Registered number: 00003543

Vinters Engineering Limited

Annual report and financial statements

for the year ended 31 December 2013

Vinters Engineering Limited

Contents

Vinters Engineering Limited

Directors' report
for the year ended 31 December 2013

The directors present their report and the financial statements for the year ended 31 December 2013.

Results and dividends

The loss for the year, after taxation, amounted to £3,500 thousand (2012 - loss £300 thousand).

No dividend was paid during the year (2012 - £80,000 thousand).

Directors

The directors who served during the year were:

G Allan (resigned 31 December 2013)
D J Goma
R Orgill
W Mansfield (appointed 22 October 2013)

EVENTS SINCE THE END OF THE YEAR

Rolls-Royce plc and Daimler announced on 16 April 2014 that they have agreed the valuation of Daimler's 50% equity interest in the joint venture Rolls-Royce Power System Holding GmbH. Both parties have determined the fair market value of Daimler's shares at EUR 2.43 billion. The transaction completed August 2014. In 2014, the company entered into a €2 billion cash flow hedge to limit the impact of foreign exchange on the acquisition of Daimler's interest in Rolls-Royce Power Systems Holding GmbH.

Qualifying third party indemnity provisions

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

Each of the persons who are directors at the time when this Directors' report is approved has confirmed that:

- so far as that director is aware, there is no relevant audit information of which the company's auditor is unaware, and
- that director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Auditors

Our auditor, KPMG Audit Plc have instigated an orderly wind down of business. The Board has decided to put KPMG LLP forward to be appointed as auditors and resolution concerning their appointment will be proposed at the next board of directors meeting.

This report was approved by the board and signed on its behalf.

W Mansfield
Director
Date: 22 September 2014

Vinters Engineering Limited

Strategic report
for the year ended 31 December 2013

Introduction

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

Business review

In 2013, turnover decreased by 12% to £13.8 million (2012 - £15.7 million) following expected lower revenue from Field Electrical Power Source (FEPS) and the Specialist Vehical Scout vehicle contracts. FEPS are a range of highly mobile, trailer-mounted, diesel-powered generator sets. There were no issues regarding the performance of existing contracts which all performed as expected.

In the early part of the year, a new order was received for the Repair and Overhaul of Deltic Engines worth £3.4 million.

During 2013, the business completed a business restructuring programme which scaled back its Sales & Marketing activities as well as its Operational capability, at a cost of £1.4 million.

Financial key performance indicators

The loss for the year, after taxation, amounted to £3,500 thousand (2012 - loss £300 thousand).

Net assets of the company were £249,800 thousand (2012 - £253,200 thousand).

Principal risks and uncertainities

The following risks have the most material potential impact on the company. Mitigating activities are described for each risk. These risks are specific to the nature of our business notwithstanding that there are other risks that may occur and may impact the achievement of the company's objectives. Where relevant these are managed within the Rolls-Royce group's (Group) risk management procedures.

Product failure - Product not meeting safety expectations, or causing significant impact to customers or the environment through failure in quality control.
- Operating a safety first culture
- Our engineering design and validation process is applied from initial design, through production and into service
- The safety committee reviews the scope and effectiveness of the Group's product safety policies to ensure that they operate to the highest industry standards
- A Group safety management system (SMS) has been established by a dedicated team. This is governed by the Product Safety Review Board and is subject to continual improvement based on experience and industry best practice. Product safety training is an integral part of our SMS
- Crisis management team led by the Group Director – Engineering and Technology or General Counsel as appropriate

Business continuity - Breakdown of external supply chain or internal facilities that could be caused by destruction of key facilities, natural disaster, regional conflict, financial insolvency of a critical supplier or scarcity of materials which would reduce the ability to meet customer commitments, win future business or achieve operational results.
- Continued investment in adequate capacity and modern equipment and facilities
- Identifying and assessing points of weakness in our internal and external supply chain, our IT systems and our people skills
- Selection and development of stronger suppliers
- Developing dual sources or dual capability
- Developing and testing site-level incident management and business recovery plans
- Crisis management team led by the Group Director – Engineering and Technology or General Counsel as appropriate
- Customer excellence centres provide improved response to supply chain disruption

