SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES

At 31 December 2013

Subsidiaries incorporated within the UK – directly held

Rolls-Royce Group plc	Holding company

Subsidiaries incorporated within the UK – indirectly held

Composite Technology and Applications Limited	Development of aero engine fan blades and fan cases
MTU UK Limited	Sales and service of off-highway diesel engines (50%)
Optimized Systems and Solutions Limited	Equipment health management and advanced data management services
Rolls-Royce Controls and Data Services Limited	Development and manufacture of aero engine controls
Rolls-Royce International Limited	International support and commercial information services
Rolls-Royce Leasing Limited	Engine leasing
Rolls-Royce Marine Electrical Systems Limited	Marine electrical systems
Rolls-Royce Marine Power Operations Limited	Nuclear submarine propulsion systems
Rolls-Royce plc	Principal trading company
Rolls-Royce Power Development Limited	Generation of electricity from independent power projects
Rolls-Royce Power Engineering plc	Energy and marine systems
Rolls-Royce Total Care Services Limited	Aero engine aftermarket support services
Vinters Engineering Limited	Production, repair and overhaul of power generation, transmission and conversion equipment for military and commercial activities

The above companies operate principally in the UK and the effective Group interest is 100 per cent unless otherwise stated.

Subsidiaries incorporated overseas – indirectly held

Brazil	Rolls-Royce Brasil Limitada	Industrial gas turbines and aero engine repair and overhaul, energy and marine aftermarket support services
Canada	Rolls-Royce Canada Limited	Industrial gas turbines and aero engine sales, service and overhaul
China	MTU Engineering (Suzhou) Company Limited	Service centre and spare parts (50%)
China	Rolls-Royce Marine Manufacturing (Shanghai) Limited	Manufacture and supply of marine equipment and marine aftermarket support services
Finland	Rolls-Royce OY AB	Manufacture of marine winches and propeller systems
France	Rolls-Royce Civil Nuclear SAS	Instrumentation and control systems and life-cycle management for nuclear power plants
France	Rolls-Royce Technical Support SARL	Aero engine project support
Germany	L'Orange GmbH	Development and production of high-pressure injection systems for diesel engines (50%)
Germany	MTU Friedrichshafen GmbH	Development, production and distribution of gas turbines and engines (50%)
Germany	MTU Onsite Energy GmbH	Sales and service of gas engines (50%)
Germany	Rolls-Royce Deutschland Ltd & Co KG	Aero engine design, development and manufacture
Germany	Rolls-Royce Power Systems AG	Supplier of engines and power trains for marine propulsion, distributed power generation and industrial off-highway sectors (50%)
Guernsey	Nightingale Insurance Limited	Insurance services
Hong Kong	MTU Hong Kong Limited	Distributor for off-highway products and after-sales service (50%)
India	Rolls-Royce India Private Limited	Diesel engine project management and customer support
India	Rolls-Royce Marine India Private Limited	Provision of marine support services
India	Rolls-Royce Operations (India) Private Limited	Engineering support services
Italy	Europea Microfusioni Aerospaziali S.p.A.	Manufacture of gas turbine engine castings
Italy	MTU Italia S.r.l	Distributor for all off-highway applications and after-sales service (50%)
Netherlands	MTU Benelux B.V.	Sales and after-sales support for diesel engines (50%)
Norway	Rolls-Royce Marine AS	Design and manufacture of ship equipment
Norway	Bergen Engines AS	Design and manufacture of medium-speed diesel engines (50%)
Singapore	Rolls-Royce Singapore Pte. Limited	Aero engine parts manufacturing and engine assembly, energy and marine aftermarket support services
Singapore	Tognum Asia Pte. Limited	Distributor of diesel engines and spare parts (50%)
Spain	MTU Ibérica Propulsión y Energía S.L.	Sales and service of transmission equipment with diesel and gas engines (50%)
Sweden	Rolls-Royce AB	Manufacture of marine propeller systems
Turkey	MTU Motor Türbin Sanayi ve Tic. A.S.	Production of diesel engines and manufacturer of control systems (50%)

SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES

Subsidiaries incorporated overseas – indirectly held (continued)

US	Data Systems & Solutions LLC	Instrumentation and control systems and life-cycle management for nuclear power plants
US	Optimized Systems and Solutions Inc.	Equipment health management and advanced data management services
US	PKMJ Technical Services, Inc.	Nuclear engineering services and software solutions
US	R. Brooks Associates Inc.	Specialist civil nuclear reactor services
US	Rolls-Royce Corporation	Design, development and manufacture of gas turbine engines
US	Rolls-Royce Crosspointe LLC	Manufacturing facility for aero engine parts
US	Rolls-Royce Energy Systems Inc.	Energy turbine generator packages
US	Rolls-Royce Engine Services – Oakland Inc.	Aero engine repair and overhaul
US	Rolls-Royce Defense Services Inc.	Aero engine repair and overhaul
US	Rolls-Royce High Temperature Composites Inc.	Production of state-of-the-art composite materials
US	Rolls-Royce Marine North America Inc.	Design and manufacture of marine equipment and marine aftermarket support services
US	MTU America Inc.	Sales and service of engines and systems (50%)

The companies above and on page 127 operate principally in the country of their incorporation and the effective Group interest is 100 per cent unless otherwise stated.

Jointly controlled entities and associates incorporated within the UK – indirectly held

	Class	% of class held	% of equity held
Airtanker Holdings Limited Strategic tanker aircraft PFI project	Ordinary	20	20
Airtanker Services Limited Provision of aftermarket services for strategic tanker aircraft	Ordinary	22	22
Alpha Partners Leasing Limited Aero engine leasing	A Ordinary B Ordinary	100 –	50
Genistics Holdings Limited Trailer-mounted field mobile generator sets	A Ordinary B Ordinary	100 –	50
Rolls-Royce Snecma Limited (UK & France) Aero engine collaboration	A Shares B Shares	– 100	50
Rolls Wood Group (Repair and Overhauls) Limited Industrial gas turbine repair and overhaul	A Ordinary B Ordinary	100 –	50
TRT Limited Aero engine turbine blade repair services	A Ordinary B Ordinary	– 100	49.5
Turbine Surface Technologies Limited Aero engine turbine surface coatings	A Ordinary B Ordinary	– 100	50
Turbo-Union Limited (UK, Germany and Italy) RB199 engine collaboration	Ordinary A Shares	40 37.5	40

The above companies are incorporated and operate in the UK unless otherwise stated.

