

## Subsidiaries

Company name	Address	Class of shares	% of class held
A. F. C. Wultex Limited*	Derby <sup>1</sup>	Ordinary	90
A.P.E. – Allen Gears Limited*	Derby <sup>1</sup>	Ordinary	100
Allen Power Engineering Limited*	Derby <sup>1</sup>	Ordinary	100
Amalgamated Power Engineering Limited*	Derby <sup>1</sup>	Deferred Ordinary	100 100
Bergen Engines AS	Hordvikneset 125, N-5108, Hordvik, Bergen 1201, Norway	Ordinary	100
Bergen Engines Bangladesh Private Limited	Green Granduer, 6th Floor, Plot n.58 E, Kamal Atatürk Avenue Banani, C/A Dhaka, 1213, Bangladesh	Ordinary	100
Bergen Engines BV	Werfdijk 2, 3195HV Pernis, Rotterdam, Netherlands	Ordinary	100
Bergen Engines Denmark A/S	Værftsvej 23, 9000 Ålborg, Denmark	Ordinary	100
Bergen Engines India Private Limited	52-b, 2nd Floor, Okhla Industrial Estate, Phase III, New Delhi 110020, India	Ordinary	100
Bergen Engines Limited	Derby <sup>1</sup>	Ordinary	100
Bergen Engines PropertyCo AS	Hordvikneset 125, N-5108, Hordvik, Bergen 1201, Norway	Ordinary	100
Bergen Engines S.L.	Calle Dinamarca s/n (esquina Calle Alemania), Poligono Industrial de Constanti, 43120 Constanti, Tarragona, Spain	Social participation	100
Bergen Engines S.r.l.	13 Via Castel Morrone, 16161, Genoa, Italy	Social capital	100
Bristol Siddeley Engines Limited*	Derby <sup>1</sup>	Ordinary	100
Brooks Inspection Solutions Limited*	Derby <sup>1</sup>	Ordinary	100
Brown Brothers & Company Limited*	Taxiway, Hillend Industrial Estate, Dalgety Bay, Dunfermline, Fife, Scotland, KY11 9JT	Ordinary	100
C.A. Parsons & Company Limited*	Derby <sup>1</sup>	Ordinary	100
Composite Technology and Applications Limited	Derby <sup>1</sup>	Ordinary	100
Croydon Energy Limited*	Derby <sup>1</sup>	Ordinary	100
Data Systems & Solutions, LLC	Wilmington <sup>2</sup>	Partnership	100
Deeside Titanium Limited*	Derby <sup>1</sup>	Ordinary	82.5
Derby Cogeneration Limited*	Derby <sup>1</sup>	Ordinary	100
Derby Specialist Fabrications Limited*	Derby <sup>1</sup>	Ordinary	100
Europea Microfusioni Aerospaziali S.p.A.	Zona Industriale AS1, 83040 Morra de Sanctis, Avellino, Italy	Ordinary	100
Exeter Power Limited*	Derby <sup>1</sup>	Ordinary	100
Fluid Mechanics LLC	Wilmington <sup>2</sup>	Partnership	100
Heartlands Power Limited*	Derby <sup>1</sup>	Ordinary	100
Heaton Power Limited*	Derby <sup>1</sup>	Ordinary	100
John Thompson Cochran Limited*	Taxiway, Hillend Industrial Estate, Dalgety Bay, Dunfermline, Fife, Scotland, KY11 9JT	6% Cumulative preference Ordinary	100 100
John Thompson Limited*	Derby <sup>1</sup>	Ordinary	100
Kalvet Engineering (Proprietary) Limited*	Corner Marconi Road and 3rd Street Montague Gardens, Western Cape, 7441, South Africa	Ordinary	100
Kamewa AB*	Box 1010, S-68129, Kristinehamn, Sweden	Ordinary	100
Kamewa do Brazil Equipamentos Maritimos Limitada*	401 Rua Visconde de Pitaja 433, Rio de Janeiro, Brazil	Quotas	100
Kamewa Holding AB*	Box 1010, S-68129, Kristinehamn, Sweden	Ordinary	100
Kamewa UK Limited*	Derby <sup>1</sup>	Deferred Preference Ordinary	100 100 100
Karl Maybach-Hilfe GmbH	Maybachplatz 1, 88045, Friedrichshafen, Germany	Capital Stock	100
L'Orange Fuel Injection (Ningbo) Co, Limited	#3 Hall, No.55 South Qihang Road, Yinzhou Economic Development Zone, Ningbo City, 315145, China	Capital Stock	100
L'Orange Fuel Injection Trading (Suzhou) Co. Limited	No. 88 Suhong Middle Road, Suzhou Industrial Park, Suzhou 215000, China	Capital Stock	100
L'Orange GmbH	Porschestrasse 30, 70435 Stuttgart, Germany	Capital Stock	100
L'Orange Unterstützungskasse GmbH	Rudolph-L'Orange-Strasse 1, 72293 Glatten, Germany	Capital Stock	100
Mansfield Holdings Limited*	Derby <sup>1</sup>	Ordinary	100
MTU America Inc.	Wilmington <sup>2</sup>	Ordinary	100
MTU Asia PTE Limited	112 Robinson Road, #05-01, The Corporate Office, 068902, Singapore	Ordinary	100
MTU Benelux B.V.	Merwedestraat 86, 3313 CS, Dordrecht, Netherlands	Ordinary	100
MTU China Company Limited	Room 1801 - 1803 18/F Ascendas Plaza, No.333 Tian Yao Qiao Road, Xuhai District, Shanghai, 200030, China	Ordinary	100
MTU do Brasil Limitada	Via Anhanguera, KM 29203, 05276-000 Sao Paulo - SP, Brazil	Ordinary	100
MTU Engineering (Suzhou) Company Limited	9 Long Yun Road, Suzhou Industrial Park, Suzhou 215024, Jiang Su, China	Ordinary	100
MTU France S.A.S.	281 Chaussée Jules César, 95250 Beauchamp, France	Ordinary	100
MTU Friedrichshafen GmbH	Maybachplatz 1, 88045, Friedrichshafen, Germany	Capital Stock	100
MTU Hong Kong Limited	36/F Tower Two, Time Square, 1 Matheson Street, Causeway Bay, Hong Kong	Ordinary	100
MTU Ibérica Propulsión y Energía S.L.	Calle Copérnico 26-28, 28823 Coslada, Madrid, Spain	Ordinary	100

\* Dormant entity.

<sup>1</sup> Moor Lane, Derby, DE24 8BJ, England.<sup>2</sup> Corporation Service Company, 2711 Centerville Road, Suite 400, Wilmington, DE19808, United States.<sup>3</sup> 62 Buckingham Gate, London, SW1E 6AT, England.

Company name	Address	Class of shares	% of class held
MTU India Private Limited	HM Geneva House, Unit No. 303, 3rd Floor, No. 14 Cunningham Road, Bangalore, KA 560052, India	Ordinary	100
MTU Israel Limited	4 Ha'Alon Street, South Building, Third Floor, 4059300 Kfar Neter, Israel	Ordinary	100
MTU Italia S.r.l.	Via Aurelia Nord, 328, 19021 Arcola (SP), Italy	Capital Stock	100
MTU Japan Co. Limited	Takanawa-Meiko Building, 2-Chome 15-19, Takanawa, Minato-ku, 108-0074 Tokyo, Japan	Ordinary	100
MTU Korea Limited	22nd Floor, Olive Tower, 41 Sejongdaero 9 gil, Junggu, 100-737 Seoul, Republic of Korea	Ordinary	100
MTU Middle East FZE	S3B5SR06, Jebel Ali Free Zone, P.O. Box 61141, Dubai, United Arab Emirates	Ordinary	100
MTU Motor T�urbin Sanayi ve Ticaret. A.Ş.	Hatira Sokak, No. 5, �merli Mahellesi, 34555 Arnavutk�y, Istanbul, Turkey	Ordinary	100
MTU Onsite Energy Corporation	100 Power Drive, Mankato, Minnesota 56001, United States	Common Stock	100
MTU Onsite Energy GmbH	Dasinger Strasse 11, 86165, Augsburg, Germany	Capital Stock	100
MTU Onsite Energy Systems GmbH	Rotthofer Strasse 8, 94099 Ruhstorf a.d. Rott, Germany	Capital Stock	100
MTU Polska Sp. Z o.o.	Ul. S�aska, Nr 9. Raum, Ort: Stargard Szczeciński, Plz: 73-110, Poland	Ordinary	100
MTU Reman Technologies GmbH	Friedrich-List-Strasse 8, 39122 Magdeburg, Germany	Capital Stock	100
MTU Rus Limited Liability Company	Vashutinskoye Sh. 24 B, Khimki, 141402, Moscow, Russian Federation	Ordinary	100
MTU South Africa (Proprietary) Limited	Corner Marconi Road and 3rd Street Montague Gardens, Western Cape, 7441, South Africa	Ordinary	100
MTU UK Limited	Derby <sup>1</sup>	Ordinary	100
Navis Consult d.o.o.	Ul. Bartola Kašića 5/4, HR-51000, Rijeka, Croatia	Ordinary	75
NEI Combustion Engineering Limited*	Derby <sup>1</sup>	A Ordinary	100
		B Ordinary	100
		Deferred	100
NEI International Combustion Limited*	Derby <sup>1</sup>	Ordinary	100
NEI Mining Equipment Limited*	Derby <sup>1</sup>	Ordinary	100
NEI Nuclear Systems Limited*	Derby <sup>1</sup>	Ordinary	100
NEI Overseas Holdings Limited*	Derby <sup>1</sup>	Ordinary	100
NEI Parsons Limited*	Derby <sup>1</sup>	Ordinary	100
NEI Peebles Limited*	Derby <sup>1</sup>	Ordinary	100
NEI Power Projects Limited*	Derby <sup>1</sup>	Ordinary	100
NEI Services Limited*	Derby <sup>1</sup>	Ordinary	100
Nightingale Insurance Limited	Maison Trinity, Trinity Square, St. Peter Port, Guernsey, GY1 4AT	Ordinary	100
Optimized Systems and Solutions (US) LLC	Wilmington <sup>2</sup>	Partnership Redeemable non-cumulative preference	100
PKMJ Technical Services, Inc.	Wilmington <sup>2</sup>	Ordinary	100
Powerfield Limited*	Derby <sup>1</sup>	Ordinary	100
Powerfield Specialist Engines Limited*	Derby <sup>1</sup>	Ordinary	100
Prokura Diesel Services (Proprietary) Limited	Corner Marconi Road and 3rd Street Montague Gardens, Western Cape, 7441, South Africa	Ordinary	100
PT MTU Indonesia	Secure Building Blok B, Jl. Raya Protokol Halim, Perdanakusuma, Jakarta, 13610, Indonesia	Ordinary	100
PT Rolls-Royce	Mid Plaza 2, Lantai 16 Jl. Jenderal Sudirman 10-11, Jakarta, Pusat, 10220, Indonesia	Ordinary	100
R.O.V. Technologies, Inc.	Corporation Service Company, 100 North Main Street, Suite 2, Barre, VT 05641, United States	Ordinary	100
Rallyswift Limited*	Derby <sup>1</sup>	Ordinary	100
Reyrolle Belmos Limited*	Taxiway, Hillend Industrial Estate, Dalgety Bay, Dunfermline, Fife, Scotland, KY11 9JT	Ordinary	100
Rolls-Royce (Ireland) Unlimited Company*	Ulster International Finance, 1st Floor, IFSC House, IFSC, Dublin 1, Ireland	Ordinary	100
Rolls-Royce (Thailand) Limited	900, 11th Floor Tonson Tower, Ploenchit Road, Lumpini, Pathumwan, Bangkok, Thailand	Ordinary	100
Rolls-Royce AB	Box 1010, S-68129, Kristinehamn, Sweden	Ordinary	100
Rolls-Royce Aero Engine Services Limited*	Derby <sup>1</sup>	Ordinary	100
Rolls-Royce Australia Limited*	Suite 102, 2-4 Lyonpark Road, Macquarie Park, NSW 2113, Australia	Ordinary	100
Rolls-Royce Australia Services PTY Limited	Suite 102, 2-4 Lyonpark Road, Macquarie Park, NSW 2113, Australia	Ordinary	100
Rolls-Royce Brasil Limitada	Rua dr Cincinato Braga 47, Planalto, São Bernardo do Campo/SP, 09890-900, Brazil	Quotas	100
Rolls-Royce Canada Limited	9500 Côte de Liesse, Lachine, Québec H8T 1A2, Canada	Common Stock	100
Rolls-Royce Capital Limited*	London <sup>3</sup>	Ordinary	100
Rolls-Royce Civil Nuclear Canada Limited	597 The Queensway, Peterborough ON K9J7J6, Canada	Class A Preferred Common Shares	100
Rolls-Royce Civil Nuclear S.A.S.	23 Chemin du Vieux Chêne, 38240, Meylan, France	Ordinary	100