Competitor action - The presence of large, financially strong competitors in the majority of our markets means

that the Group is susceptible to significant price pressure for original equipment or services even where our markets are mature or the competitors are few. Our main competitors have access to significant government funding programmes as well as the ability to invest heavily in technology and industrial capability.
- Accessing and developing key technologies and service offerings which differentiate us competitively
- Focusing on being responsive to our customers and improving the quality, delivery and reliability of our products and services
- Partnering with others effectively
- Driving down cost and improving margins
- Protecting credit lines
- Investing in innovation, manufacturing and production
- Understanding our competitors

International trade friction - Geopolitical factors that lead to significant tensions between major trading parties or blocs which could impact the Company's operations. For example: explicit trade protectionism; differing tax or regulatory regimes; potential for conflict; or broader political issues.
- Where possible, locating our domestic facilities in politically stable countries and/or ensuring that we maintain dual capability
- Diversifying global operations to avoid excessive concentration of risks in particular areas
- Network of regional directors proactively monitors local situations
- Maintaining a balanced business portfolio with high technological barriers to entry and a diverse customer base
- Understanding our supply chain risks
- Proactively influencing regulation where it affects us

Major product programme delivery - Failure to deliver a major product programme on time, to specification or technical performance falling significantly short of customer expectations would have potentially significant adverse financial and reputational consequences, including the risk of impairment of the carrying value of the Company's assets and the impact of potential litigation.
- Major programmes are subject to Board approval
- Major programmes are reviewed at levels and frequencies appropriate to their performance against key financial and non-financial deliverables and potential risks throughout a programme's life cycle
- Technical audits are conducted at pre-defined points performed by a team that is independent from the programme
- Programmes are required to address the actions arising from reviews and audits and progress is monitored and controlled through to closure
- Knowledge management principles are applied to provide benefit to current and future programmes

Compliance - Non-compliance by the Company with legislation or other regulatory requirements in the regulated environment in which it operates (for example: export controls; offset; use of controlled chemicals and substances; and anti-bribery and corruption legislation) compromising our ability to conduct business in certain jurisdictions and exposing the Company to potential: reputational damage; financial penalties; debarment from government contracts for a period of time; and/or suspension of export privileges or export credit financing), any of which could have a material adverse effect.
- An uncompromising approach to compliance is now, and should always be, the only way to do business
- The Group has an extensive compliance programme. This programme and the Global Code of Conduct are promulgated throughout the Group and are updated and reinforced from time to time, to ensure their continued relevance, and to ensure that they are complied with both in spirit and to the letter. The Global Code of Conduct and the Company's compliance programme are supported by appropriate training
- A legal and compliance team has been put in place to manage the current specific issue through to a conclusion and beyond
- Lord Gold has reviewed the Group's current compliance procedures and an improvement plan is being implemented

Market shock - The Company is exposed to a number of market risks, some of which are of a macro-economic nature, for example, foreign currency exchange rates, and some which are more specific to the Company, for example liquidity and credit risks, or disruption to other customer operations. Significant extraneous market events could also materially damage the Group's competitiveness and/or credit worthiness. This would affect operational results or the outcomes of financial transactions.
- Maintaining a strong Group balance sheet, through healthy cash balances and a continuing low level of debt
- Providing financial flexibility by the Group maintaining high levels of liquidity and an investment grade 'A' credit

rating
- The portfolio effect from our business interests, both in terms of original equipment to aftermarket split and our different segments provide a natural shock absorber since the portfolios are not correlated
- Deciding where and what currencies to source in, where and how much credit risk is extended or taken and hedging residual risk through the financial derivatives markets (foreign exchange, interest rates and commodity price risk)

IT vulnerability - Breach of IT security causing controlled data to be lost, made inaccessible, corrupted or accessed by unauthorised users.
- Establishing 'defence in depth' through deployment of multiple layers of software and processes including web gateways, filtering, firewalls, intrusion, advanced persistent threat detectors and integrated reporting
- Security and network operations centres have been established
- Active sharing of information through industry, government and security forums

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 Holdings 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 (2012 - £369.9 million) at year-end, of which £273 million (2012 - £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.