Jointly controlled entities and associates incorporated overseas – indirectly held

		Class	% of class held	% of equity held
Australia	MTU Detroit Diesel Australia Pty. Limited (effective interest 25%) Sales and servicing of diesel engines	Ordinary	50	50
China	Xian XR Aero Components Co Limited Manufacturing facility for aero engine parts	Ordinary	49	49
China	Shanxi North MTU Diesel Co. Ltd (effective interest 24.5%) Manufacture and sale of MTU engines	Ordinary	49	49
Germany	EPI Europrop International GmbH (effective interest 35.5%) A400M engine collaboration	Ordinary	28	28
Germany	EUROJET Turbo GmbH (UK, Germany, Italy & Spain) (effective interest 39%) EJ200 engine collaboration	Ordinary	33	33
Germany	MTU, Turbomeca, Rolls-Royce GmbH (UK, France & Germany) MTR390 engine collaboration	Ordinary	33.3	33.3
Germany	MTU Onsite Energy Systems GmbH (effective interest 37.5%) Manufacturing and distribution of diesel-powered generating sets	Ordinary	75.1	75.1
Germany	N3 Engine Overhaul Services GmbH & Co KG Aero engine repair and overhaul	Ordinary	50	50
Hong Kong	Hong Kong Aero Engine Services Limited Aero engine repair and overhaul	Ordinary	45	45
India	International Aerospace Manufacturing Private Limited Manufacture of compressor shrouds, compressor rings, turbine blades and nozzle guide vanes	Ordinary	50	50
Israel	Techjet Aerofoils Limited Manufacture of compressor aerofoils for gas turbines	A Ordinary B Ordinary	50 50	50
Malaysia	Advanced Gas Turbine Solutions Sdn Bhd Industrial gas turbine aftermarket services	Ordinary	49	49
Singapore	International Engine Component Overhaul Pte Limited Aero engine repair and overhaul	Ordinary	50	50
Singapore	Singapore Aero Engine Services Private Limited (effective interest 39%) Aero engine repair and overhaul	Ordinary	30	30
Spain	Industria de Turbo Propulsores SA Aero engine component manufacture and maintenance	Ordinary	46.9	46.9
US	Alpha Leasing (US) LLC, Alpha Leasing (US) (No.2) LLC, Alpha Leasing (US) (No.4) LLC, Alpha Leasing (US) (No.5) LLC, Alpha Leasing (US) (No.6) LLC, Alpha Leasing (US) (No.7) LLC, Alpha Leasing (US) (No.8) LLC, Rolls-Royce & Partners Finance (US) LLC, Rolls-Royce & Partners Finance (US) (No.2) LLC Aero engine leasing	Partnerships	50	–
US	Exostar LLC Business to business internet exchange	Partnership	18.5	–
US	LG Fuel Cell Systems Inc. Development of fuel cells	Common Stock	39.9	39.9
US	Texas Aero Engine Services, LLC Aero engine repair and overhaul	Partnership	50	–

Unincorporated overseas – indirectly held

US	Light Helicopter Turbine Engine Company (LHTEC) Rolls-Royce Corporation has a 50% interest in this unincorporated partnership which was formed to develop and market jointly the T800 engine

The above companies operate principally in the country of their incorporation. The countries of principal operations are stated in brackets after the name of the company, if not the country of their incorporation.

In accordance with section 410 of the Companies Act 2006, the subsidiaries, jointly controlled entities and associates listed on pages 127 to 129 is of those whose results or financial position, in the opinion of the directors, principally affect the financial statements. A list of all related undertakings will be included in the Company's annual return to Companies House.

INDEPENDENT AUDITOR'S REPORT

to the members of Rolls-Royce Holdings plc only

Opinions and conclusions arising from our audit

1 Our opinion on the financial statements is unmodified

We have audited the financial statements of Rolls-Royce Holdings plc for the year ended 31 December 2013 set out on pages 75 to 129. In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2013 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (Adopted IFRS);
- the parent company financial statements have been properly prepared in accordance with UK Accounting Standards; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

2 Our assessment of risks

In arriving at our opinions set out in this report, the risks that had the greatest effect on our audit and the key procedures we applied to address them are set out below. Those procedures were designed in the context of the financial statements as a whole and, consequently, where we set out findings we do not express any opinion on these individual risks.

The basis of accounting for revenue and profit in the Civil aerospace business

Refer to page 81 (Key areas of judgement – Long-term aftermarket contracts), page 83 (Significant accounting policies – Revenue recognition) and page 44 (Audit committee report – Financial reporting)

- The risk The amount of revenue and profit recognised in a year on the sale of engines and aftermarket services is dependent, inter alia, on the appropriate assessment of whether or not each long-term aftermarket contract for services is linked to or separate from the contract for sale of the related engines. As the commercial arrangements can be complex, significant judgement is applied in selecting the accounting basis in each case. The most significant risk is that the Group might inappropriately account for sales of engines and long term service agreements as a single arrangement for accounting purposes as this would usually lead to revenue and profit being recognised too early because the margin in the long term service agreement is usually higher than the margin in the engine sale agreement.

- Our response We made our own independent assessment, with reference to the relevant accounting standards, of the accounting basis that should be applied to each long-term aftermarket contract entered into during the year and compared this to the accounting basis applied by the Group.

- Our findings We found that the Group has developed a framework for selecting the accounting basis to be used which is consistent with accounting standards and has applied this consistently. For almost all the agreements entered into during this year, it was clear which accounting basis should apply. Where there was room for interpretation, we found the Group's judgement to have been balanced.

The measurement of revenue and profit in the Civil aerospace business

Refer to page 81 (Key areas of judgement – Long-term aftermarket contracts), page 83 (Significant accounting policies – Revenue recognition) and page 44 (Audit committee report – Financial reporting)

- The risk The amount of revenue and profit recognised in a year on the sale of engines and aftermarket services is dependent, inter alia, on the assessment of the percentage of completion of long-term aftermarket contracts and the forecast cost profile of each arrangement. As long-term aftermarket contracts can extend over significant periods and the profitability of these arrangements typically assumes significant life-cycle cost improvement over the term of the contracts, the estimated outturn requires significant judgement to be applied in assessing engine flying hours, time on wing and other operating parameters, the pattern of future maintenance activity and the costs to be incurred. The inherent nature of these estimates means that their continual refinement can have an impact on the profits of the Civil aerospace business that can be significant in an individual financial year. The assessment of the estimated outturn for each arrangement involves detailed calculations using large and complex databases with a significant level of manual intervention.

