009 386p) is representative of the weighted average share price at the date of exercise



Notes to the financial statements

31 December 2010

**7 Share-based payments (continued)**

**Share options outstanding**

	ShareSave	
	Number	Weighted average remaining contractual life
Exercise price (pence)	Thousands	Years
At December 31, 2010		
200 – 299	24	0.1
300 – 399	34	3.3
400 – 499	30	1.5
Total	88	1.8
At December 31, 2009		
200 – 299	25	1.1
300 – 399	35	4.3
400 – 499	31	2.4
Total	91	2.8

The range of exercise prices of options outstanding at December 31, 2010 and 2009 was between 298p and 416p

**Fair values of share-based payment plans**

The weighted average fair values per share of equity-settled share-based payment plans granted during the year, estimated at the date of grant are as follows

	2010	2009
PSP – 25% TSR uplift	586p	253p
PSP – 50% TSR uplift	654p	282p
ShareSave – 3 year grant	n/a	144p
ShareSave – 5 year grant	n/a	167p
APRA	537p	290p

## Notes to the financial statements

31 December 2010

### 7 Share-based payments (continued)

In estimating these fair values, the following assumptions were used

	PSP	PSP	ShareSave
	2010	2009	2009
Weighted average share price	545p	260p	462p
Exercise price	n/a	n/a	387p
Expected dividends	14.6p	14.7p	14.3p
Expected volatility	33%	32%	36%
Correlation	35%	35%	n/a
Expected life – PSP	3 years	3 years	n/a
Expected life – 3 year ShareSave	n/a	n/a	3.3 – 3.8 years
Expected life – 5 year ShareSave	n/a	n/a	5.3 – 5.8 years
Risk free interest rate	1.9%	1.9%	2.4%

Expected volatility is based on the historical volatility of Rolls-Royce Group plc's share price over the seven years prior to the grant or award date. Expected dividends are based on Rolls-Royce Group plc's payments to shareholders in respect of the previous year.

#### *PSP*

The fair value of shares awarded under the PSP is calculated using a pricing model that takes account of the non-entitlement to dividends (or equivalent) during the vesting period and the market-based performance condition, based on expectations about volatility and the correlation of share price returns in the group of FTSE 100 companies, which incorporates into the valuation the interdependency between share price performance and TSR vesting. This adjustment increases the fair value of the award relative to the share price at the date of grant.

#### *ShareSave*

The fair value of the options granted under the ShareSave plan is calculated using a binomial pricing model that assumes that participants will exercise their 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.

#### *APRA*

The fair value of shares awarded under APRA is calculated as the share price on the date of the award, excluding expected dividends.

## Notes to the financial statements

31 December 2010

### 8 Tangible fixed assets

	Land and buildings		Plant and machinery £m	Total £m
	Freehold £m	Long leasehold £m		
<b>Cost or valuation</b>				
At 1 January 2010	5 7	1 1	3 8	10 6
Disposals	(0 1)	-	(1 2)	(1 3)
At 31 December 2010	<u>5 6</u>	<u>1 1</u>	<u>2 6</u>	<u>9 3</u>
<b>Depreciation</b>				
At 1 January 2010	1 5	0 6	2 6	4 7
Charge for the year	0 1	0 1	0 1	0 3
Disposals	(0 1)	-	(1 2)	(1 3)
At 31 December 2010	<u>1 5</u>	<u>0 7</u>	<u>1 5</u>	<u>3 7</u>
<b>Net book value</b>				
At 31 December 2010	<u>4 1</u>	<u>0 4</u>	<u>1 1</u>	<u>5 6</u>
At 31 December 2009	<u>4 2</u>	<u>0 5</u>	<u>1 2</u>	<u>5 9</u>

The cost of non-depreciable land included above is £0 7m (2009 £0 7m)

#### Land and buildings

	2010 £m	2009 £m
Land and buildings at cost or valuation comprise		
Cost	5 1	5 2
Valuation	1 6	1 6
	<u>6 7</u>	<u>6 8</u>

## Notes to the financial statements

31 December 2010

### 9 Fixed asset investments

	2010 £m	2009 £m
Subsidiary undertakings	<u>369 9</u>	<u>369 9</u>
<b>Subsidiary undertakings</b>		£m
<b>Cost</b>		
At 1 January 2010 and 31 December 2010		<u>371 0</u>
<b>Provisions for impairment</b>		
At 1 January 2010 and 31 December 2010		<u>1 1</u>
<b>Net book value</b>		
At 1 January 2010 and 31 December 2010		<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.

Company name	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 2010

### 10 Stocks

	2010 £m	2009 £m
Raw materials and consumables	3 3	3 3
Work in progress	1 1	1 0
	<u>4 4</u>	<u>4 3</u>

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

### 11 Debtors

	2010 £m	2009 £m
Amounts falling due within one year		
Trade debtors	3 3	8 7
Amounts owed by group undertakings	83 2	100 1
Other debtors	0 2	-
	<u>86 7</u>	<u>108 8</u>

### 12 Creditors: Amounts falling due within one year

	2010 £m	2009 £m
Trade creditors	0 3	0 5
Amounts owed to group undertakings	119 5	120 6
Other creditors	8 7	12 9
Accruals and deferred income	0 6	0 7
	<u>129 1</u>	<u>134 7</u>

Notes to the financial statements

31 December 2010

**13 Provisions for liabilities and charges**

	Retained liabilities from disposed companies	Contract losses	Warranties and guarantees	Deferred Taxation	Total
	£m	£m	£m	£m	£m
At 1 January 2010	20.3	0.1	0.1	0.1	20.6
Charged/(credited) to profit and loss account	5.4	0.1	-	(0.1)	5.4
Utilised	(1.2)	(0.1)	-	-	(1.3)
At 31 December 2010	<u>24.5</u>	<u>0.1</u>	<u>0.1</u>	<u>-</u>	<u>24.7</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

	2010 £m	2009 £m
Accelerated capital allowances	0.1	0.1
Other timing differences	(0.1)	-
	<u>-</u>	<u>0.1</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>0.6</u>
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## Notes to the financial statements

31 December 2010

### 14 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 2010 was £0.3 m (2009: £0.3 m).

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

### 15 Share capital

	2010 £m	2009 £m
<i>Allotted, called-up and fully-paid</i>		
343,297,724 ordinary shares of 50p each	<u>171.6</u>	<u>171.6</u>

### 16 Reserves

	Share premium account £m	Revaluation reserve £m	Other reserves £m	Profit and loss account £m
At 1 January 2010	65.1	2.1	8.4	138.8
Profit for the financial year	-	-	-	77.6
Dividends	-	-	-	(125.0)
Share based payments	-	-	-	0.1
At 31 December 2010	<u>65.1</u>	<u>2.1</u>	<u>8.4</u>	<u>91.5</u>

## Notes to the financial statements

31 December 2010

### 17 Reconciliation of movements in shareholders' funds

	2010 £m	2009 £m
Opening shareholders' funds	386 0	237 7
Profit for the financial year	77 6	148 3
Dividends	(125 0)	-
Share based payments	0 1	-
Closing shareholders' funds	<u>338 7</u>	<u>386 0</u>

### 18 Financial commitments

Annual commitments under non-cancellable operating leases are as follows

	2010 Land and buildings £m	2009 Land and buildings £m
Expiry date		
- after five years	0 3	0 3
	<u>0 3</u>	<u>0 3</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

### 19 Contingent liabilities

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

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

### 20 Ultimate Parent Company

The Company is a subsidiary undertaking of Rolls-Royce 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