This report was approved by the board on 22 September 2014 and signed on its behalf.

W Mansfield
Director

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Strategic report, 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 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 accounting 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;
- 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 are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditor's report to the members of Vinters Engineering Limited

We have audited the financial statements of Vinters Engineering Limited for the year ended 31 December 2013, set out on pages 7 to 24. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 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 Auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' responsibilities statement as set out on page 5, 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 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 Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

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 December 2013 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom 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 Strategic report and 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.

J Daboo

Jimmy Daboo (Senior statutory auditor)
for and on behalf of
KPMG Audit Plc - Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL
Date: 22/9/14

Vinters Engineering Limited

Profit and loss account
for the year ended 31 December 2013

	Note	2013 £000	2012 £000
Turnover		**13,800**	15,700
Cost of sales		**(10,200)**	(11,100)
Gross profit		**3,600**	4,600
Administrative expenses		**(8,300)**	(5,400)
Operating loss	4	**(4,700)**	(800)
Income from shares in group undertakings		**-**	200
Finance income (net)	3	**100**	100
Loss on ordinary activities before taxation		**(4,600)**	(500)
Tax on loss on ordinary activities	6	**1,100**	200
Loss for the financial year	16	**(3,500)**	(300)

All amounts relate to continuing operations.

There were no recognised gains and losses for 2013 or 2012 other than those included in the Profit and loss account.

The notes on pages 9 to 24 form part of these financial statements.

Vinters Engineering Limited
Registered number: 00003543

Balance sheet
as at 31 December 2013

	Note	£000	2013 £000	£000	2012 £000
Fixed assets					
Tangible assets	8		**4,900**		5,200
Investments	9		**369,900**		369,900
			374,800		375,100
Current assets					
Stocks	10	**700**		3,200	
Debtors - due within one year	11	**3,300**		5,200	
Cash at bank and in hand		**25,000**		22,400	
		29,000		30,800	
Creditors: amounts falling due within one year	12	**(125,900)**		(125,100)	
Net current liabilities			**(96,900)**		(94,300)
Total assets less current liabilities			**277,900**		280,800
Provisions for liabilities and charges					
Other provisions	13		**(28,100)**		(27,600)
Net assets			**249,800**		253,200
Capital and reserves					
Called up share capital	15		**171,600**		171,600
Share premium account	16		**65,100**		65,100
Revaluation reserve	16		**2,100**		2,100
Other reserves	16		**8,400**		8,400
Profit and loss account	16		**2,600**		6,000
Total shareholders' funds	17		**249,800**		253,200

The financial statements were approved and authorised for issue by the board and were signed on its behalf on

W Mansfield
Director 22 September 2014

The notes on pages 9 to 24 form part of these financial statements.

Notes to the financial statements
for the year ended 31 December 2013

1. Significant accounting policies

The principal accounting policies are summarised below.

1.1 Basis of preparation

The financial statements have been prepared on a going concern basis, under the historical cost convention, and in accordance with applicable accounting standards.

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 Vinters Limited 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.

Amounts are presented to the nearest 100 thousand pounds.

1.2 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.

1.3 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.

1.4 Research and development

Research and development expenditure is written off as incurred.

1.5 Pension costs

Contributions to Rolls-Royce 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.

1.6 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.

1. Significant accounting policies (continued)

1.7 *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.

1.8 Interest

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

1.9 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.

1.10 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.

1.11 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.

1.12 Investments

Fixed asset investments are shown at cost less provision for impairment.