- Our response We tested the controls designed and applied by the Group to provide assurance that the estimates used in assessing revenue and cost profiles are appropriate and that the resulting estimated cumulative profit on such contracts is accurately reflected in the financial statements; these controls operated over both the inputs and the outputs of the calculations. We challenged the appropriateness of these estimates for each programme and assessed whether or not the estimates showed any evidence of management bias. Our challenge was based on our assessment of the historical accuracy of the Group's estimates in previous periods, identification and analysis of changes in assumptions from prior periods and an assessment of the consistency of assumptions across programmes, detailed discussions and assessments of the achievability of the Group's plans to reduce life-cycle costs and an analysis of the impact of these plans on forecast cost profiles taking account of contingencies and analysis of the impact of known technical issues on cost forecasts. Our analysis considered each significant airframe that is powered by the Group's engines and was based on our own experience supplemented by discussions with an aircraft valuation specialist engaged by the Group. We assessed whether the valuer was objective and suitably qualified. We also checked the mathematical accuracy of the revenue and profit for each arrangement and considered the implications of identified errors and changes in estimates.

- Our findings Our testing identified weaknesses in the design and operation of controls. In response to this we assessed the effectiveness of the Group's plans for addressing these weaknesses and we increased the scope and depth of our detailed testing and analysis from that originally planned. We found no significant errors in calculation. Overall, our assessment is that the assumptions and resulting estimates (including appropriate contingencies) resulted in mildly cautious profit recognition.

Recoverability of intangible assets (certification costs and participation fees, development expenditure and recoverable engine costs) and amounts recoverable on contracts primarily in the Civil aerospace business

Refer to page 82 (Key sources of estimation uncertainty – Forecasts and discount rates), pages 86 and 87 (Significant accounting policies – Certification costs and participation fees, Research and development, Recoverable engine costs and Impairment of non-current assets), page 99 (Note 9 to the financial statements – Intangible assets) and page 44 (Audit committee report – Financial reporting)

- The risk The recovery of these assets depends on a combination of achieving sufficiently profitable business in the future as well as the ability of customers to pay amounts due under contracts often over a long period of time. Assets relating to a particular engine programme are more prone to the risk of impairment in the early years of a programme as the engine's market position is established. In addition, the pricing of business with launch customers makes assets relating to these engines more prone to the risk of impairment.
- Our response We tested the controls designed and applied by the Group to provide assurance that the assumptions are regularly updated, that changes are monitored, scrutinised and approved by appropriate personnel and that the final assumptions used in impairment testing have been appropriately approved. We challenged the appropriateness of the key assumptions in the impairment test (including market size, market share, pricing, engine and aftermarket unit costs, individual programme assumptions, price and cost escalation, discount rate and exchange rates) focusing particularly on those assets with a higher risk of impairment (those relating to the Trent 900 programme and launch customers on the Trent 900 and 1000 programmes). Our challenge was based on our assessment of the historical accuracy of the Group's estimates in previous periods, our understanding of the commercial prospects of key engine programmes, identification and analysis of changes in assumptions from prior periods and an assessment of the consistency of assumptions across programmes and customers and comparison of assumptions with publicly available data where this was available. We considered the appropriateness of the related disclosures in note 9 to the financial statements.
- Our findings Our testing did not identify any deviation in the operation of controls which would have required us to amend the nature or scope of our planned detailed test work. We found that the assumptions and resulting estimates were balanced and that the disclosures in note 9 appropriately describe the inherent degree of subjectivity in the estimates and the potential impact on future periods of revisions to these estimates. We found no errors in calculations.

Accounting for the consolidation of Rolls-Royce Power Systems Holding GmbH and valuation of Daimler AG's put option

Refer to page 81 (Key areas of judgement – Rolls-Royce Power Systems Holding GmbH), page 82 (Key sources of estimation uncertainty – Intangible assets arising on consolidation of Rolls-Royce Power Systems AG and put option on Rolls-Royce Power Systems Holding GmbH), page 83 (Accounting policies – Basis of consolidation) and page 44 (Audit committee report – Financial reporting)

Control of Rolls-Royce Power Systems Holding GmbH

- The risk Rolls-Royce Power Systems Holding GmbH (a special purpose vehicle owned equally by the Group and Daimler AG (RRPSH)) acquired a controlling interest in Rolls-Royce Power Systems AG (RRPS) on 25 August 2011. From that date, the Group equity accounted for its joint venture interest in RRPSH as control was shared with Daimler AG. On 1 January 2013, conditions were fulfilled which the Group considered gave it control over RRPSH and from that date the Group's 50 per cent interest has been classified as a subsidiary and RRPSH has been consolidated in the Group financial statements. Assessing whether or not the Group controls RRPSH is a critical accounting judgement. The rights of the Group and Daimler AG are encapsulated in shareholder agreements and assessing whether the Group's rights are sufficient to give it control over RRPSH requires detailed consideration of the relevant provisions and a commercial assessment as to which rights are most important.
- Our response We analysed the shareholder agreements with particular reference to rights relating to key matters including the existence of a casting vote in respect of key matters described on page 81 at the shareholders meeting and Shareholders' Committee of RRPSH.
- Our findings We found that the terms of the agreements provide the Group with the power to establish key operating and capital decisions of RRPSH and to appoint, remove and set the remuneration of key management personnel. The agreements also provide Daimler AG with rights (in particular over matters that would significantly change the scale, scope and financing of RRPSH's business, certain significant supplier relationships and changes to contractual arrangements between RRPSH with Rolls-Royce) which we have determined provide protection to Daimler AG over its interest in RRPSH but are not sufficient to prevent the Group from controlling RRPSH. On that basis, we consider that it is appropriate that RRPSH (and hence RRPS) has been consolidated from 1 January 2013.

INDEPENDENT AUDITOR'S REPORT

Consolidation of Rolls-Royce Power Systems Holding GmbH

- The risk Estimating the fair value of intangible assets of RRPS at the date of consolidation involved the use of complex valuation techniques and the estimation of future cash flows over a considerable period of time. To the extent that greater or lesser value is attributed to intangibles (which are subject to amortisation), lesser or greater value is attributed to goodwill (which is not).

- Our response We evaluated the basis upon which the Directors identified and assessed the fair value of each significant asset, liability and contingent liability of RRPS and its subsidiaries having regard to the relevant accounting standards. For the intangible assets, we assessed whether the measurement basis and assumptions underlying the estimate of the fair values were reasonable, taking account of our experience of similar assets in other comparable situations and of the work performed by a valuer engaged by the Group. We assessed whether the valuer was objective and suitably qualified, had been appropriately instructed and had been provided with complete, accurate data on which to base its evaluation. We also assessed whether or not the estimates showed any evidence of management bias with a focus on whether there was any indication of value being inappropriately attributed to goodwill rather than depreciable assets.

- Our findings We found that the intangible assets identified were typical for acquisitions of similar businesses and that the valuation bases used were in accordance with accounting standards. We have no concerns with the basis on which the valuer had been instructed by the Group and found that (i) the valuer was objective and competent, (ii) the estimates used in the valuations were balanced and did not result in either too much or too little goodwill being recognised and (iii) the valuations arrived at by the valuer had been adopted by the Group without adjustment.