\* Dormant entity.

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## Subsidiaries continued

Company name	Address	Class of shares	% of class held
Rolls-Royce Commercial (Beijing) Co., Limited	305-306 Indigo Building 1, 20 Jiuxianqiao Road, Beijing, 100016, China	Registered capital	100
Rolls-Royce Commercial Aero Engines Limited*	Derby <sup>1</sup>	Ordinary	100
Rolls-Royce Control Systems Holdings Co	Wilmington <sup>2</sup>	Common Stock	100
Rolls-Royce Controls and Data Services (NZ) Limited	Level 7 Bayleys Building, 36 Brandon Street, Wellington, 6011, New Zealand	Ordinary	100
Rolls-Royce Controls and Data Services Controls and Data Services (UK) Limited	Derby <sup>1</sup>	Ordinary	100
Rolls-Royce Controls and Data Services Inc.	Wilmington <sup>2</sup>	Common Stock	100
Rolls-Royce Controls and Data Services Limited	Derby <sup>1</sup>	Ordinary	100
Rolls-Royce Corporation	Wilmington <sup>2</sup>	Common Stock	100
Rolls-Royce Côte d'Ivoire Sarl	7 Boulevard Latrille, Abidjan-Cocody, 25 BP 945, Abidjan 25, Côte d'Ivoire	Ordinary	100
Rolls-Royce Crosspointe LLC	Wilmington <sup>2</sup>	Partnership	100
Rolls-Royce de Venezuela SA*	Avenida 3E, entre Calles 78 y 79, Torre Empresarial Claret, Piso 10, Oficina 10-3, Sector Valle Frio, Maracaibo, Estado Zulia, Venezuela	Registered shares	100
Rolls-Royce Defense Products and Solutions Inc.	Wilmington <sup>2</sup>	Common Stock	100
Rolls-Royce Defense Services Inc.	Wilmington <sup>2</sup>	Common Stock	100
Rolls-Royce Deutschland Ltd & Co KG	Eschenweg 11, 15827 Blankenfelde-Mahlow, Germany	Ordinary	100
Rolls-Royce Energy Angola, Limitada*	Rua Rei Katyavala, Edificio Rei Katyavala, Entrada B, Piso 8, Luanda, Angola	Quota	100
Rolls-Royce Energy Systems Inc.	Wilmington <sup>2</sup>	Common Stock	100
Rolls-Royce Engine Controls Holdings Limited	Derby <sup>1</sup>	Ordinary	100
Rolls-Royce Engine Services – Oakland Inc.	Corporation Service Company, 2710 Gateway Oaks Dr., Suite 150N, Sacramento, CA 95833, United States	Common Stock	100
Rolls-Royce Engine Services Holdings Co	Wilmington <sup>2</sup>	Common Stock	100
Rolls-Royce Engine Services Limitada Inc.*	Bldg 06 Berthaphil Compound, Jose Abad Santos Avenue, Clark Special Economic Zone, Clark, Pampanga, Philippines	Capital Stock	100
Rolls-Royce Erste Beteiligungs GmbH	Eschenweg 11, 15827 Blankenfelde-Mahlow, Germany	Capital Stock	100
Rolls-Royce Finance Company Limited	Derby <sup>1</sup>	Deferred	100
		Ordinary	100
Rolls-Royce Finance Holdings Co	Wilmington <sup>2</sup>	Common Stock	100
Rolls-Royce Fuel Cell Systems Limited	Derby <sup>1</sup>	Ordinary	100
Rolls-Royce General Partner Limited	Derby <sup>1</sup>	Ordinary	100
Rolls-Royce Group plc	London <sup>3</sup>	Ordinary	100
Rolls-Royce High Temperature Composites Inc.	Corporation Service Company, 2710 Gateway Oaks Dr., Suite 150N, Sacramento, CA 95833, United States	Ordinary	100
Rolls-Royce Holdings Canada Inc.	9500 Côte de Liesse, Lachine, Québec H8T 1A2, Canada	Common C shares	100
Rolls-Royce India Limited*	Derby <sup>1</sup>	Ordinary	100
Rolls-Royce India Private Limited	Birla Tower West, 2nd Floor 25, Barakhamba Road, New Delhi, 110001, India	Equity	100
Rolls-Royce Industrial & Marine Power Limited*	Derby <sup>1</sup>	Ordinary	100
Rolls-Royce Industrial Power (India) Limited*	Derby <sup>1</sup>	Ordinary	100
Rolls-Royce Industrial Power (Overseas Projects) Limited*	Derby <sup>1</sup>	Ordinary	100
Rolls-Royce Industrial Power Engineering (Overseas Projects) Limited	Derby <sup>1</sup>	Ordinary	100
Rolls-Royce Industrial Power Investments Limited*	Derby <sup>1</sup>	2.8% cumulative redeemable preference stock	100
		4.9% cumulative preference stock	100
		Ordinary	100
Rolls-Royce Industries Limited*	Derby <sup>1</sup>	Ordinary	100
Rolls-Royce International Limited	Derby <sup>1</sup>	Ordinary	100
Rolls-Royce International LLC	Office 41N, Lit. A, 32-34 Nevsky Prospect, St. Petersburg, 19186, Russia	Ordinary	100
Rolls-Royce International s.r.o.	Pobřežní 620/3, postal code 186 00, Karlín - Prague 8, Czech Republic	Ordinary	100
Rolls-Royce Italia S.r.l.	13 Via Castel Morrone, 16161, Genoa, Italy	Ordinary	100
Rolls-Royce Japan Co Limited	31st Floor, Kasumigaseki Building, 3-2-5 Kasumigaseki, Chiyoda-Ku, Tokyo, 100-6031, Japan	Ordinary	100
Rolls-Royce JSF Holdings Inc.	Wilmington <sup>2</sup>	Common Stock	100
Rolls-Royce Leasing Limited	Derby <sup>1</sup>	Ordinary	100
Rolls-Royce Malaysia Sdn. Bhd.	Suite 13.03, 13th Floor, Menara Tan & Tan, 207 Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia	Ordinary	100
Rolls-Royce Marine A/S	Værftsvej 23, 9000 Ålborg, Denmark	Ordinary	100
Rolls-Royce Marine AS	Borgundvegen 340, Ålesund, 6009, Norway	Ordinary	100
Rolls-Royce Marine Asia Limited	G/F, No 1-3 Wing Yip Street, Kwai Chung, New Territories, Hong Kong	Ordinary	100

\* Dormant entity.