1. Significant accounting policies (continued)

1.13 Leases

The annual payments under operating leases are charged to the profit and loss account on a straight-line basis.

1.14 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.

1.15 Going concern

The company has net current liabilities of £96,900,000 (2012: £94,300,000) and so is dependent for its working capital on funds provided to it by Rolls-Royce plc, a parent undertaking of the company. Rolls-Royce plc has stated that its current policy is to ensure that the company is managed so that it maintains adequate financial resources and is in a position to meet its financial obligations arising from its normal trading activities. Based on the directors' assessment of the company's future financial requirements, the ability of Rolls-Royce plc to support the company if necessary and the statement referred to above, the directors consider that the company will have sufficient financial resources to meet its obligations for the foreseeable future, that is for at least 12 months from the date of approval of these financial statements.

2. Segment information

	Defence Systems 2013 £000	Defence Systems 2012 £000	Head office 2013 £000	Head office 2012 £000	Total Company 2013 £000	Total Company 2012 £000
Turnover	13,800	15,700	-	-	13,800	15,700
Operating profit/(loss)	(1,500)	400	(3,200)	(1,200)	(4,700)	(800)
Income from shares in group undertakings	-	-	-	200	-	200
Profit/(loss) on ordinary activities before finance charges	(1,500)	400	(3,200)	(1,000)	(4,700)	(600)
Finance income (net)	100	100	-	-	100	100
Loss on ordinary activities before taxation	(1,400)	500	(3,200)	(1,000)	(4,600)	(500)
Segment net assets	28,600	29,800	221,200	223,500	249,800	253,300

3. Finance income (net)

	2013 £000	2012 £000
Interest receivable and similar income	**100**	100

4. Loss on ordinary activities before taxation

Loss on ordinary activities before taxation is stated after charging:

	2013 £000	2012 £000
Depreciation of tangible fixed assets:		
- owned by the company	**300**	300
Auditor's remuneration	**100**	100
Operating lease charges:		
- other operating leases	**100**	100
Research and development expenditure written off	**300**	1,600
Restructuring programme	**1,400**	-

The company's auditor was paid by Rolls-Royce plc.

5. Staff costs and directors remuneration

Staff costs were as follows:

	2013 £000	2012 £000
Wages and salaries	**3,000**	3,700
Social security costs	**300**	300
Other pension costs	**300**	400
Total expense recognised for equity-settled share-based payment transactions	**100**	100
	3,700	4,500

The average monthly number of employees, including the directors, during the year was as follows:

	2013 No.	2012 No.
Defence Systems	**71**	93

No remuneration has been received by the directors in respect of their services to the Company (2012 - £Nil).

6. Tax on profit on ordinary activities

	2013 £000	2012 £000
Group relief payable at 23.25% (2012 - 24.5%)	**(1,100)**	(200)

6. Tax on profit on ordinary activities (continued)

Factors affecting tax charge for the year

The tax assessed for the year is the same as (2012 - higher than) the standard rate of corporation tax in the UK of 23.25% (2012 - 24.5%). The differences are explained below:

	2013	2012
	£000	£000
Loss on ordinary activities before tax	**(4,600)**	(500)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 23.25% (2012 - 24.5%)	**(1,100)**	(100)
Effects of:		
Income not taxable	**-**	(100)
Current tax credit for the year (see note above)	**(1,100)**	(200)

Factors that may affect future tax charges

The 2013 Budget announced that the UK corporation tax rate will reduce to 21 per cent from 1 April 2014 and to 20 per cent from 1 April 2015. These reductions were substantively enacted on 2 July 2013. As the reduction to 20 per cent was substantively enacted prior to the year end, the closing deferred tax asset has been restated accordingly and the charge has been recognised in the P&L.

7. Share-based payments

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 Holdings 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 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.