Valuation of Daimler AG's put option

- The risk As part of the shareholder agreements, for a period of six years from 1 January 2013 Daimler AG has the option to require the Group to purchase its 50 per cent interest in RRPSH. The estimated amount of the purchase price of this option has been recognised as a financial liability on the Group balance sheet. The purchase price is based on averaging three valuations, which are based on both internal and external metrics, at the date the option is exercised. The external metrics include price/earnings ratios for comparable companies and those implicit in comparable transactions. There is judgement involved in choosing appropriate comparable companies and transactions and in predicting what these might be at a future date.

- Our response We analysed the shareholder agreements and tested the reasonableness of the estimate of the purchase price of the option, including assessing whether the Group's judgement as to which external metrics should be used was appropriate, and the accuracy of its calculation. We also assessed whether or not the estimates showed any evidence of management bias with a particular focus on the risk that the liability might be understated given its visibility.

- Our findings We found that the resulting estimate was acceptable but mildly optimistic resulting in a somewhat lower liability being recorded than might otherwise have been the case.

Liabilities arising from sales financing arrangements

Refer to page 82 (Key areas of judgement – financing support), page 88 (Significant accounting policies – Sales financing support, page 112 (Note 18 to the financial statements – Provisions for liabilities and charges) and page 44 (Audit committee report – Financial reporting)

- The risk The Group has contingent liabilities in respect of financing and asset value support provided to customers. This support typically takes the form of either a guarantee with respect to the value of an aircraft at a future date or a guarantee of a customer's future payments under an aircraft financing arrangement. Judgement is required to assess the likelihood of these liabilities crystallising, in order to assess whether a provision should be recognised and if so the amount of that provision. The total potential liability is significant and can be affected by the assessment of the residual value of the aircraft and the creditworthiness of the customers.

- Our response We analysed the terms of guarantees on aircraft delivered during the year in detail and obtained aircraft values from and held discussions with aircraft valuation specialists engaged by the Group. We assessed whether the valuer was objective and suitably qualified, had been appropriately instructed and had been provided with complete, accurate data on which to base its evaluation. For all contracts on delivered aircraft, we assessed the commercial factors relevant to the likelihood of the guarantees being called, including the credit ratings and recent financial performance of the relevant customers and their fleet plans, and critically assessed the Group's estimate of the required provisions for those liabilities. We considered movements in aircraft values and potential changes in the assessed probability of a liability crystallising since the previous year end and considered whether the evidence supported the Group's assessment as to whether or not a liability needs to be recognised and the amount of the liability recognised or contingent liability disclosed. We considered the appropriateness of the related disclosure in note 18 to the financial statements.

- Our findings We found that the assumptions and estimates were balanced and that note 18 appropriately discloses the potential liability in excess of the amount provided for in the financial statements for delivered aircraft and highlights the significant but unquantifiable contingent liability in respect of aircraft which will be delivered in the future.

Accounting for risk and revenue sharing arrangements
Refer to page 81 (Key areas of judgement – Risk and revenue sharing arrangements), page 84 (Significant accounting policies – Risk and revenue sharing arrangements), page 11 (Chief Financial Officer's review) and page 44 (Audit committee report – Financial reporting)

- The risk The Group receives non-refundable cash payments under risk and revenue sharing arrangements (which are referred to as entry fees). The assessment of when these entry fees should be recognised in the income statement involves analysis of their commercial substance in the context of the agreement as a whole. As there is no single accounting standard that directly addresses these types of agreements, management has to apply very significant judgement in deciding how to apply the various provisions of accounting standards that are relevant to different aspects of the agreements. These arrangements are complex and have features that could be indicative of: a collaboration agreement, including sharing of risk and cost in a development programme; a long-term supply agreement; sharing of intellectual property; or a combination of these.

- Our response We independently analysed the agreements under which significant entry fees have been received to establish the range of possible accounting treatments that could be adopted and to assess which of these would in our view most appropriately reflect the requirements of accounting standards. The most significant accounting standards considered were IAS 8 *Accounting policies, changes in accounting estimates and errors*, IAS 18 *Revenue*, IFRS 11 *Joint arrangements* in terms of the timing of recognition of the entry fees and IAS 1 *Presentation of financial statements* in respect of their presentation as an offset against the expenditure to which they relate. We also had regard to the definitions of assets, liabilities, income and expenses in the IFRS *Framework* and, to the extent they did not conflict with Adopted IFRS, to pronouncements of other standard-setting bodies that more explicitly address accounting for payments from suppliers and collaborative arrangements. We examined correspondence between the Group and the Financial Reporting Council and attended meetings between them. We sought to identify the accounting applied in similar circumstances by other companies including the Group's direct competitors and compare these to the approach adopted by the Group and the requirements of Adopted IFRS. We assessed whether the change to the accounting policy made in the year was appropriate and recalculated the resulting amounts in the financial statements. We considered the appropriateness of the related disclosures.

- Our findings Our analysis indicated that in substance, from the point of view of both the Group and the risk and revenue sharing workshare partners, the entry fees represent the reimbursement of expenditure incurred by the Group as part of an engine development programme and that this represented a significant transfer of development risk from the Group to the partners that should be reflected in the income statement at the time the reimbursed expenditure is recognised. On that basis, we found that the revised accounting policy most appropriately reflects the commercial substance of the entry fees. So far as it was possible to tell, we found that the accounting applied by the Group was similar to the approach taken by others. We found that the change to the accounting policy made by the Group was appropriate given the incidence of entry fees in the year and the costs capitalised on the programmes to which these entry fees relate. We found that the disclosures in the financial statements properly describe the accounting treatment adopted by the Group and the directors' basis for applying that treatment.

Bribery and corruption
Refer to page 120 (Note 23 to the financial statements – Contingent liabilities) and page 44 (Audit committee report – Financial reporting)

- The risk A large part of the Group's business is characterised by competition for individually significant contracts with customers which are often directly or indirectly associated with governments and the award of individually significant contracts to suppliers. The procurement processes associated with these activities are highly susceptible to the risk of corruption. In addition the Group operates in a number of territories where the use of commercial intermediaries is either required by the government or is normal practice. The Group is currently under investigation by law enforcement agencies, primarily the Serious Fraud Office in the UK and the US Department of Justice. Breaches of laws and regulations in this area can lead to fines, penalties, criminal prosecution, commercial litigation and restrictions on future business.