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Company name	Address	Class of shares	% of class held
Rolls-Royce Marine Australia PTY. Limited	Unit 2/8 Wallace Way, Fremantle WA 6160, Australia	Ordinary	100
Rolls-Royce Marine Benelux BV	Werfdijk 2, 3195 HV Pernis, Rotterdam, Netherlands	Ordinary	100
Rolls-Royce Marine Chile S.A.	Alcantara 200, 6th floor, office 601, Las Condes, Santiago, Chile	Ordinary	100
Rolls-Royce Marine Deutschland GmbH	Fährstieg 9, 21107, Hamburg, Germany	Ordinary	100
Rolls-Royce Marine Electrical Systems Limited*	Derby <sup>1</sup>	Ordinary	100
Rolls-Royce Marine Espana S.A.	Calle Dinamarca s/n (esquina Calle Alemania), Poligono Industrial de Constanti, 43120 Constanti, Tarragona, Spain	Ordinary	100
Rolls-Royce Marine France SARL	122 avenue Charles de Gaulle, 92200 Neuilly sur Seine, France	Ordinary	100
Rolls-Royce Marine Hellas S.A.	25 Atki Poseidonos str. & Makrigianni str., Moschato, Athens, GR-18344, Greece	Ordinary	100
Rolls-Royce Marine Hong Kong Limited	G/F, Chung Shun Knitting Centre, No.'s 1-3 Wing Yip Street, Kwai Chung, New Territories, Hong Kong	Ordinary	100
Rolls-Royce Marine India Private Limited	Plot D-505, TTC Industrial Area, MIDC, Turbhe, Navi Mumbai, 400703 Maharashtra, India	Ordinary	100
Rolls-Royce Marine Korea Limited	197 Noksan SanEop Buk-Ro, (Songjeong-dong) Gangseo-gu, Busan 46753, Republic of Korea	Ordinary	100
Rolls-Royce Marine Manufacturing (Shanghai) Limited	No.1 Xuanzhong Road, Xuanqiao Town, Pudong New Area, Shanghai, 201399, China	Ordinary	100
Rolls-Royce Marine North America Inc.	Wilmington <sup>2</sup>	Common Stock	100
Rolls-Royce Marine Power Operations Limited	Derby <sup>1</sup>	A Ordinary	100
		B Ordinary	100
Rolls-Royce Mechanical Test Operations Centre GmbH	Kiefernstrasse 1, 15827 Blankenfelde-Mahlow OT, Dahlewitz, Germany	Ordinary	100
Rolls-Royce Mexico Administration S de RL de CV	Boulevard Adolfo Ruiz Cortinez 3642-403, Fracc Costa de Oro, Veracruz CP 94299 6, Mexico	Ordinary	100
Rolls-Royce Mexico S de RL de CV	Boulevard Adolfo Ruiz Cortinez 3642-403, Fracc Costa de Oro, Veracruz CP 94299 6, Mexico	Ordinary	100
Rolls-Royce Military Aero Engines Limited*	Derby <sup>1</sup>	Ordinary	100
Rolls-Royce Namibia (Proprietary) Limited	2nd Floor, Unit 4, LA Chambers, Ausspann Plaza, Dr Agostinho Neto Road, Ausspannplatz, Windhoek, Namibia	Ordinary	100
Rolls-Royce New Zealand Limited	Level 7 Bayleys Building, 36 Brandon Street, Wellington, 6011, New Zealand	Ordinary	100
Rolls-Royce Nigeria Limited*	7th Floor Marble House, 1 Kingsway Road, Falomo, Ikoyi, Lagos, Nigeria	Ordinary	100
Rolls-Royce North America (USA) Holdings Co.	Wilmington <sup>2</sup>	Common Stock	100
Rolls-Royce North America Holdings Inc.	Wilmington <sup>2</sup>	Common Stock	100
Rolls-Royce North America Inc.	Wilmington <sup>2</sup>	Common Stock	100
Rolls-Royce North America Ventures Inc.	Wilmington <sup>2</sup>	Common Stock	100
Rolls-Royce North American Technologies Inc.	Wilmington <sup>2</sup>	Common Stock	100
Rolls-Royce Nuclear Field Services France S.A.S	ZA Notre-Dame, 84430, Mondragon, France	Ordinary	100
Rolls-Royce Nuclear Field Services Inc.	Corporation Service Company, 80 State Street, Albany, NY 12207, United States	Common Stock	100
Rolls-Royce Oman LLC	Bait Al Reem, Business Office #131, Building No 81, Way No 3409, Block No 234, Al Thaqafa Street, Al Khuwair, Sultanate of Oman, PO Box 20, Postal Code 103	Ordinary	100
Rolls-Royce Operations (India) Private Limited	RMZ-NXT, Campus 2A, Unit 001 Ground Floor, Near to SAP, Whitefield Road, EPIP Zone, Mahadevapura, Bangalore 560066, Karnataka, India	Ordinary	100
Rolls-Royce Overseas Holdings Limited	Derby <sup>1</sup>	Ordinary	100
Rolls-Royce Overseas Investments Limited	Derby <sup>1</sup>	Ordinary	100
Rolls-Royce Oy Ab	PO Box 220, Suojantie 5, 26101, Rauma, Finland	A Shares	100
Rolls-Royce Placements Limited	Derby <sup>1</sup>	Ordinary	100
Rolls-Royce plc	London <sup>3</sup>	Ordinary	100
Rolls-Royce Poland Sp. z.o.o.	Gniew 83-140, ul. Kopernika 1, Poland	Ordinary	99.9
Rolls-Royce Power Development Limited	Derby <sup>1</sup>	Ordinary	100
Rolls-Royce Power Engineering plc	Derby <sup>1</sup>	Ordinary	100
Rolls-Royce Power Systems AG	Maybachplatz 1, 88045, Friedrichshafen, Germany	Ordinary	100
Rolls-Royce Saudi Arabia Limited	PO Box 88545, Riyadh, 11672, Saudi Arabia	Cash shares	100
Rolls-Royce Singapore Pte. Limited	1 Marina Boulevard, #28-00 One Marina Boulevard, Singapore, 018989	Ordinary	100
Rolls-Royce Technical Support Sarl	Centreda I, Avenue Didier Daurat, 31700 Blagnac, Toulouse, France	Ordinary	100
Rolls-Royce Total Care Services Limited	Derby <sup>1</sup>	Ordinary	100
Rolls-Royce Turkey Power Solutions Industry and Trade Limited	Meclis-i Mebusan Cad No 1, Ekemen Han, 34427 Kabataş Istanbul, Turkey	Cash shares	100
Rolls-Royce UK Pension Fund Trustees Limited*	Derby <sup>1</sup>	Ordinary	100
Rolls-Royce Vietnam Limited	Dông Xuyên Industrial Zone, Rach Dừa Ward, Vũng Tàu City, Bà Rịa-Vũng Tàu Province, Vietnam	Capital Stock	100
Rolls-Royce Zweite Beteiligungs GmbH	Eschenweg 11, 15827 Blankenfelde-Mahlow, Germany	Capital Stock	100
Ross Ceramics Limited	Derby <sup>1</sup>	Ordinary	100
Scandinavian Electric Gdansk Sp. z.o.o.	ul. Reja No.3, 80-404, Gdansk, Poland	Ordinary	67
Scandinavian Electric Systems do Brazil Limitada	Rua Sao Jose 90, salas 1406 e 1407, Centro, Rio De Janeiro, Brazil	Quotas	66

\* Dormant entity.

<sup>1</sup> Moor Lane, Derby, DE24 8BJ, England.<sup>2</sup> Corporation Service Company, 2711 Centerville Road, Suite 400, Wilmington, DE19808, United States.<sup>3</sup> 62 Buckingham Gate, London, England, SW1E 6AT.

## Subsidiaries continued

Company name	Address	Class of shares	% of class held
Sharing in Growth UK Limited**	Derby <sup>1</sup>	Limited by Guarantee	100
Spare IPG (AGL) Limited*	Derby <sup>1</sup>	Ordinary	100
Spare IPG 4 Limited*	Derby <sup>1</sup>	Ordinary	100
Spare IPG 15 Limited*	Derby <sup>1</sup>	Ordinary	100
Spare IPG 18 Limited*	Derby <sup>1</sup>	Ordinary	90
Spare IPG 20 Limited*	Derby <sup>1</sup>	Ordinary	100
Spare IPG 24 Limited*	Derby <sup>1</sup>	Ordinary	100
Spare IPG 27 Limited*	Taxiway, Hillend Industrial Estate, Dalgety Bay, Dunfermline, Fife, Scotland, KY11 9JT	Ordinary	100
Spare IPG 32 Limited*	Derby <sup>1</sup>	7.25% cumulative preference Ordinary	100
Stone Vickers Limited*	Derby <sup>1</sup>	Ordinary	100
The Bushing Company Limited*	Derby <sup>1</sup>	Ordinary	100
Timec 1487 Limited*	Derby <sup>1</sup>	Ordinary	100
Trigno Energy S.R.L.	Zona Industriale, 66050 San Salvo, Italy	Ordinary	100
Ulstein Holdings AS	Sjøgata 80, 6065 Ulsteinvik, Norway	Ordinary	100
Ulstein Maritime Limited	96 North Bend Street, Coquitlam, British Columbia V3K 6H1 Canada	Common	100
Vessel Lifter Inc.*	Corporation Service Company, 1201 Hays Street, Tallahassee, FL32301, United States	Common Stock	100
Vickers Pension Trustees Limited*	Derby <sup>1</sup>	Ordinary	100
Vickers Pressings Limited*	Derby <sup>1</sup>	Ordinary	100
Viking Power Limited*	Derby <sup>1</sup>	Ordinary	100
Vinters Defence Systems Limited*	Derby <sup>1</sup>	Ordinary	100
Vinters Engineering Limited	Derby <sup>1</sup>	Ordinary	100
Vinters International Limited	Derby <sup>1</sup>	Ordinary	100
Vinters Limited	Derby <sup>1</sup>	Ordinary	100
Vinters-Armstrongs (Engineers) Limited*	Derby <sup>1</sup>	Ordinary	100
Vinters-Armstrongs Limited*	Derby <sup>1</sup>	Ordinary B	100
Wultex Machine Company Limited*	Derby <sup>1</sup>	Ordinary	100

The following companies were dissolved on 3 January 2017 - NEI Allen Limited, NEI Limited, Oxygenaire Limited, R-R Industrial Controls Limited, Rolls-Royce Industrial & Marine Gas Turbines Limited, Rolls-Royce Industrial Power Systems Limited, Rolls-Royce Transmission & Distribution Limited, Spare IPG (CEL) Limited, Spare IPG 3 Limited, Spare IPG 11 Limited, Spare IPG 22 Limited, Spare IPG 28 Limited and Spare IPG 30 Limited. Crossley-Premier Engine (Sales) Limited was dissolved on 10 January 2017. John Hastie of Greenock (Holdings) Limited and Spare RRPD (BEL) Limited were dissolved on 17 January 2017.