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

	ShareSave Number Thousands	ShareSave Weighted average exercise price Pence	PSP Number Thousands	APRA Number Thousands
Outstanding at 1 January 2012	86	449	9	3
Granted	-	-	4	2
Additional entitlements arising from TSR performance	-	-	-	-
Forfeited	(1)	458	-	-
Exercised	-	-	-	(1)
Outstanding at 31 December 2012	85	449	13	4
Granted	29	962	-	1
Additional entitlements arising from TSR performance	-	-	5	-

Forfeited	(1)	502	-	-
Exercised	(32)	406	(10)	(3)
Outstanding at 31 December 2013	81	645	8	2

As share options are exercised throughout the year, the weighted average share price during the year of 1123p (2012 - 836p) is representative of the weighted average share price at the date of exercise.

Share options outstanding

	ShareSave Number Thousands	ShareSave Weighted average remaining contractual life Years
At 31 December 2012		
300p - 399p	32	1.4
400p - 499p	19	0.1
500p - 599p	34	3.4
	85	4.9
At 31 December 2013		
300p - 399p	20	1.1
500p - 599p	33	2.4
900p - 999p	28	4.2
	81	2.7

The range of exercise prices of options outstanding at 31 December 2013 was between 387p and 962p (2012 - 387p and 525p).

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:

	2013 (pence)	2012 (pence)
PSP - 25% TSR uplift	**1128**	885
PSP - 50% TSR uplift	**1254**	985
ShareSave - 3 year grant	**287**	n/a
ShareSave - 5 year grant	**349**	n/a
APRA	**1027**	809

In estimating these fair values, the following assumptions were used:

	PSP 2013	PSP 2012	**ShareSave 2013**
Weighted average share price	**1023**	809	1099
Exercise price	**n/a**	n/a	962
Expected dividends	**18.2p**	16.5p	19.5p
Expected volatility	**30%**	31%	30%
Correlation	**38%**	39%	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	**0.3%**	0.6%	1.1%

Expected volatility is based on the historical volatility of Rolls-Royce Holdings plc's share price over the seven years prior to the grant or award date. Expected dividends are based on Rolls-Royce Holdings 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.

8. Tangible fixed assets

	Land and buildings Freehold £000	Land and buildings Long leasehold £000	Plant & machinery £000	Total £000
Cost				
At 1 January 2013 and 31 December 2013	5,600	1,100	2,600	9,300
Depreciation				
At 1 January 2013	1,600	800	1,700	4,100
Charge for the year	100	100	100	300
At 31 December 2013	1,700	900	1,800	4,400
Net book value				
At 31 December 2013	3,900	200	800	4,900
At 31 December 2012	4,000	300	900	5,200

The cost of non-depreciable land included above is £1.4 million (2012 - £1.4 million).

Land or buildings at cost or valuation comprise:

	2013 £000	2012 £000
Cost	5,100	5,100
Valuation	1,600	1,600
	6,700	6,700

9. Fixed asset investments

	Subsidiary undertakings £000
Cost	
At 1 January 2013 and 31 December 2013	371,000
Provisions for impairment	
At 1 January 2013 and 31 December 2013	1,100
Net book value	
At 31 December 2013	369,900
At 31 December 2012	369,900

9. Fixed asset investments (continued)

Subsidiary undertakings

The following were subsidiary undertakings of the company.

