

# Notes to the Company financial statements

## 1 Accounting policies

### Basis of accounting

The financial statements have been prepared in accordance with applicable UK Accounting Standards on the historical cost basis.

As permitted by Section 408 of the Companies Act 2006, a separate profit and loss account for the Company has not been included in these financial statements. As permitted by the audit fee disclosure regulations, disclosure of non-audit fees information is not included in respect of the Company. As permitted by FRS 1 *Cash flow statements*, no cash flow statement for the Company has been included. As permitted by FRS 8 *Related party disclosures*, no related party disclosures in respect of transactions between the Company and its wholly owned subsidiaries have been included.

### Investments in subsidiary undertakings

Investments in subsidiary undertakings are reported at cost less any amounts written off.

### Share-based payments

As described in the Directors' remuneration report on pages 55 to 65, the Company grants awards of its own shares to employees of its subsidiary undertakings, (see note 21 of the consolidated financial statements). The costs of share-based payments in respect of these awards are accounted for, by the Company, as an additional investment in its subsidiary undertakings. The costs are determined in accordance with FRS 20 *Share-based payment*. Any payments made by the subsidiary undertakings in respect of these arrangements are treated as a return of this investment.

### Financial instruments

In accordance with FRS 25 *Financial instruments: Presentation*, the Company's C Shares are classified as financial liabilities and held at amortised cost from the date of issue until redeemed.

### Taxation

Provision for taxation is made at the current rate and, in accordance with FRS 19 *Deferred tax*, for deferred taxation at the projected rate on timing differences that have originated, but not reversed at the balance sheet date.

## 2 Investments – subsidiary undertakings

	£m
<b>Cost:</b>	
On formation	–
As a result of scheme of arrangement	11,888
Additions	2
Cost of share-based payments in respect of employees of subsidiary undertakings less receipts from subsidiaries in respect of those payments	31
<b>At December 31, 2011</b>	<b>11,921</b>

## 3 Financial liabilities

### C Shares

Movements in C Shares during the year were as follows:

	C Shares of 0.1p Millions	Nominal value £m
<b>Issued and fully paid</b>		
On formation	–	–
Shares issued	179,730	180
Shares redeemed	(173,359)	(173)
<b>At December 31, 2011</b>	<b>6,371</b>	<b>6</b>

The rights attaching to C Shares are set out on page 66.

## 4 Share capital

	Non-equity			Equity	
	Special Share of £1	Preference shares of £1 each	Nominal value £m	Ordinary shares of 20p each Millions	Nominal value £m
<b>Issued and fully paid</b>					
On formation	–	50,000	–	–	–
Issued as a result of the scheme of arrangement (ordinary shares of 150p each)	1	–	–	1,872	2,808
Capital reduction to 20p each	–	–	–	–	(2,434)
Redemption of preference shares	–	(50,000)	–	–	–
<b>At December 31, 2011</b>	<b>1</b>	<b>–</b>	<b>–</b>	<b>1,872</b>	<b>374</b>

The rights attaching to each class of share are set out on page 66.

In accordance with FRS 25 *Financial instruments: Presentation*, the Company's non-cumulative redeemable preference shares (C Shares) are classified as financial liabilities. Accordingly, movements in C Shares are included in note 3.

## 5 Movements in capital and reserves

	Non-distributable reserves					Profit and loss account £m	Total £m
	Share capital £m	Merger reserve £m	Capital redemption reserve £m	Other reserve <sup>1</sup> £m	Own shares reserve £m		
On formation	–	–	–	–	–	–	–
Scheme of arrangement <sup>2</sup>	2,808	9,077	–	–	–	–	11,885
Capital reduction <sup>2</sup>	(2,434)	–	–	–	–	2,434	–
Issue of C Shares	–	(180)	–	–	–	–	(180)
Redemption of C Shares	–	–	173	–	–	(173)	–
Ordinary shares purchased	–	–	–	–	(1)	–	(1)
Ordinary shares vesting in share-based payment plans	–	–	–	–	1	(1)	–
Share-based payments – direct to equity	–	–	–	31	–	5	36
<b>At December 31, 2011</b>	<b>374</b>	<b>8,897</b>	<b>173</b>	<b>31</b>	<b>–</b>	<b>2,265</b>	<b>11,740</b>

<sup>1</sup> The 'Other reserve' represents the value of share-based payments in respect of employees of subsidiary undertakings for which payment has not been received.

<sup>2</sup> 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.

## 6 Contingent liabilities

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the Company considers these to be insurance arrangements, and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

At December 31, 2011 these guarantees amounted to **£1,101m**.

## 7 Other information

### Emoluments of directors

The remuneration of the directors of the Company is shown in the Directors' remuneration report on pages 55 to 65.

### Employees

The Company had no employees in 2011.

### Share-based payments

Shares in the Company have been granted to employees of the Group as part of share-based payment plans, and are charged in the employing company.