## Joint ventures and associates

Company name	Address	Class of shares	% of class held	Group interest held %
Aero Gearbox International SAS***	18 boulevard Louis Seguin, 92700 Colombes, France	Ordinary	50	50
Aerospace Transmission Technologies GmbH***	Adelheidstrasse 40, D-88046, Friedrichshafen, Germany	Capital Stock	50	50
Airtanker Holdings Limited	One London Wall, London, England EC2Y 5EB	Ordinary	20	20
Airtanker Services Limited	Airtanker Hub, RAF Brize Norton, Carterton, Oxfordshire, England OX18 3LX	Ordinary	22	22
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	Wilmington <sup>2</sup>	Partnerships (no equity held)	–	50
Alpha Partners Leasing Limited	London <sup>3</sup>	A Ordinary	100	50
Anecom Aerotest GmbH	122 Freiheitstrasse, Wildau, D-15745, Germany	Capital Stock	24.9	24.9
CFMS Limited	Victoria House, 51 Victoria Street, Bristol, England, BS1 6AD	Limited by guarantee	n/a	50
Clarke Chapman Portia Port Services Limited	Maritime Centre, Port of Liverpool, Liverpool, England, L21 1LA	A Ordinary	100	50
Egypt Aero Management Services	EgyptAir Engine Workshop, Cairo International Airport, Cairo, Egypt	Ordinary	50	50

\* Dormant entity.

\*\* The entity is not included in the consolidation as Rolls-Royce plc does not have a beneficial interest in the net assets of the entity.

\*\*\* As at 31 December 2016, these entities are accounted for as joint operations (see note 1 accounting policies).

<sup>1</sup> Moor Lane, Derby, DE24 8BJ, England.

<sup>2</sup> Corporation Service Company, 2711 Centerville Road, Suite 400, Wilmington, DE19808, United States.

<sup>3</sup> 62 Buckingham Gate, London, England, SW1E 6AT.

Company name	Address	Class of shares	% of class held	Group interest held %
EPI Europrop International GmbH	Dachauer Strasse 655, 80995 Munich, Germany	Capital Stock	28	Effective 35.5
Eurojet Turbo GmbH	Lilienthalstrasse 2b, 85399 Hallbergmoos, Germany	Capital Stock	33	Effective 39
GE Rolls-Royce Fighter Engine Team LLC	The Corporation Trust Company, 1209, Orange Street, Wilmington, DE19801, United States	Partnership (no equity held)	–	40
Genistics Holdings Limited	Derby <sup>1</sup>	Ordinary A	100	50
Global Aerospace Centre for Icing and Environmental Research Inc.	1000 Marie-Victorin Boulevard, Longueuil, Québec, J4G 1A1, Canada	Ordinary	50	50
Hong Kong Aero Engine Services Limited	33rd Floor, One Pacific Place, 88 Queensway, Hong Kong	Ordinary	50	50
Hovden Klubbhus AS	Stålhaugen 5, Ulsteinvik, 6065 Norway	Ordinary	69	69
Industria De Turbo Propulsores SA	Parque Tecnológico Edificio 300, 48170 Zamudio, Vizcaya, Spain	Ordinary	46.9	46.9
International Aerospace Manufacturing Private Ltd**	Survey No.3 Kempapura Village, Varthur Hobli, Bangalore, KA 560037, India	Ordinary	50	50
LG Fuel Cell Systems Inc.	Wilmington <sup>2</sup>	Common Stock	25	25
Light Helicopter Turbine Engine Company (unincorporated partnership)	Suite 119, 9238 Madison Boulevard, Madison, AL35758, USA	Partnership (no equity held)	–	50
Metlase Limited	Unipart House, Garsington Road, Cowley, Oxford, England, OX4 2PG	Ordinary B	100	20
MTU Turbomeca Rolls-Royce GmbH	Am Söldnermoos 17, 85399 Hallbergmoos, Germany	Capital Stock	33.3	33.3
MTU Turbomeca Rolls-Royce ITP GmbH	Am Söldnermoos 17, 85399 Hallbergmoos, Germany	Capital Stock	25	Effective 37
N3 Engine Overhaul Services GmbH & Co KG	Gerhard-Höltje-Strasse 1, D-99310, Arnstadt, Germany	Capital Stock	50	50
N3 Engine Overhaul Services Verwaltungsgesellschaft Mbh	Gerhard-Höltje-Strasse 1, D-99310, Arnstadt, Germany	Capital Stock	50	50
Offshore Simulator Centre AS	Borgundvegen 340, 6009, Ålesund, Norway	Ordinary	25	25
Rolls Laval Heat Exchangers Limited*	Derby <sup>1</sup>	Ordinary A	100	50
Rolls-Royce & Partners Finance (US) LLC, Rolls-Royce & Partners Finance (US) (No.2) LLC	Wilmington <sup>2</sup>	Partnerships (no equity held)	–	50
Rolls-Royce Snecma Limited	Derby <sup>1</sup>	Ordinary B	100	50
Shanxi North MTU Diesel Co. Limited	No. 97 Daqing West Road, Datong City, Shanxi Province, China	Ordinary	49	49
Singapore Aero Engine Services Private Limited	11 Calshot Road, 509932, Singapore	Ordinary	50	50
Techjet Aerofoils Limited**	Tefen Industrial Zone, PO Box 16, 24959, Israel	Ordinary A Ordinary B	50 50	50
Texas Aero Engine Services LLC	The Corporation Trust Company, 1209, Orange Street, Wilmington, DE19801, United States	Partnership (no equity held)	–	50
TRT Limited	Derby <sup>1</sup>	Ordinary B	100	49.5
Turbine Surface Technologies Limited**	Derby <sup>1</sup>	Ordinary B	100	50
Turbo-Union Limited	Derby <sup>1</sup>	Shares A Ordinary	37.5 40	40
UK Nuclear Restoration Limited*	Booths Park, Chelford Road, Knutsford, Cheshire, England, WA16 8QZ	Ordinary	20	20
Viking Reisebyra AS	Stålhaugen 10, 6065 Ulsteinvik, Norway	Ordinary	50	50
Xian XR Aero Components Co., Limited**	Xujawan, Beijiao, PO Box 13, Xian 710021, Shaanxi China	Ordinary	49	49

\* Dormant entity.

\*\* As at 31 December 2016, these entities are accounted for as joint operations (see note 1 accounting policies).

<sup>1</sup> Moor Lane, Derby, DE24 8BJ, England.

<sup>2</sup> Corporation Service Company, 2711 Centerville Road, Suite 400, Wilmington, DE19808, United States.



# 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 2016 set out on pages 115 to 175.

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 2016 and of the Group's loss 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, including FRS 101 *Reduced Disclosure Framework*; 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 OF MATERIAL MISSTATEMENT

When planning our audit, we made an assessment of the relative significance of the key risks of material misstatement to the Group financial statements, initially without taking account of the effectiveness of controls implemented by the Group. (This year our testing generally showed these controls to have increased in effectiveness.)

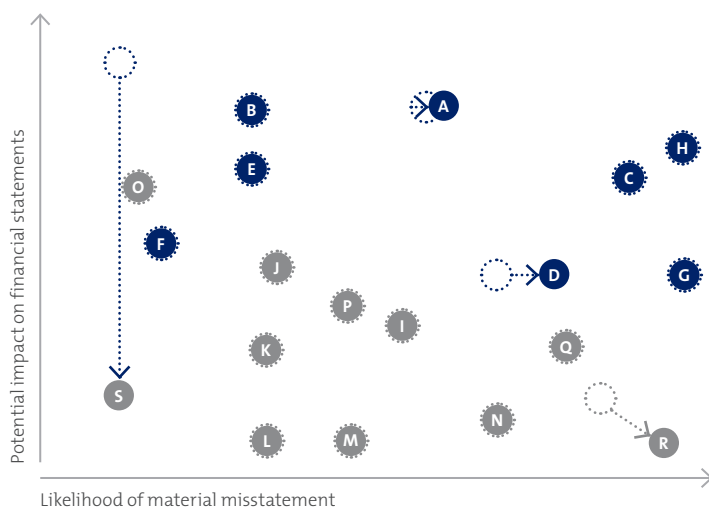
This initial assessment is shown below in the output from our Dynamic Audit planning tool. As there has been no significant change in the Group's operations and as the reduction in our assessment of materiality did not change the ranking of risks, the key risks are the same as in the prior year, though there have been some changes in the relative significance to our audit of some of the risks. (For last year's audit, the risk relating to *Bribery and corruption* covered both (i) the risk that the Group had entered into corrupt transactions that could materially affect the financial statements and (ii) the risk that the consequences of the then ongoing investigations into bribery and corruption in overseas markets were not properly reflected in the financial statements. These are now shown as separate risks as, following the conclusion of the investigations by the UK, US and Brazilian investigating authorities, the significance of the second element of the risk has reduced substantially.)

Of the 19 key risks identified, we describe below (i) the eight risks of material misstatement that had the greatest effect on our audit (those in dark blue on the risk map – the descriptions of risks include an explanation for the changes in significance of these risks from last year), (ii) our key audit procedures to address those risks and (iii) our findings from those procedures in order that the Company's members as a body may better understand the process by which we arrived at our audit opinion. Our findings are the result of procedures undertaken in the context of and solely for the purpose of our statutory audit opinion on the financial statements as a whole and consequently are incidental to that opinion, and we do not express discrete opinions on separate elements of the financial statements.