Name	Country of Incorporation	% Holding
Alesund Storhall AS	Norway	1.0
Alesund Kunnskapspark AS	Norway	1.2
Aquamaster (Propulsion) Limited	United Kingdom	100.0
Bergen Engines AS	Norway	50.0
Bergen Engines Bangladesh Private Limited	Bangladesh	50.0
Bergen Engines BV	Netherlands	50.0
Bergen Engines Denmark A/S	Denmark	50.0
Bergen Engines India Private Limited	India	50.0
Bergen Engines Limited	United Kingdom	50.0
Bergen Engines Propertyco AS	Norway	50.0
Bergen Engines S.L.	Spain	50.0
Bergen Engines SRL	Italy	50.0
Brown Brothers & Company, Limited	United Kingdom	100.0
Camaga SRL	Italy	7.5
Damen Shipyards	Poland	0.4
DPA Power Generation Int. Ltd	India	15.0
Eiksundsambandet AS	Norway	2.7
Environvent AG	Switzerland	50.0
Flughafen Friedrichshafen Gmbh	Germany	1.1
Hodd Nordvest AS	Norway	25.0
Hovden Klubbhus AS	Norway	67.0
Industrial Diesels Australia Pty Limited	Australia	25.0
John Hastie Of Greenock (Holdings) Limited	United Kingdom	100.0
Kamewa AB	Sweden	100.0
Kamewa Do Brazil Equipmentos Maritmos Limitada	Brazil	99.5
Kamewa Holding AB	Sweden	100.0
Kamewa Uk Limited	United Kingdom	100.0
Karl Maybach Hilfe Gmbh	Germany	50.0
L'Orange Fuel Injection (Ningbo) Co. Ltd	China	50.0
L'Orange Fuel Injection Trading (Suzhou) Co. Ltd	China	50.0
L'Orange Gmbh	Germany	50.0
L'Orange Unterstutzungskasse Gmbh	Germany	50.0
Michell Bearings (India) Private Limited	India	51.0
Michell Bearings Limited	United Kingdom	100.0
MTU America Inc	United States	50.0
MTU Anlagenvermietung Gmbh	Germany	50.0
MTU Asia Pte. Ltd	Singapore	50.0
MTU Australia Proprietary Limited	Australia	50.0
MTU Benelux B.V.	Netherlands	50.0
MTU China Company Limited	China	50.0
MTU Detroit Diesel Australia Pty Ltd	Australia	25.0
MTU Do Brasil Limitada	Brazil	50.0
MTU Engineering (Suzhou) Company Limited	China	50.0
MTU France SAS	France	50.0
MTU Friedrichshafen Gmbh	Germany	50.0
MTU Hong Kong Ltd	Hong Kong	50.0
MTU Iberica Propulsion Y Energia S.L.	Spain	50.0
MTU India Private Limited	India	50.0
MTU Israel Ltd	Israel	50.0
MTU Italia Srl	Italy	50.0
MTU Japan Co Limited	Japan	50.0
MTU Korea Limited	Korea, Republic of	50.0
MTU Middle East FZE	UAE	50.0
MTU Motor Turbin Sanayi Ve Tic. A.S	Turkey	50.0
MTU Onsite Energy Corporation	United States	50.0
MTU Onsite Energy GmbH	Germany	50.0