- Our response We evaluated and tested the Group's policies, procedures and controls over the selection and renewal of intermediaries, contracting arrangements, ongoing management, payments and responses to suspected breaches of policy. We sought to identify and tested payments made to intermediaries during the year, made enquiries of appropriate personnel and evaluated the tone set by the Board and the Executive Leadership Team and the Group's approach to managing this risk. Having enquired of management, the audit committee and the Board as to whether the Group is in compliance with laws and regulations relating to bribery and corruption, we made written enquiries of the Group's legal advisers to corroborate the results of those enquiries and maintained a high level of vigilance to possible indications of significant non-compliance with laws and regulations relating to bribery and corruption whilst carrying out our other audit procedures. We discussed the areas of potential or suspected breaches of law, including the ongoing investigation, with the audit committee and the Board of directors as well as the Group's legal advisers and assessed related documentation. We assessed whether the financial effects of potential or suspected breaches of law or regulation have been properly disclosed in note 23 to the financial statements.

- Our findings We found that the disclosures in note 23 to the financial statements reflect appropriately the matters required to be disclosed by accounting standards and highlighted that, as the investigation is at too early a stage to assess the consequences (if any), including in particular the size of any possible fines, no provision can be made at year end.

INDEPENDENT AUDITOR'S REPORT

The presentation of 'underlying' profit
Refer to page 10 (Chief Financial Officer's review), page 89 (Note 2 to the financial statements – Segmental analysis) and page 44 (Audit committee report – Financial reporting)

- The risk In addition to its Adopted IFRS financial statements, the Group presents an alternative income statement on an 'underlying' basis. The directors believe the 'underlying' income statement reflects better the Group's trading performance during the year. The basis of adjusting between the Adopted IFRS and 'underlying' income statements and a full reconciliation between them is set out in note 2 to the financial statements on pages 89 and 91. A significant recurring adjustment between the Adopted IFRS income statement and the 'underlying' income statement relates to the foreign exchange rate used to translate foreign currency transactions. The Group uses forward foreign exchange contracts to manage the cash flow exposures of forecast transactions denominated in foreign currencies but does not generally apply hedge accounting in its Adopted IFRS income statement. The 'underlying' income statement translates these amounts at the achieved foreign exchange rate on forward foreign exchange contracts settled in the period, retranslates assets and liabilities at exchange rates forecast to be achieved from future settlement of such contracts and excludes unrealised gains and losses on such contracts which are included in the Adopted IFRS income statement. In addition, adjustments are made to exclude one-off past-service credits on post-retirement schemes and the effect of acquisition accounting and a number of other items.

  Alternative performance measures can provide investors with appropriate additional information if properly used and presented. In such cases, measures such as these can assist investors in gaining a better understanding of a company's financial performance and strategy. However, when improperly used and presented, these kinds of measures might mislead investors by hiding the real financial position and results or by making the profitability of the reporting entity seem more attractive.

- Our response We assessed the appropriateness of the basis for the adjustments between the Adopted IFRS income statement and the 'underlying' income statement and recalculated the adjustments with a particular focus on the impact of the foreign exchange rate used to translate foreign currency amounts in the 'underlying' income statement. As the Group has discretion over which forward foreign exchange contracts are settled in each financial year, which could impact the achieved rate both for the period and in the future, we assessed whether or not this showed any evidence of management bias. We also assessed: (i) the extent to which the prominence given to the 'underlying' financial information and related commentary in the annual report compared to the Adopted IFRS financial information and related commentary could be misleading; (ii) whether the Adopted IFRS and 'underlying' financial information are reconciled with sufficient prominence given to that reconciliation; (iii) whether the basis of the 'underlying' financial information is clearly and accurately described and consistently applied; and (iv) whether the 'underlying' financial information is not otherwise misleading in the form and context in which it appears in the annual report.

- Our findings We have no concerns regarding the basis of the 'underlying' financial information or its calculation and found no indication of management bias in the way the Group managed forward foreign exchange contracts during the year. We consider that there is sufficient appropriate disclosure of the nature and amounts of the adjustments to allow shareholders to understand the implications of the two bases on the financial measures being presented. We consider that the 'underlying' financial information is useful to shareholders as an adjunct to the Adopted IFRS financial information particularly in the context of isolating trends resulting from trading performance from trends that result from other factors. We found the presentation of the 'underlying' financial information to be balanced.

In addition to these key audit risks, we also focused on the recognition of revenue and profit on other long-term contracts; the implementation of a new consolidation system; warranties and guarantees; valuation of derivative contracts; valuation of post-retirement scheme liabilities; and the recoverability of tax assets and the adequacy of provisions for tax contingencies.

3 Our application of materiality and an overview of the scope of our audit

The materiality for the Group financial statements as a whole was set at £86 million. This has been calculated with reference to a benchmark of profit before taxation (representing 4.9% of reported and 'underlying' profit before taxation) which we consider to be one of the principal considerations for members of the company in assessing the financial performance of the Group.

We agreed with the audit committee to report to it the following misstatements that we identified through our audit: (i) all material corrected misstatements; (ii) uncorrected misstatements with a value in excess of £4 million for income statement items (or £8 million for balance sheet reclassifications); and (iii) other misstatements below that threshold that we believe warranted reporting on qualitative grounds.

In order to gain appropriate audit coverage of the risks described above and of each individually significant reporting component:

(a) audits for Group reporting purposes were carried out at 13 key reporting components located in the following countries: United Kingdom (9 key reporting components), USA (1), Germany (2) and Norway (1). In addition, audits for Group reporting purposes were performed at a further 20 reporting components. Together these covered 90 per cent of revenue, 87 per cent of underlying profit before taxation and 85 per cent of total assets; and

(b) specified reporting procedures were carried out over key risk areas at a further 12 reporting components, none of which are considered to be key.

In total our procedures covered 98 per cent of revenue, 99 per cent of underlying profit before taxation and 94 per cent of total assets.

Detailed audit instructions were sent to the auditors of all these reporting components. These instructions covered the significant audit areas that should be covered by these audits (which included the relevant risks of material misstatement detailed above) and set out the information required to be reported back to the group audit team. The group audit team visited the following locations: United Kingdom, USA, Germany, Norway and Singapore. Telephone meetings were also held with the auditors at these locations and the majority of the other locations that were not physically visited.

The audits undertaken for Group reporting purposes at the reporting components were all performed to materiality levels set by, or agreed with, the group audit team. These materiality levels were set individually for each such component and ranged from £0.5 million to £50 million.

4 Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion:
- the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic report and Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

5 We have nothing to report in respect of the matters on which we are required to report by exception

Under ISA (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading. In particular, we are required to report to you if:
- we have identified material inconsistencies between the knowledge we acquired during our audit and the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy; or
- the audit committee report does not appropriately address matters communicated by us to the audit committee.

Under the Companies Act 2006 we are required to report to you if, in our opinion:
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the directors' remuneration report to be audited 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.

Under the Listing Rules we are required to review:
- the directors' statement, set out on page 72, in relation to going concern; and
- the part of the corporate governance report on page 39 relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code (2010) specified for our review.

We have nothing to report in respect of the above responsibilities.