Our 2015 audit was reviewed by the Financial Reporting Council's Audit Quality Review (AQR) team. The review findings noted limited areas for improvement. These have been incorporated into our continuous improvement process for our approach to the 2016 audit and are reflected in the descriptions of the audit procedures set out below.

#### Dynamic Audit planning tool

(Relative significance of audit risks before taking account of controls)



<b>A</b> The pressure on and incentives for management to meet revenue and profit targets	<b>I</b> Measurement of revenue and profit on long-term contracts outside the Civil Aerospace business (see page 123)
<b>B</b> The basis of accounting for revenue and profit in the Civil Aerospace business	<b>J</b> Determination of development costs to be capitalised (see page 123)
<b>C</b> The measurement of revenue and profit in the Civil Aerospace business	<b>K</b> The basis of accounting for contractual aftermarket rights (see page 121)
<b>D</b> Recoverability of intangible assets in the Civil Aerospace business	<b>L</b> Determination of the amortisation period of development costs and CARs (see page 128)
<b>E</b> Liabilities arising from customer financing arrangements	<b>M</b> The basis of accounting for Risk and Revenue Sharing Arrangements (see pages 122 and 123)
<b>F</b> Bribery and corruption	<b>N</b> Estimating provisions for warranties and guarantees (see page 124)
<b>G</b> The presentation of 'underlying profit'	<b>O</b> Valuation of derivatives and hedge accounting (see pages 126 and 127)
<b>H</b> Disclosure of the effect on the trend in profit of items which are uneven in frequency or amount	<b>P</b> Measurement of post-retirement benefits (see page 124)
	<b>Q</b> Accounting for uncertain tax positions and deferred tax assets (see page 124)
	<b>R</b> Valuation of goodwill (see page 123)
	<b>S</b> Consequences of investigations into bribery and corruption in overseas markets (see page 163)

### A The pressure on and incentives for management to meet revenue and profit targets

Refer to pages 18 to 35 (Business review) and pages 98 and 99 (Audit Committee report – Financial reporting)

**The risk** – In recent years the Group has published a number of revisions to its revenue and profit guidance with a generally decreasing trend in profit and revenue and there have been significant associated decreases in the Group's share price. The Group's employee incentive schemes include profit targets. Clear instructions were given to the Executive Leadership Team and the senior finance executives on more than one occasion not to take any account of the pressure to meet forecasts in preparing the financial results and to manage and be alert to how this pressure might affect personnel across the wider Group. Nevertheless, the continuing pressure on and incentives for management to meet targets increases the inherent risk of manipulation of the Group financial statements. The financial results are sensitive to significant estimates and judgements, particularly in respect of revenues and costs associated with long-term contracts, and there is a broad range of acceptable outcomes of these that could lead to different levels of profit and revenue being reported in the financial statements. Relatively small changes in the basis of those judgements and estimates could result in the Group meeting, exceeding or falling short of forecasts, guidance or targets.

The significance of this risk increased marginally following changes to the Group's employee incentive schemes that involved the introduction of individual business profit targets as well as a Group profit target.

**Our response** – We have: (i) extended our enquiries designed to assess whether judgements and estimates exhibited unconscious bias or whether management had taken systematic actions to manipulate the reported results; (ii) compared the results to forecasts, guidance and targets, and challenged variances at a much lower level than we would otherwise have done based on our understanding of factors affecting business performance with corroboration using external data where possible; and (iii) applied an increased level of scepticism throughout the audit by increasing the involvement of the senior audit team personnel, with particular focus on audit procedures designed to assess whether revenues and costs have been recognised in the correct accounting period, whether central adjustments were appropriate and whether the segmental analysis has been properly prepared.

In particular:

- when considering the risk relating to *The measurement of revenue and profit in the Civil Aerospace business* (C refer to page 178), we challenged the basis for changes in the estimated revenues and costs in long-term contracts, with a heightened awareness of the possibility of unconscious or systematic bias;
- when considering the risk relating to *Recoverability of intangible assets in the Civil Aerospace business* (D refer to pages 178 and 179), we challenged with a heightened awareness of the possibility of unconscious or systematic bias the basis for an increase in the estimated market size and share of the Trent 900 engine which offset the significant reduction in the recoverable amount of Trent 900 programme assets arising from new

technical issues on these engines, the response to which is forecast to be costly; and

- when considering the risk relating to *The presentation of underlying profit* (G refer to pages 179 and 180) and the risk relating to *Disclosure of the effect on the trend in profit of items which are uneven in frequency or amount* (H refer to pages 180 and 181), we sought to identify items that affected profit (and/or the trend in profit) unevenly in frequency or amount (especially those where management had a greater degree of discretion over the timing or scale of transactions entered into) at a much lower level than we would otherwise have done and we assessed the balance and transparency of disclosure of these items.

**Our findings** – Our testing did not identify any indication of manipulation of results (2015 audit finding: none). We found the degree of caution/optimism adopted in estimates to be balanced overall (2015 audit finding: balanced). We found that there was ample unbiased disclosure of items affecting the trend in profit.

### B The basis of accounting for revenue and profit in the Civil Aerospace business

Refer to pages 121 and 122 (Key areas of judgement – Introduction, Contractual aftermarket rights, Linkage of original and long-term aftermarket contracts), page 125 (Significant accounting policies – Revenue recognition) and pages 98 and 99 (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 this drives the accounting basis to be applied. 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 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.

The significance of the risk has not changed during the year.

**Our response** – We re-evaluated the appropriateness of the accounting bases the Group applies in the Civil Aerospace business by reference to accounting standards and re-examining historical long-term aftermarket contracts. We considered whether the disclosure included in the financial statements enables shareholders to understand how the accounting policies represent the commercial substance of the Group's contracts with its customers. 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 bases which is consistent with a balanced interpretation of accounting standards and has applied this consistently. We found that the disclosure was ample.



## Independent auditor's report continued

For the agreements entered into during this year, it was clear which accounting basis should apply.

### **C** The measurement of revenue and profit in the Civil Aerospace business

*Refer to pages 122 (Key areas of judgement – Measurement of performance on long-term aftermarket contracts), page 125 (Significant accounting policies – Revenue recognition and TotalCare arrangements) and pages 98 and 99 (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 lifecycle cost improvement over the term of the contracts, the estimated outturn requires significant judgement to be applied in estimating future engine flying hours, time on wing and other operating parameters, the pattern of future maintenance activity and the costs to be incurred. The 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.

The significance of the risk has not changed during the year.

**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 these 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 systematic or unconscious management bias in the context of the heightened pressure on and incentives for management to meet forecasts, guidance and targets discussed above. 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 within programmes.

In terms of future cost estimates, we undertook detailed assessments of the achievability of the Group's plans to reduce lifecycle 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. We focused on the estimates of costs expected to be incurred to respond to new technical issues emerging during the year, notably in relation to the Trent 700 and 900 programmes.

Our analysis of forecast revenues considered each significant airframe that is powered by the Group's engines and was based on discussions with commercial and operational management and our own experience, supplemented by discussions with an aircraft valuation specialist engaged by the Group. We assessed whether the valuation specialist 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** – We focused our controls testing on controls that we assessed as likely to provide effective audit evidence, largely those relating to revenue estimates. We also considered the operation of other controls in order to provide relevant comment to management and the audit committee. We found that the remediation of control weaknesses identified in earlier periods had continued. The scope and depth of our detailed testing and analysis was expanded to take account of the remaining control weaknesses. Overall, our assessment is that the assumptions and resulting estimates (including appropriate contingencies) resulted in balanced (2015 audit finding: balanced) profit recognition.

### **D** Recoverability of intangible assets (certification costs and participation fees, development expenditure and contractual aftermarket rights) in the Civil Aerospace business

*Refer to page 123 (Key sources of estimation uncertainty – Forecasts and discount rates), pages 127 and 128 (Significant accounting policies – Certification costs and participation fees, Research and development, Contractual aftermarket rights and Impairment of non-current assets), pages 140 to 142 (Note 9 to the financial statements – Intangible assets) and pages 98 and 99 (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.

The significance of the risk has increased somewhat during the year due to the emergence of new technical issues on the Trent 900 engines, the response to which is forecast to be costly.

**Our response** – We tested the controls designed and applied by the Group to provide assurance that the assumptions used in preparing the impairment calculations 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 tests (including market size, market share, pricing, engine and aftermarket unit costs, individual programme assumptions, price and cost escalation, discount rate and exchange rates). 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 public data where this was available. We focused on the Trent 900 programme assets where the impact of the estimated cost of responding to new technical issues would have led to a significant impairment had the effect not been offset by an increase in estimated market size and share. We tested the mathematical accuracy of the impairment calculations. We considered whether the disclosures in Note 9 to the financial

statements describe the inherent degree of subjectivity in the estimates and the potential impact on future periods of revisions to these estimates.

**Our findings** – Our testing did not identify weaknesses in the design and operation of controls that would have required us to expand the nature or scope of our planned detailed test work. We found that the assumptions and resulting estimates were balanced (2015 audit finding: *balanced*) and that the disclosures were proportionate (2015 audit finding: *proportionate*). We found no errors in calculations (2015 audit finding: *none*).

With regard to the Trent 900 programme assets, we found no evidence that the increase in estimated market size and share that resulted in no impairment being recognised was motivated by the impact on profit and we found that this estimate was based on a balanced assessment of the data available.

#### **E** Liabilities arising from customer financing arrangements

Refer to page 123 (Key areas of judgement – Customer financing contingent liabilities), page 129 (Significant accounting policies – Customer financing support), page 156 (Note 18 to the financial statements – Provisions for liabilities and charges) and pages 98 and 99 (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 a guarantee with respect to the value of an aircraft at a future date, a commitment to buy used aircraft or a guarantee of a customer's future payments under an aircraft financing arrangement. The Group also provides standby credit lines to certain customers that can be accessed if they fail to arrange alternative financing at the time they take delivery of engines. 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.

The significance of the risk has not changed during the year.