MTU Onsite Energy Systems GmbH	Germany	37.6
MTU Polska Sp. Zoo	Poland	50.0
MTU Reman Technologies GmbH	Germany	50.0
MTU Rus Limited Liability Company	Russian Federation	50.0
MTU South Africa (Pty) Ltd	South Africa	50.0
MTU Transmashholding Diesel Technologies Llc	Russian Federation	25.0
MTU Uk Limited	United Kingdom	50.0
Navis Consult D.O.O	Croatia	75.0
Nordvest Forum AS	Norway	4.3
ODIM DO Brazil	Brazil	50.0
Offshore Simulator Centre AS	Norway	25.0
Oxygenaire Limited	United Kingdom	100.0
Powerfield Limited	United Kingdom	100.0
Powerfield Specialist Engines Limited	United Kingdom	100.0
Prokura Diesel Services (Pty) Ltd	South Africa	50.0
PT MTU Indonesia	Indonesia	50.0
Rallyswift Limited	United Kingdom	100.0
Rolls-Royce AB	Sweden	100.0
Rolls-Royce Commercial (Beijing) Co Limited	China	100.0
Rolls-Royce Italia Srl	Italy	100.0
Rolls-Royce Japan Co Limited	Japan	100.0
Rolls-Royce Marine A/S (Denmark)	Denmark	100.0
Rolls-Royce Marine AS	Norway	100.0
Rolls-Royce Marine Asia Limited	Hong Kong	100.0
Rolls-Royce Marine Australia Pty Limited	Australia	100.0
Rolls-Royce Marine Benelux BV	Netherlands	100.0
Rolls-Royce Marine Deutschland GmbH	Germany	100.0
Rolls-Royce Marine Espana S.A.	Spain	100.0
Rolls-Royce Marine France Sarl	France	100.0
Rolls-Royce Marine Hellas S.A.	Greece	100.0
Rolls-Royce Marine Hong Kong Limited	Hong Kong	100.0
Rolls-Royce Marine India Private Limited	India	16.7
Rolls-Royce Marine Korea Limited	Korea, Republic of	100.0
Rolls-Royce Marine Manufacturing (Shanghai) Ltd	China	100.0
Rolls-Royce Oy AB	Finland	100.0
Rolls-Royce Poland Sp Zoo	Poland	100.0
Rolls-Royce Power Systems AG	Germany	50.0
Rolls-Royce Power Systems Holding Gmbh	Germany	50.0
Rolls-Royce Vietnam Limited	Vietnam	100.0
Ross Ceramics Limited	United Kingdom	100.0
Runde Miljobygg AS	Norway	15.2
Scandinavian Electric Systems DO Brazil Limitada	Brazil	66.0
Scandinavian Electric Gdansk Sp. Z.O.O.	Poland	67.0
Shanxi North MTU Diesel Co. Ltd	China	24.5
Smartgenerator AS	Norway	100.0
Smartmotor AS	Norway	100.0
Stadt Towing Tank AS	Norway	16.7
Stone Vickers Limited	United Kingdom	100.0
Sakorinvest Midt-Norge AS	Norway	6.0
Solnor Guard Golfbane	Norway	1.8
Sunnmøre Golf AS	Norway	11.9
Tognum Transmashholding B.V.	Netherlands	25.0
Trigno Energy S.R.L.	Italy	100.0
Ulstein (U.K.) Limited	United Kingdom	100.0
Ulstein Holding AS	Norway	100.0
Ulstein Maritime Limited	Canada	100.0
Ulstein Trading Limited AS	Norway	100.0
VA Limited	United Kingdom	100.0
Vickers Pension Trustees Limited	United Kingdom	100.0
Vickers Pressings Limited	United Kingdom	100.0
Viking Reisebyra AS	Norway	50.0

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Vinters Defence Systems Limited	United Kingdom	100.0
Vinters International Limited	United Kingdom	100.0
Vinters Risk & Insurance Services Limited	United Kingdom	100.0
Vinters-Armstrongs (Engineers) Limited	United Kingdom	100.0
W.H. Howson Limited	United Kingdom	100.0
Wirtschaftsforderung Bodenseekreis Gmbh	Germany	0.8

These subsidiary undertakings represent both direct and indirectly held investments.

On 1 January 2013, a subsidiary of the company, Vinters International limited, exercised its control rights over RRPSH as defined under the Shareholder Agreement with Daimler AG. RRPSH and its group became a subsidiary with a 50% non-controlling interest as part of the Rolls-Royce group's consolidated accounts.

Rolls-Royce Holdings plc and Daimler announced on 16 April 2014 that they have agreed the valuation of Daimler's 50% equity interest in the joint venture Rolls-Royce Power System Holding GmbH. Both parties have determined the fair market value of Daimler's shares at EUR 2.43 billion. The transaction completed during August 2014.