Scope of report and responsibilities

As explained more fully in the Directors' responsibilities statement set out on pages 72 and 73, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of accounts is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate. This report is made solely to the Company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2013a, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

Jimmy Daboo (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor

Chartered Accountants
15 Canada Square
London
E14 5GL
12 February 2014

GROUP FIVE-YEAR REVIEW

For the years ended 31 December

Income statement	2013 £m	Restated* 2012 £m	2011 £m	2010 £m	2009 £m
Revenue	**15,513**	12,161	11,124	11,085	10,414
Profit before net research and development and share of results of joint ventures and associates	**2,393**	2,435	1,536	1,463	1,458
Research and development (net) [1]	**(683)**	(531)	(463)	(422)	(379)
Share of results of joint ventures and associates	**160**	173	116	93	93
Profit before financing	**1,870**	2,077	1,189	1,134	1,172
Net financing	**(111)**	689	(84)	(432)	1,785
Profit before taxation [2]	**1,759**	2,766	1,105	702	2,957
Taxation	**(380)**	(431)	(257)	(159)	(740)
Profit for the year	**1,379**	2,335	848	543	2,217
Attributable to:					
Equity shareholders of the parent	**1,367**	2,321	850	539	2,221
Non-controlling interests	**12**	14	(2)	4	(4)
Profit for the year	**1,379**	2,335	848	543	2,217
[1] Research and development (gross)	**(1,118)**	(919)	(908)	(923)	(864)
[2] Underlying profit before taxation	**1,759**	1,434	1,157	955	915
Earnings per ordinary share:					
Underlying	**65.59p**	59.59p	48.54p	38.73p	39.67p
Basic	**73.26p**	125.38p	45.95p	29.20p	120.38p
Payments to shareholders per ordinary share	**22.00p**	19.50p	17.50p	16.00p	15.00p

Balance sheet	2013 £m	Restated* 2012 £m	2011 £m	2010 £m	2009 £m
Assets	**23,063**	18,146	16,423	16,234	15,422
Liabilities	**(16,760)**	(12,150)	(11,904)	(12,255)	(11,640)
	6,303	5,996	4,519	3,979	3,782
Called-up share capital	**376**	374	374	374	371
Reserves	**5,229**	5,605	4,144	3,601	3,411
Equity attributable to equity holders of the parent	**5,605**	5,979	4,518	3,975	3,782
Non-controlling interests	**698**	17	1	4	–
	6,303	5,996	4,519	3,979	3,782

Cash flow	2013 £m	2012 £m	2011 £m	2010 £m	2009 £m
Cash inflow from operating activities	**2,040**	1,255	1,306	1,378	859
Cash (outflow)/inflow from investing activities	**(740)**	424	(2,207)	(759)	(606)
Cash inflow/(outflow) from financing activities	**136**	(331)	(655)	(743)	384
Increase/(decrease) in cash and cash equivalents	**1,436**	1,348	(1,556)	(124)	637
Net funds	**1,939**	1,317	223	1,533	1,275

* Restated for the adoption of the amendments to IAS 19 *Employee Benefits* on 1 January 2013 and the change to the accounting policy for RRSAs – see note 1. It is not practicable to restate prior years on a comparable basis.

ADDITIONAL FINANCIAL INFORMATION

Foreign exchange

Foreign exchange rate movements influence the reported income statement, the cash flow and closing net cash balance. The average and spot rates for the principal trading currencies of the Group are shown in the table below:

		2013	2012	Change
USD per GBP	Year end spot rate	**1.65**	1.63	+1%
	Average spot rate	**1.56**	1.59	-2%
EUR per GBP	Year end spot rate	**1.20**	1.23	-2%
	Average spot rate	**1.18**	1.23	-4%

The Group's approach to managing its tax affairs

The Board is involved in setting the Group's tax policies which govern the way its tax affairs are managed. In summary, this means:

i) the Group manages its tax costs through maximising the tax efficiency of business transactions. This includes taking advantage of available tax incentives and exemptions;
ii) this must be done in a way which is aligned with the Group's commercial objectives and meets its legal obligations and ethical standards;
iii) the Group also has regard for the intention of the legislation concerned rather than just the wording itself;
iv) the Group is committed to building constructive working relationships with tax authorities based on a policy of full disclosure in order to remove uncertainty in its business transactions and to allow the authorities to review possible risks;
v) where appropriate and possible, the Group enters into consultation with tax authorities to help shape proposed legislation and future tax policy; and
vi) the Group seeks to price transactions between Group companies as if they were between unrelated parties, in compliance with the OECD Transfer Pricing Guidelines and the laws of the relevant jurisdictions.

The Group's global corporate income tax contribution

Over 95 per cent of the Group's underlying profit before tax (excluding joint ventures) is generated in the United Kingdom, United States of America, Germany, Norway, Finland and Singapore. The remaining profits are generated across more than 40 other countries. This reflects the fact that the majority of the Group's business is undertaken, and employees are based, in the above countries.

In common with most multinational groups, the total of all profits in respect of which corporate tax is paid is not the same as the consolidated profit before tax reported on page 75. The main reasons for this are:

i) the consolidated income statement is prepared under IFRS whereas tax is paid on the profits of each Group company, which are determined by local accounting rules;
ii) accounting rules require certain income and costs relating to our commercial activities to be eliminated from, or added to, the aggregate of all the profits of the Group companies when preparing the consolidated income statement ('consolidation adjustments'); and
iii) specific tax rules including exemptions or incentives as determined by the tax laws in each country.

The Group's total corporation tax payments in 2013 were £238 million. The level of tax paid in each country is impacted by the above. In most cases, (i) and (ii) are only a matter of timing and therefore tax will be paid in an earlier or later year. As a result they only have a negligible impact on the Group's underlying tax rate which, excluding joint ventures, would be 27.1 per cent (the underlying tax rate including joint ventures can be found on page 12). This is due to deferred tax accounting, details of which can be found in note 5 to the financial statements. The impact of (iii) will often be permanent depending on the relevant tax law.

Investments and capital expenditure

The Group subjects all major investments and capital expenditure to a rigorous examination of risks and future cash flows to ensure that they create shareholder value. All major investments require Board approval.

The Group has a portfolio of projects at different stages of their life cycles. Discounted cash flow analysis of the remaining life of projects is performed on a regular basis.

Sales of engines in production are assessed against criteria in the original development programme to ensure that overall value is enhanced.

Financial risk management

The Board has established a structured approach to financial risk management. The Financial risk committee (Frc) is accountable for managing, reporting and mitigating the Group's financial risks and exposures. These risks include the Group's principal counterparty, currency, interest rate, commodity price, liquidity and credit rating risks outlined in more depth in note 17. The Frc is chaired by the Chief Financial Officer. The Group has a comprehensive financial risk policy that advocates the use of financial instruments to manage and hedge business operations risks that arise from movements in financial, commodities, credit or money markets. The Group's policy is not to engage in speculative financial transactions. The Frc sits quarterly to review and assess the key risks and agree any mitigating actions required.