**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 whether the related disclosure in Note 18 to the financial statements appropriately explains 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.

**Our findings** – We found that the assumptions and estimates were balanced (2015 audit finding: *balanced*) and that the disclosures were proportionate (2015 audit finding: *proportionate*).

#### **F** Bribery and corruption

Refer to pages 105 and 106 (Safety & Ethics Committee report – Ethics and compliance)

**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 common practice.

The significance of the risk has not changed during the year.

**Our response** – We designed an approach to provide reasonable assurance that we would identify bribery and corruption that would have a material impact on the financial statements. We evaluated and tested the Group's policies, procedures and controls over the selection and renewal of intermediaries, contracting arrangements, ongoing management and payments and over responses to suspected breaches of policy. We sought to identify payments made to intermediaries during the year using data analysis techniques, including focusing on intermediaries that have been rejected through the Group's selection process or were identified during investigations. We tested whether these had been subject to the Group's controls, 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 and/or met with the Group's legal advisers to cross check the results of those enquiries with third parties 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.

**Our findings** – We did not find any evidence of payments of bribes or other corrupt behaviour during the year that would have had a material impact on the financial statements (2015 audit finding: *none*).

#### **Presentation and explanation of results**

Refer to pages 18 to 35 (Business review), pages 36 to 39 (Financial review), pages 131 to 135 (Note 2 to the financial statements – Segmental analysis) and pages 98 and 98 (Audit Committee report – Financial reporting)

#### **G** The presentation of 'underlying profit'

**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 133 and 134.

A significant recurring adjustment between the Adopted IFRS income statement and the 'underlying' income statement relates

## Independent auditor's report continued

to the foreign exchange rates 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. 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.

In addition, adjustments are made to exclude one-off past-service costs on post-retirement schemes, the cost of restructuring programmes that involve the substantial closure or exit from a site, facility or line of business or other major transformation activities, the effect of acquisition accounting (including any subsequent impairments of goodwill or other intangible assets) and a number of other items, including this year the £671m financial penalties from agreements with investigating authorities in connection with historic bribery and corruption involving intermediaries in a number of overseas markets.

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

The significance of the risk has not changed during the year.

**Our response** – We assessed the appropriateness of the basis for the adjustments between the Adopted IFRS income statement and the 'underlying' income statement and the consistency of application of this basis and we recalculated the adjustments with a particular focus on the impact of the foreign exchange rates used to translate foreign currency amounts in the 'underlying' income statement. We assessed whether or not the selection of forward foreign exchange contracts settled in the year 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 found no concerns regarding the basis of the 'underlying' financial information or its calculation and no

indication of management bias in the settlement of forward foreign exchange contracts. We consider that there is proportionate (and somewhat improved) 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 (*2015 audit finding: proportionate*). We found the overall presentation of the 'underlying' financial information to be balanced (*2015 audit finding: balanced*).

### H Disclosure of the effect on the trend in profit of items which are uneven in frequency or amount

**The risk** – The Group's profits are significantly impacted by items such as cumulative adjustments to profit recognised on long-term contracts, impairments (and reversals of impairments) of goodwill, CARs and other intangible assets, sale and leasebacks of spare engines to joint ventures, research and development charges, reorganisation costs and foreign exchange translation which can be uneven in frequency and/or amount. If significant either to the profit for the year or to the trend in profit, appropriate disclosure of the effect of these items is necessary in the Annual Report and financial statements to provide the information necessary to enable shareholders to assess the Group's performance.

The significance of the risk has not changed during the year.

**Our response** – We undertook detailed analysis of business performance at Group and segment level that sought to identify items that affect profit (and the trend in profit) which are uneven in frequency or amount at a much lower level than we would otherwise have done and to assess the transparency of disclosure of these items.

**Our findings** – We identified a number of significant items that had affected profit for the year or the prior year that required appropriate disclosure in the Annual Report to enable shareholders to assess the Group's performance. The key items are:

- (1) the £4,420m unrealised fair value losses (*2015: £1,315m losses*) on derivative contracts;
- (2) the £217m profit (*2015: £140m profit*) arising from the impact of improvements in lifecycle costs on long-term contracts;
- (3) the £35m profit (*2015: nil*) arising from the impact of revising the forecast long-term US dollar to sterling exchange rate on long-term contracts;
- (4) the £98m loss (*2015: £24m loss*) on long-term contracts arising from new technical issues on Civil Aerospace large engines;
- (5) the £64m loss (*2015: £83m loss*) arising from other estimate changes on long-term contracts;
- (6) the £30m loss (*2015: nil*) arising on Civil Aerospace new engine programmes;
- (7) the £918m (*2015: £818m*) of research and development charges;
- (8) the £127m, net of a release of prior year provisions of £19m, (*2015: £88m, net of a £30m release*) of restructuring charges;
- (9) the £119m (*2015: £71m*) profit arising from sales of spare engines to joint ventures;
- (10) the £219m (*2015: £75m*) impairments of goodwill;

- (11) the £671m (2015: nil) financial penalties from agreements with investigating authorities in connection with historic bribery and corruption involving intermediaries in a number of overseas markets;
- (12) the £53m (2015: nil) release of accruals relating to termination in prior years of intermediary services;
- (13) the £306m loss (2015: nil) from the restructuring of the UK pension schemes, including the buyout of the Vickers Group Pension Scheme;
- (14) the £189m profit arising from refinement in the basis of measurement of the risk contingency for forecasts of future revenue to be earned under long-term contracts in 2015; and
- (15) the £65m profit arising from the release of provisions against previously impaired intangible assets for contractual aftermarket rights in 2015.

We found that ample disclosure of these items had been provided in the Annual Report and financial statements taken as a whole (2015 audit finding: ample).

In reaching our audit opinion on the financial statements we took into account the findings that we describe above and those for other, lower risk areas included in the output from our Dynamic Audit planning tool set out above. Overall the findings from across the whole audit are that the financial statements have been prepared on the basis of appropriate accounting policies, reflect balanced estimates, and provide proportionate disclosure. Having assessed these findings and evaluated uncorrected misstatements in the context of materiality and considered the qualitative aspects of the financial statements as a whole, we have not modified our opinion on the financial statements.

### 3 OUR APPLICATION OF MATERIALITY AND AN OVERVIEW OF THE SCOPE OF OUR AUDIT

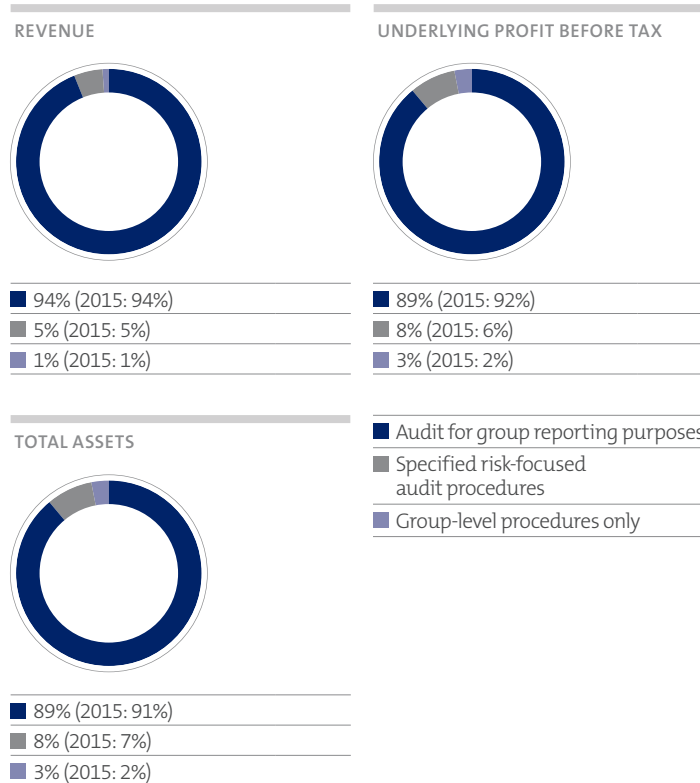
Our measure of materiality for the Group financial statements as a whole has reduced in line with the reduction in the Group's profit. This was set at £30m (2015: £66m) and was determined with reference to a benchmark of Group profit before taxation, averaged over the last three years in order to take into account the volatility in profits over this period, and normalised to exclude the impact of gains and losses on revaluation of foreign currency and other derivative financial instruments which could otherwise result in an inappropriate materiality level being determined. This materiality measure represents 2.9% (2015: 4.5%) of this benchmark and 0.6% (2015: 41.3%) of total reported profit/loss before tax. We carry out audit procedures to assess the accuracy of the gains and losses on these derivative financial instruments (which this year amounted to a £4.4bn loss (2015: £1.3bn loss)) as part of our audit of the Group's treasury operations.

We report to the Audit Committee: (i) all material corrected identified misstatements; (ii) uncorrected identified misstatements exceeding £1.5m (2015: £3m) for income statement items; and (iii) other identified misstatements that warrant reporting on qualitative grounds.

We subjected 34 (2015: 31) of the Group's reporting components to audits for group reporting purposes and 13 (2015: 11) to specified risk-focused audit procedures. The latter were not individually sufficiently financially significant to require an audit for group reporting purposes, but did present specific individual risks that needed to be addressed. This work also provided further audit coverage. For the remaining components, the Group audit team performed analysis at an aggregated group level to re-examine our assessment that there were no significant risks of material misstatement within these components.

The Group operates shared service centres for the bulk processing of financial transactions in Derby (UK), Indianapolis (US) and Singapore, the outputs of which are included in the financial information of the reporting components they service and therefore they are not separate reporting components. Each of the service centres is subject to specified risk-focused audit procedures, predominantly the testing of transaction processing and review controls. Additional audit procedures are performed at certain reporting components to address the audit risks not covered by the work performed over the shared service centres.