10. Stocks

	2013	2012
	£000	£000
Raw materials and consumables	**500**	2,800
Work in progress	**200**	400
	700	3,200

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

11. Debtors

	2013	2012
	£000	£000
Trade debtors	**1,200**	3,200
Bad debt provision	**(700)**	-
Amounts owed by group undertakings	**1,100**	400
Amounts owed by undertakings in which the company has a participating interest	**1,700**	1,300
Other debtors	**-**	300
	3,300	5,200

12. Creditors: Amounts falling due within one year

	2013 £000	2012 £000
Bank loans and overdrafts	**2,500**	600
Trade creditors	**500**	900
Amounts owed to group undertakings	**119,900**	120,100
Other taxation and social security	**-**	200
Other creditors	**-**	2,000
Accruals and deferred income	**3,000**	1,300
	125,900	125,100

13. Provisions for liabilities and charges

	Retained liabilities from disposed companies £000	Warranties and guarantees £000	Total £000
At 1 January 2013	**26,900**	**700**	**27,600**
Charged to profit and loss account	**1,000**	**-**	**1,000**
Utilised	**-**	**(500)**	**(500)**
At 31 December 2013	**27,900**	**200**	**28,100**

Retained liabilities from disposed companies

Other provisions comprise numerous liabilities with varying expected utilisation rates.

Warranties and guarantees

Warranty and guarantee provisions primarily relate to products sold and generally cover a period of up to three years.

14. Pensions

The Company is a participating employer of the Vickers Group Pension Scheme, the Rolls-Royce Pension Fund and the 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 independently of the finances of the Group. The schemes are funded by annual contributions from the company and scheme members.

The employer is unable to identify the share of the underlying assets and liabilities of the schemes and in accordance with FRS17 Retirement Benefits, has accounted for contributions as if the schemes were defined contribution schemes.

On this basis, the amount of employer contributions for 2013 was £0.4m (2012: £0.4m).

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

Notes to the financial statements
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15. Share capital

	2013 £000	2012 £000
Allotted, called up and fully paid		
343,297,724 ordinary shares of £0.50 each	**171,600**	171,600

16. Reserves

	Share premium account £000	Revaluat'n reserve £000	Other reserves £000	Profit and loss account £000
At 1 January 2013	65,100	2,100	8,400	6,000
Loss for the financial year	-	-	-	(3,500)
Share based payments	-	-	-	100
At 31 December 2013	65,100	2,100	8,400	2,600

17. Reconciliation of movements in shareholders' funds

	2013 £000	2012 £000
Opening shareholders' funds	**253,200**	333,400
Loss for the financial year	**(3,500)**	(300)
Dividends	**-**	(80,000)
Share based payments	**100**	100
Closing shareholders' funds	**249,800**	253,200

18. Financial commitments

At 31 December 2013 the company had annual commitments under non-cancellable operating leases as follows:

	Land and buildings 2013 £000	Land and buildings 2012 £000
Expiry date:		
Between 2 and 5 years	**100**	100
After more than 5 years	**100**	100
Total	**200**	200

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.

On 6 December 2012, Rolls-Royce Holdings plc (RRH) announced that it had passed information to the SFO relating to concerns in overseas markets. Since that date RRH has continued its investigations and is engaging with the SFO and other authorities in the UK, the USA and elsewhere.

In December 2013, RRH announced that it had been informed by the SFO that it had commenced a formal investigation. The consequence of these disclosures will be decided by the regulatory authorities. It remains too early to predict the outcomes, but these could include the prosecution of individuals and of the Group. Accordingly, the potential for fines, penalties or other consequences (including debarment from government contracts, suspension of export privileges and reputational damage) cannot currently be assessed. As the investigation is ongoing, it is not yet possible to identify the timescale in which these issues might be resolved.

20. Post balance sheet events

Rolls-Royce plc and Daimler announced on 16 April 2014 that they have agreed the valuation of Daimler's 50% equity interest in the joint venture Rolls-Royce Power System Holding GmbH. Both parties have determined the fair market value of Daimler's shares at EUR 2.43 billion. The transaction completed August 2014. In 2014, the company entered into a €2 billion cash flow hedge to limit the impact of foreign exchange on the acquisition of Daimler's interest in Rolls-Royce Power Systems Holding GmbH.

21. Controlling party

The Company is a subsidiary undertaking of Vinters Limited, incorporated in Great Britain.

The largest group in which the results of the Company are consolidated is that headed by Rolls-Royce Holdings 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.