ADDITIONAL FINANCIAL INFORMATION

Capital structure

£ million	2013	Restated 2012
Total equity	**6,303**	5996
Cash flow hedges	**68**	63
Group capital	**6,371**	6,059
Net funds	**1,939**	1,317

Operations are funded through various shareholders' funds, bank borrowings, bonds and notes. The capital structure of the Group reflects the judgement of the Board as to the appropriate balance of funding required.

Funding is secured by the Group's continued access to the global debt markets. Borrowings are funded in various currencies using derivatives where appropriate to achieve a required currency and interest rate profile. The Board's objective is to retain sufficient financial investments and undrawn facilities to ensure that the Group can both meet its medium-term operational commitments and cope with unforeseen obligations and opportunities.

The Group holds cash and short-term investments which, together with the undrawn committed facilities, enable it to manage its liquidity risk.

During the year, the Group issued €750 million 2.125% Notes maturing in 2021 and £375 million 3.375% Notes maturing in 2026.

At year end, the Group retained aggregate liquidity of £5.6 billion. This liquidity comprised net funds of £1.9 billion and aggregate borrowing facilities of £3.6 billion, of which £1.2 billion remained undrawn.

The maturity profile of the borrowing facilities is regularly reviewed to ensure that refinancing levels are manageable in the context of the business and market conditions. The only facility to mature in 2014 is a £200 million EIB loan. There are no rating triggers in any borrowing facility that would require the facility to be accelerated or repaid due to an adverse movement in the Group's credit rating.

The Group conducts some of its business through a number of joint ventures. A major proportion of the debt of these joint ventures is secured on the assets of the respective companies and is non-recourse to the Group. This debt is further outlined in note 11.

Credit rating

	Rating	Outlook	Grade
Moody's Investors Service	A3	Stable	Investment
Standard & Poor's	A	Stable	Investment

The Group subscribes to both Moody's Investors Service and Standard & Poor's for independent long-term credit ratings. At 31 December 2013, the Group maintained investment grade ratings from both agencies.

As a capital-intensive business making long-term commitments to our customers, the Group attaches significant importance to maintaining or improving the current investment grade credit ratings.

Accounting and regulatory

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU.

In 2013, the Group has adopted Amendments to IAS 19 *Employee Benefits*. There were no other revisions to IFRS that became applicable in 2013 which had a significant impact on the Group's financial statements.

A summary of changes which have not been adopted in 2013 is included within the accounting policies in note 1.

As explained in the Chief Financial Officer's review on page 11, following discussions with the Conduct Committee of the FRC, the Group has reassessed its policy for the recognition of entry fees received under RRSAs.

Governments and regulators around the world continue to implement reforms to the financial markets with the aim of improving transparency and reducing systemic risk. Although the reforms are predominantly directed at financial institutions, they will also affect non-financial institutions such as the Group.

The primary concern was the reform of the over-the-counter (OTC) derivatives market, and in particular a proposal in the EU European Market Infrastructure Regulation (EMIR) that parties to future OTC derivative transactions would be required to use an exchange to clear the transactions and post cash collateral to reduce counterparty risk. The proposal could have adversely affected the Group's future funding requirements and made cash flow more volatile.

The final EMIR rules have now been released, which exempt non-financial institutions engaged in hedging activity from this requirement.

Share price

During the year, the share price increased by 46 per cent from 873.5 pence to 1275 pence, compared to a 38 per cent increase in the FTSE aerospace and defence sector and 14 per cent increase in the FTSE 100. The Company's share price ranged from 873.5 pence in January to 1275 pence in December.

Strategic report
Directors' report
Financial statements
Other information

SHAREHOLDER INFORMATION

Financial calendar 2014-2015

Apr 2014
- **23 April** Ex-entitlement to C Shares
- **25 April** Record date for entitlement to C Shares

May 2014
- **1 May 11.00am** AGM QEII Conference Centre London

Jun 2014
- **2 June 5.00pm** Deadline for receipt of C Share elections
- **2 June** Record date for C Share dividend

Jul 2014
- **1 July** Payment of C Share dividend
- **1 July** Allotment of C Shares
- **3 July** Payment of C Share redemption monies
- **11 July** Purchase of ordinary shares for CRIP participants (at the latest)
- **31 July** Announcement of interim results

Aug 2014

Sep 2014

Oct 2014
- **23 October** Ex-entitlement to C Shares
- **24 October** Record date for entitlement to C Shares

Nov 2014
- **14 November** Record date for C Share dividend

Dec 2014
- **1 December 5.00pm** Deadline for receipt of C Share elections
- **31 December** Financial year end

Jan 2015
- **2 January** Payment of C Share dividend
- **2 January** Allotment of C Shares
- **6 January** Payment of C Share redemption monies
- **13 January** Purchase of ordinary shares for CRIP participants (at the latest)

Feb 2015
- **February** Preliminary announcement – 2014 full year results
- **March** Annual report published

Managing your shareholding

Your shareholding is managed by Computershare Investor Services PLC (the Registrar). When making contact with the Registrar please quote your Shareholder Reference Number (SRN), an 11-digit number that can be found on the right-hand side of your share certificate or in any other shareholder correspondence. It is very important that you keep your shareholding account details up to date by notifying the Registrar of any changes in your circumstances.

You can manage your shareholding at www.investorcentre.co.uk, speak to the Registrar on +44 (0)870 703 0162 (8.30am to 5.30pm Monday to Friday) or you can write to them at Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS13 8AE.

Payments to shareholders

The Company makes payments to shareholders by issuing redeemable C Shares of 0.1 pence each. You can still receive cash or additional ordinary shares from the Company providing you complete a payment instruction form, which is available from the Registrar. Once you have submitted your payment instruction form, you will receive cash or additional ordinary shares each time the Company issues C Shares. If you choose to receive cash we recommend that you include your bank details on the payment instruction form and have payments credited directly to your bank account. This removes the risk of a cheque going astray in the post and means that cleared payments will be credited to your bank account on the payment date.

Share dealing

The Registrar offers existing shareholders an internet dealing service at www-uk.computershare.com/investor/sharedealing.asp and a telephone dealing service (+44 (0)870 703 0084). The service is available during market hours, 8.00am to 4.30pm, Monday to Friday excluding Bank holidays. The fee for internet dealing is 1 per cent of the transaction value subject to a minimum fee of £30. The fee for telephone dealing is 1 per cent of the transaction plus £35. Please note that, in addition to dealing fees, stamp duty of 0.5 per cent is payable on all purchases. Other share dealing facilities are available but we recommend that you only use a firm regulated by the Financial Conduct Authority (FCA). You can check the FCA register at www.fca.org.uk/register.