#### SUMMARY AUDIT SCOPE



The Group audit team instructed component auditors, and the auditors of the shared service centres, as to the significant areas to be covered, including the relevant risks detailed above, and the information to be reported back. The Group audit team approved the component materiality assessments, which ranged from £0.3m to £24m (2015: £0.2m to £52m), having regard to the mix of size and risk profile of the Group across the components. The work on 19 of



## Independent auditor's report continued

the 47 (2015: 21 of 42) components was performed by component auditors and the rest by the Group audit team. The Group audit team visited 33 (2015: 31) component locations in the UK, the US, Germany and Scandinavia, the purpose of which included an assessment of the audit risk and strategy. Telephone conference meetings were also held with these component auditors and with those of the higher risk components that were not physically visited. At these visits and meetings, the findings reported to the Group audit team were discussed in more detail, and any further work required by the Group audit team was then performed by the component auditor.

### 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 the Directors' report for the financial year is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic report and the Directors' report:

- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

### 5 WE HAVE NOTHING TO REPORT ON THE DISCLOSURES OF PRINCIPAL RISKS

Based on the knowledge we acquired during our audit, we have nothing material to add or draw attention to in relation to:

- the Directors' viability statement on page 53, concerning the principal risks, their management, and, based on that, the Directors' assessment and expectations of the Group's continuing in operation over the five years to 31 December 2021; or
- the disclosures on page 53 and in Note 1 to the financial statements concerning the use of the going concern basis of accounting.

### 6 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' statements, set out on page 53, in relation to going concern and longer term viability; and
- the part of the corporate governance report on page 60 relating to the Company's compliance with the eleven provisions of the 2014 UK Corporate Governance Code 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 page 113, 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 financial statements is provided on the Financial Reporting Council's website at [www.frc.org.uk/auditscopeukprivate](http://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/auditscopeukco2014b](http://www.kpmg.com/uk/auditscopeukco2014b), 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 LLP, Statutory Auditor

Chartered Accountants  
15 Canada Square  
London E14 5GL  
13 February 2017



# Sustainability assurance statement

To: The stakeholders of Rolls-Royce Holdings plc

## Independent limited assurance statement

### INTRODUCTION AND OBJECTIVES OF WORK

Bureau Veritas UK Limited (Bureau Veritas) has been engaged by Rolls-Royce Holdings plc (Rolls-Royce) to provide limited assurance of selected sustainability performance indicators for inclusion in its 2016 Annual Report and website. This assurance statement applies to the related information included within the scope of work described below.

### SELECTED INFORMATION

The scope of our work was limited to assurance over the following information included within Rolls-Royce's 2016 Annual Report (the Report) for the period 1 of January to 31 of December 2016 (the Selected Information):

- Energy consumption;
- Scope 1 and scope 2 greenhouse gas (GHG) emissions;
- Total reportable injury (TRI) rate; and
- The number of people reached through the science, technology, engineering and mathematics (STEM) education outreach programmes.

### REPORTING CRITERIA

The Selected Information needs to be read and understood together with the basis of reporting document, as set out at [www.rolls-royce.com/sustainability](http://www.rolls-royce.com/sustainability).

### LIMITATIONS AND EXCLUSIONS

Excluded from the scope of our work is any verification of information relating to:

- Activities outside the defined verification period; and
- Other information included in the Report.

This limited assurance engagement relies on a risk-based selected sample of sustainability data and the associated limitations that this entails. This independent statement should not be relied upon to detect all errors, omissions or misstatements that may exist.

### RESPONSIBILITIES

This preparation and presentation of the Selected Information in the Report are the sole responsibility of the management of Rolls-Royce.

Bureau Veritas was not involved in the drafting of the Report or of the Reporting Criteria. Our responsibilities were to:

- obtain limited assurance about whether the Selected Information has been prepared in accordance with the Reporting Criteria;
- form an independent conclusion based on the assurance procedures performed and evidence obtained; and
- report our conclusions to the Directors of Rolls-Royce.

### ASSESSMENT STANDARD

We performed our work in accordance with International Standard on Assurance Engagements (ISAE) 3000 Revised, Assurance Engagements Other than Audits or Reviews of Historical Financial Information (effective for assurance reports dated on or after 15 December 2015), and in accordance with International Standard on Assurance Engagements (ISAE) 3410, Assurance Engagements on Greenhouse Gas Statements, issued by the International Auditing and Assurance Standards Board.

### SUMMARY OF WORK PERFORMED

As part of its independent verification, Bureau Veritas undertook the following activities:

1. Assessed the appropriateness of the Reporting Criteria for the Selected Information;
2. Conducted interviews with relevant personnel of Rolls-Royce;
3. Carried out nine site visits, selected employing a risk-based approach, in the UK, US, Germany, Italy and Singapore;
4. Reviewed the data collection and consolidation processes used to compile the Selected Information, including assessing assumptions made, the data scope and reporting boundaries;
5. Reviewed documentary evidence produced by Rolls-Royce;
6. Agreed a selection of the Selected Information to the corresponding source documentation; and
7. Re-performed aggregation calculations of the Selected Information.

### CONCLUSION

On the basis of our methodology and the activities described above, nothing has come to our attention to indicate that the Selected Information has not been properly prepared, in all material respects, in accordance with the Reporting Criteria.

### STATEMENT OF INDEPENDENCE, INTEGRITY AND COMPETENCE

Bureau Veritas is an independent professional services company that specialises in quality, environmental, health, safety and social accountability with over 185 years' history. Its assurance team has extensive experience in conducting verification over environmental, social, ethical and health and safety information, systems and processes.

Bureau Veritas operates a certified<sup>1</sup> Quality Management System which complies with the requirements of ISO 9001:2008, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Bureau Veritas has implemented and applies a Code of Ethics, which meets the requirements of the International Federation of Inspections Agencies (IFIA)<sup>2</sup> across the business to ensure that its employees maintain integrity, objectivity, professional competence and due care, confidentiality, professional behaviour and high ethical standards in their day-to-day business activities.

The assurance team for this work does not have any involvement in any other Bureau Veritas projects with Rolls-Royce.

Bureau Veritas UK Limited  
London  
2 February 2017



<sup>1</sup> Certificate of Registration FS 34143 issued by BSI Assurance UK Limited.

<sup>2</sup> International Federation of Inspection Agencies – Compliance Code – Third Edition.

## Additional financial information

### Foreign exchange

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

		2016	2015	Change
USD per GBP	Year end spot rate	1.23	1.48	-17%
	Average spot rate	1.36	1.53	-11%
EUR per GBP	Year end spot rate	1.17	1.36	-14%
	Average spot rate	1.22	1.38	-12%

### The Group's approach to managing its tax affairs

#### Introduction

Rolls-Royce is committed to (i) complying with laws in a responsible manner and (ii) building and maintaining professional and constructive working relationships with tax authorities based on principles of mutual transparency and trust.

These commitments, which are explained in more detail below, apply to all countries and all employees.

#### 1. Tax planning

The Group manages tax costs through maximising the tax efficiency of business transactions which includes taking advantage of available tax incentives and exemptions. This must be done in a way which is aligned with the Group's commercial objectives and meets its legal obligations and ethical standards. It must also be done in a way that gives a tax result the Group reasonably believes is not contrary to the clear intentions of the legislation concerned.

#### 2. Relationships with tax authorities

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 allow the authorities to review possible risks.

Where appropriate and possible, the Group enters into consultation with tax authorities to help shape proposed legislation and future tax policy.

#### 3. Transfer pricing

The Group seeks to price transactions between Rolls-Royce group companies as if they were between unrelated parties, in compliance with the OECD Transfer Pricing Guidelines and the laws of the relevant jurisdictions.

#### 4. Governance

The Board has approved this approach.

The Group Audit Committee oversees the Group's tax affairs and risks through periodic reviews.

The Group's governance framework is used to manage tax risks, establish controls and monitor their effectiveness.

The Group Tax Director is responsible for ensuring that appropriate policies, processes and systems are in place and that the global tax team has the required skills and support to implement this approach.

### The Group's global corporate income tax contribution

Around 85% of the Group's underlying profit before tax (excluding joint ventures and associates) is generated in the UK, the US, Germany, Norway, Finland and Singapore. This is lower than 2015 (95%) due to losses in the Marine businesses. 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 income tax is paid is not the same as the consolidated profit before tax reported on page 115. The main reasons for this are:

- i) the consolidated income statement is prepared under adopted 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 2016 were £157m. 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 and associates, would be 37.5% (2015: 26.6%). The underlying tax rate including joint ventures and associates can be found on pages 16 and 36. This is due to deferred tax accounting, details of which can be found in note 5 to the Consolidated Financial Statements. The impact of (iii) will often be permanent depending on the relevant tax law.

Further information on the tax position of the Group can be found as follows:

- Audit Committee report (page 98) – The Group Tax Director gave a presentation to the Audit Committee during the year which covered various matters including tax risks and how they are managed;
- Note 1 to the Consolidated financial statements (pages 124 and 126) – Details of key areas of uncertainty and accounting policies for tax;
- Note 5 to the Consolidated financial statements (pages 137 to 139) – Details of the tax balances in the Consolidated financial statements together with a tax reconciliation. This explains the main drivers of the tax rate.

At this stage we expect these items to continue to influence the underlying tax rate. The reported tax rate is more difficult to forecast due to the volatility of significant items in reported profits, in particular the net unrealised fair value changes to derivative contracts.

## 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, including the launch of major programmes, 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.

## Capital structure

£m	2016	2015
Total equity	1,864	5,016
Cash flow hedges	107	100
Group capital	1,971	5,116
Net debt	(225)	(111)

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 extended the maturity of the £1,500m committed bank borrowing facility from 2020 to 2021. The Group also added a further £500m committed bank borrowing facility with a maturity of 2019. Both of these facilities were undrawn at the period end. At the year end, the Group retained aggregate liquidity of £5.1bn, including cash and cash equivalents of £2.8bn

and undrawn borrowing facilities of £2.3bn. Circa £170m of the facilities mature in 2017.

