

Consolidated statement of changes in equity

For the year ended December 31, 2011

| | Notes | Attributable to ordinary shareholders | | | | | | Total £m | Non- controlling interests £m | Total equity £m |
|--|-------|---------------------------------------|------------------------|--|--|--------------------------------------|---|--------------|--|-----------------------|
| | | Share capital £m | Share premium £m | Capital redemption reserve £m | Cash flow hedging reserve ¹ £m | Other reserves ² £m | Retained earnings ³ £m | | | |
| At January 1, 2010 | | 371 | 98 | 191 | (19) | 506 | 2,635 | 3,782 | – | 3,782 |
| Total comprehensive income for the year | | – | – | – | (18) | 21 | 477 | 480 | 4 | 484 |
| Arising on issues of ordinary shares | 20 | 3 | 64 | – | – | – | – | 67 | – | 67 |
| Issues of C Shares | 17 | – | (29) | (249) | – | – | 1 | (277) | – | (277) |
| Redemptions of C Shares | 17 | – | – | 267 | – | – | (267) | – | – | – |
| Ordinary shares purchased | | – | – | – | – | – | (124) | (124) | – | (124) |
| Share-based payments – direct to equity ⁴ | | – | – | – | – | – | 42 | 42 | – | 42 |
| Related tax movements | 4 | – | – | – | – | – | 5 | 5 | – | 5 |
| Other changes in equity in the year | | 3 | 35 | 18 | – | – | (343) | (287) | – | (287) |
| At January 1, 2011 | | 374 | 133 | 209 | (37) | 527 | 2,769 | 3,975 | 4 | 3,979 |
| Total comprehensive income for the year | | – | – | – | (15) | (94) | 917 | 808 | (3) | 805 |
| Arising on issues of ordinary shares | | – | 1 | – | – | – | – | 1 | – | 1 |
| Issues of C Shares | 17 | – | (120) | – | – | – | (176) | (296) | – | (296) |
| Redemptions of C Shares | 17 | – | – | 317 | – | – | (317) | – | – | – |
| Ordinary shares purchased | | – | – | – | – | – | (57) | (57) | – | (57) |
| Share-based payments – direct to equity ⁴ | | – | – | – | – | – | 77 | 77 | – | 77 |
| Effect of scheme of arrangement ⁵ | | 2,434 | (14) | (353) | – | – | (2,069) | (2) | – | (2) |
| Effect of capital reduction ⁵ | | (2,434) | – | – | – | – | 2,434 | – | – | – |
| Related tax movements | 4 | – | – | – | – | – | 12 | 12 | – | 12 |
| Other changes in equity in the year | | – | (133) | (36) | – | – | (96) | (265) | – | (265) |
| At December 31, 2011 | | 374 | – | 173 | (52) | 433 | 3,590 | 4,518 | 1 | 4,519 |

¹ See accounting policies note 1.

² Other reserves include a merger reserve of £3m (2010 £3m, 2009 £3m) and a translation reserve of £430m (2010 £524m, 2009 £503m).

³ At December 31, 2011, 22,541,187 ordinary shares with a net book value of £116m (2010 28,320,962, 2009 7,156,497 ordinary shares with net book values of £125m and £25m respectively) were held for the purpose of share-based payment plans and included in retained earnings. During the year, 14,822,563 ordinary shares with a net book value of £66m (2010 6,586,568 shares with a net book value of £24m) vested in share-based payment plans. During the year the Company acquired 9,042,788 of its ordinary shares through purchases on the London Stock Exchange.

⁴ Share-based payments – direct to equity is the net of the credit to equity in respect of the share-based payment charge to the income statement and the actual cost of shares vesting, excluding those vesting from own shares.

⁵ On May 23, 2011, under a scheme of arrangement between Rolls-Royce Group plc, the former holding company of the Group, and its shareholders under Part 26 of the Companies Act 2006, and as sanctioned by the High Court, all the issued ordinary shares in that company were cancelled and the same number of new ordinary shares were issued to Rolls-Royce Holdings plc in consideration for the allotment to shareholders of one ordinary share in Rolls-Royce Holdings plc for each ordinary share in Rolls-Royce Group plc held on the record date (May 20, 2011). Pursuant to the scheme of arrangement, 1,872,188,709 ordinary shares of 150 pence were issued. As required by Section 612 of the Companies Act 2006, no share premium was recognised.

On May 24, 2011, the share capital of Rolls-Royce Holdings plc was reduced by reducing the nominal value of the ordinary shares from 150 pence to 20 pence as sanctioned by the High Court.