Your share certificate

If you sell or transfer your shares you must ensure that you have a valid share certificate in the name of Rolls-Royce Holdings plc. If you place an instruction to sell your shares and cannot provide a valid share certificate the transaction cannot be completed and you will be liable for any costs incurred by the broker. Share certificates previously issued by either Rolls-Royce Group plc or Rolls-Royce plc are invalid and should be destroyed. If you are unable to locate your share certificates please inform the Registrar immediately.

American Depositary Receipts (ADR)

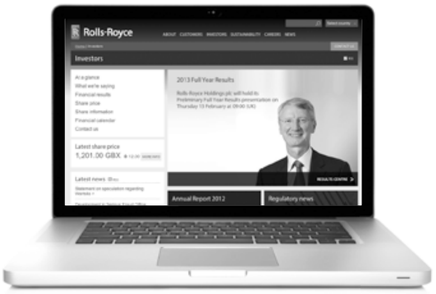
ADR holders should contact the depositary, The Bank of New York Mellon by calling +1 888 269 2377 (toll free within the US) or emailing shrrelations@cpushareownerservices.com.

SHAREHOLDER INFORMATION

Warning to shareholders – boiler room fraud

We are aware that some shareholders might have received unsolicited phone calls or correspondence concerning investment matters. These are typically from overseas based ‘brokers’ who offer to sell them what often turn out to be worthless or high risk shares in US or UK investments. Such operations are known as ‘boiler rooms’ and these ‘brokers’ can be very persistent and extremely persuasive. You should always check that any firm calling you about investment opportunities is properly authorised by the FCA using the following web link www.fca.org.uk/register or by calling their Consumer Helpline on 0800 111 6768 (overseas callers dial +44 20 7066 1000). If you deal with an unauthorised firm, you will not be eligible to receive payment under the Financial Services Compensation Scheme. You will find lots of useful advice and information about protecting yourself from investment scams on the FCA website www.fca.org.uk/consumers.

Remember the golden rule – IF IT SOUNDS TOO GOOD TO BE TRUE IT PROBABLY IS.



Available as a free download from the app store for iPad users

Visit Rolls-Royce online

Visit www.rolls-royce.com/investors to find out more about the latest financial results, the share price, payments to shareholders, the financial calendar and shareholder services.

Keeping up to date

You can sign up to receive the latest news to your phone or inbox. You can also download the Rolls-Royce Investor Relations iPad app which provides the latest media and financial information.

Dividends paid on C Shares held

C Share calculation period	C Share dividend rate (%)	Record date for C Share dividend	Payment date
1 July 2013 – 31 December 2013	0.225	15 November 2013	2 January 2014
1 January 2013 – 30 June 2013	0.25	3 June 2013	3 July 2013

Previous C Share issues

				Apportionment values		CGT apportionment				
Issue date	No of C Shares issued per ordinary share	Record date for entitlement to C Shares	Latest date for receipt of Payment Instruction Forms by Registrar	Price of ordinary shares on first day of trading (p)	Value of C Share issues per ordinary shares (p)	Ordinary shares (%)	C Shares (%)	Date of redemption of C Shares	CRIP purchase date	CRIP purchase price (p)
2 January 2014	86	25 October 2013	2 December 2013	1265.50	8.6	99.33	0.67	6 January 2014	7 January 2014	1287.3621
2 July 2013	119	24 April 2013	3 June 2013	1151.50	11.9	98.98	1.02	3 July 2013	9 July 2013	1192.7275

For earlier C Share issues, please refer to the Group’s website.

Analysis of ordinary shareholders at 31 December 2013

Type of holder:	Number of shareholders	% of total shareholders	Number of shares	% of total shares
Individuals	197,937	96.54	101,503,370	5.40
Institutional and other investors	7,101	3.46	1,778,798,284	94.60
Total	205,038	100.00	1,880,301,654	100.00
Size of holding:				
1 – 150	64,735	31.57	6,216,673	0.33
151 – 500	103,476	50.47	27,720,381	1.47
501 – 10,000	34,806	16.98	56,638,725	3.01
10,001 – 100,000	1,344	0.65	36,159,598	1.92
100,001 – 1,000,000	464	0.23	158,602,026	8.44
1,000,001 and over	213	0.10	1,594,964,251	84.83
Total	205,038	100.00	1,880,301,654	100.00

GLOSSARY

ABC	anti-bribery and corruption
ACARE	Advisory Council for Aviation Research and Innovation in Europe
AGM	annual general meeting
APRA	Annual Performance Related Award plan
C Shares	non-cumulative redeemable preference shares
CO_2	carbon dioxide
Company	Rolls-Royce Holdings plc
CPS	cash flow per share
CRIP	C Share Reinvestment Plan
EASA	European Aviation Safety Agency
ELT	Executive Leadership Team
EPS	earnings per ordinary share
EU	European Union
FAA	Federal Aviation Administration
FCA	Financial Conduct Authority
FRC	Financial Reporting Council
GBP	Great British pound or pound sterling
GC 100	Association of general counsel and company secretaries of FTSE 100 companies
GHG	greenhouse gas
Global Code	Global Code of Conduct
Group	Rolls-Royce Holdings plc and its subsidiaries
HMRC	HM Revenue & Customs
HS&E	health, safety and environment
I&C	instrumentation and control
IAB	International Advisory Board
IAE	IAE International Aero Engines AG
IAG	International Airlines Group (parent company of British Airways)
IAS	International Accounting Standards

IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
JAL	Japan Airlines
KPI	key performance indicator
LIBOR	London Inter-Bank Offered Rate
LTSA	Long-Term Service Agreement
LNG	liquefied natural gas
MoD	UK Ministry of Defence
NCI	non-controlling interest
OCI	other comprehensive income
OE	original equipment
OECD	Organisation for Economic Cooperation and Development
PSP	Performance Share Plan
R&D	research and development
REACH	Registration, Evaluation and Authorisation of Chemicals
REC	recoverable engine cost
Registrar	Computershare Investor Services PLC
RRPSH	Rolls-Royce Power Systems Holding GmbH
RRPS	Rolls-Royce Power Systems AG (previously named Tognum AG)
RRSAs	Risk and Revenue Sharing Arrangements
RSUs	restricted stock units
SFO	Serious Fraud Office
SIP	Share Incentive Plan
SRN	Shareholder Reference Number
STEM	Science, Technology, Engineering and Mathematics
STOVL	short take-off and vertical landing
TRI	total reportable injuries
TSR	Total Shareholder Return
UAV	unmanned aerial vehicle
UK GAAP	UK Generally Accepted Accounting Practices
USD	United States dollar

MIX
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