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. 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	BBB+	Stable	Investment

The Group subscribes to both Moody's Investors Service and Standard & Poor's for independent long-term credit ratings. At the date of this report, 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

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

No new accounting standards had a material impact in 2016. The impact of changes to IFRS, in particular IFRS 15 *Revenue from Contracts with Customers* which have not been adopted in 2016 is included within the accounting policies in note 1.

## Share price

During the year, the share price increased by 16% from 575p to 668p, compared to a 12% increase in the FTSE aerospace and defence sector and a 14% increase in the FTSE 100. The Company's share price ranged from 504p in February 2016 to 826p in July 2016.

## Other statutory information

### Share capital

On 31 December 2016 1,838,796,763 ordinary shares of 20p each, 28,124,943,825 C Shares of 0.1p each and one Special Share of £1 were in issue. The ordinary shares are listed on the London Stock Exchange.

### Payment to shareholders

The Company issues non-cumulative redeemable preference shares (C Shares) as an alternative to paying a cash dividend.

Shareholders can choose to:

- Redeem all C Shares for cash.
- Redeem all C Shares for cash and reinvest the proceeds in the C Share Reinvestment Plan (CRIP).
- Keep the C Shares.

The CRIP is operated by Computershare Investor Services PLC (the Registrar). The Registrar will purchase ordinary shares in the market for shareholders electing to reinvest their C Share proceeds. Shareholders wishing to participate in the CRIP or redeem their C Shares in July 2017 must ensure that their instructions are lodged with the Registrar no later than 5.00pm (BST) on 1 June 2017 (CREST holders must submit their election in CREST before 3.00pm (BST) on 1 June 2017). Redemption will take place on 5 July 2017.

At the 2017 AGM, the Directors will recommend an issue of 71 C Shares with a total nominal value of 7.1p for each ordinary share. The C Shares will be issued on 3 July 2017 to shareholders on the register on 28 April 2017 and the final day of trading with entitlement to C Shares is 26 April 2017. Together with the interim issue on 4 January 2017 of 46 C Shares for each ordinary share with a total nominal value of 4.6p, this is the equivalent of a total annual payment to ordinary shareholders of 11.7p for each ordinary share.

Further information for shareholders is on pages 190 and 191.

### Share class rights

The full share class rights are set out in the Company's Articles of Association (Articles), which are available on the Group's website at [www.rolls-royce.com](http://www.rolls-royce.com), and are summarised below.

#### ORDINARY SHARES

Each member has one vote for each ordinary share held. Holders of ordinary shares are entitled to: receive the Company's Annual Report; attend and speak at general meetings of the Company; appoint one or more proxies or, if they are corporations, corporate representatives; and exercise voting rights. Holders of ordinary shares may receive a bonus issue of C Shares or a dividend and on liquidation may share in the assets of the Company.

#### C SHARES

C Shares have limited voting rights and attract a dividend of 75% of LIBOR on the 0.1p nominal value of each share, paid on a twice-yearly basis. The Company has the option to redeem the C Shares compulsorily, at any time, if the aggregate number of C Shares in issue is less than 10% of the aggregate number of all C Shares issued, or on the acquisition or capital restructuring of the Company.

On a return of capital on a winding-up, the holders of C Shares shall be entitled, in priority to any payment to the holders of ordinary shares, to the repayment of the nominal capital paid-up or credited as paid-up on the C Shares held by them, together with a sum equal to the outstanding preferential dividend which will have been accrued but not been paid until the date of return of capital.

The holders of C Shares are only entitled to attend, speak and vote at a general meeting if a resolution to wind up the Company is to be considered, in which case they may vote only on that resolution.

#### SPECIAL SHARE

Certain rights attach to the special rights non-voting share (Special Share) issued to HM Government (Special Shareholder). These rights are set out in the Articles. Subject to the provisions of the Companies Act 2006, the Treasury Solicitor may redeem the Special Share at par at any time. The Special Share confers no rights to dividends but in the event of a winding-up it shall be repaid at its nominal value in priority to any other shares.

Certain Articles (in particular those relating to the foreign shareholding limit, disposals and the nationality of the Company's Directors) that relate to the rights attached to the Special Share may only be altered with the consent of the Special Shareholder. The Special Shareholder is not entitled to vote at any general meeting or any other meeting of any class of shareholders.

#### RESTRICTIONS ON TRANSFER OF SHARES AND LIMITATIONS ON HOLDINGS

There are no restrictions on transfer or limitations on the holding of the ordinary shares or C Shares other than under the Articles (as described here), under restrictions imposed by law or regulation (for example, insider trading laws) or pursuant to the Company's share dealing code. The Articles provide that the Company should be and remain under UK control. As such, an individual foreign shareholding limit is set at 15% of the aggregate votes attaching to the share capital of all classes (taken as a whole) and capable of being cast on a poll and to all other shares that the Directors determine are to be included in the calculation of that holding. The Special Share may only be issued to, held by and transferred to the Special Shareholder or his successor or nominee.

#### SHAREHOLDER AGREEMENTS AND CONSENT REQUIREMENTS

There are no known arrangements under which financial rights carried by any of the shares in the Company are held by a person other than the holder of the shares and no known agreements between the holders of shares with restrictions on the transfer of shares or exercise of voting rights. No disposal may be made to a non-Group member which, alone or when aggregated with the same or a connected transaction, constitutes a disposal of the whole or a material part of either the Nuclear propulsion business or the assets of the Group as a whole, without the consent of the Special Shareholder.

## Authority to issue shares

At the AGM in 2016, authority was given to the Directors to allot new C Shares up to a nominal value of £500m as an alternative to a cash dividend.

In addition, a special resolution was passed authorising the Directors to allot new ordinary shares up to a nominal value of £122,579,775 equivalent to one-third of the issued share capital of the Company. This resolution also authorised the Directors to allot up to two thirds of the total issued share capital of the Company, but only in the case of a rights issue.

A further special resolution was passed to effect a disapplication of pre-emption rights for a maximum of 5% of the issued share capital of the Company.

These authorities are valid until the AGM in 2017, and the Directors propose to renew each of them at that AGM. The Board believes that these authorities will allow the Company to retain flexibility to respond to circumstances and opportunities as they arise.

## Authority to purchase own shares

At the AGM in 2016, the Company was authorised by shareholders to purchase up to 183,869,662 of its own ordinary shares representing 10% of its issued ordinary share capital.

The authority for the Company to purchase its own shares expires at the conclusion of the AGM in 2017 or 18 months from 5 May 2016 whichever is the earlier. A resolution to renew it will be proposed at the 2017 meeting.

## Deadlines for exercising voting rights

Electronic and paper proxy appointments, and voting instructions, must be received by the Company's Registrar not less than 48 hours before a general meeting.

## Voting rights for employee share plan shares

Shares are held in various employee benefit trusts for the purpose of satisfying awards made under the various employee share plans. For shares held in a nominee capacity or if plan/trust rules provide the participant with the right to vote in respect of specifically allocated shares, the trustee votes in line with the participants' instructions. For shares that are not held absolutely on behalf of specific individuals, the general policy of the trustees, in accordance with investor protection guidelines, is to abstain from voting in respect of those shares.

## Change of control

### CONTRACTS AND JOINT VENTURE AGREEMENTS

There are a number of contracts and joint venture agreements which would allow the counterparties to terminate or alter those arrangements in the event of a change of control of the Company. These arrangements are commercially confidential and their disclosure could be seriously prejudicial to the Company.

### BORROWINGS AND OTHER FINANCIAL INSTRUMENTS

The Group has a number of borrowing facilities provided by various banks. These facilities generally include provisions which may require any outstanding borrowings to be repaid or the alteration or termination of the facility upon the occurrence of a change of control of the Company. At 31 December 2016, these facilities were less than 15% drawn (2015: 22%).

The Group has entered into a series of financial instruments to hedge its currency, interest rate and commodity exposures. These contracts provide for termination or alteration in the event that a change of control of the Company materially weakens the creditworthiness of the Group.

### EMPLOYEE SHARE PLANS

In the event of a change of control of the Company, the effect on the employee share plans would be as follows:

- PSP – awards would vest pro rata to service in the performance period, subject to Remuneration Committee judgement of Group performance.
- APRA deferred shares – the shares would be released from trust immediately.
- ShareSave – options would become exercisable immediately. The new company might offer an equivalent option in exchange for cancellation of the existing option.
- Share Incentive Plan (SIP) – consideration received as shares would be held within the SIP, if possible, otherwise the consideration would be treated as a disposal from the SIP.
- New LTIP (subject to shareholder approval) – awards would vest on the change of control, subject to the Remuneration Committee's judgement of performance and may be reduced pro rata to service in the vesting period. Any applicable holding period will cease in the event of a change in control.



## Other statutory information continued

### Major shareholdings

At 13 February 2017 the following shareholders had notified an interest in the issued ordinary share capital of the Company in accordance with the Financial Conduct Authority's (FCA's) Disclosure Guidance and Transparency Rules.

Shareholder	Date notified	% of issued ordinary share capital
BlackRock, Inc.	23 November 2016	5.00
The Capital Group Companies, Inc.	6 January 2017	4.69
ValueAct Capital Master Fund, L.P.	27 January 2017	11.01
Harbor International Fund	2 February 2017	3.98

### Directors

The names of the Directors who held office during the year are set out on page 61.

### Disclosures in the Strategic report

The Board has taken advantage of Section 414C(11) of the Companies Act 2006 to include disclosures in the Strategic report including:

- Employee involvement.
- The future development, performance and position of the Group.
- The financial position of the Group.
- R&D activities.
- The principal risks and uncertainties.

### Political donations

The Group's policy is not to make political donations and therefore did not donate any money to any political party during the year.

However, it is possible that certain activities undertaken by the Group may unintentionally fall within the broad scope of the provisions contained in the Companies Act 2006 (the Act). The resolution to be proposed at the AGM is to ensure that the Group does not commit any technical breach of the Act.

During the year, expenses incurred by Rolls-Royce North America Inc. in providing administrative support for the Rolls-Royce North America political action committee (PAC) was US\$42,742 (2015: US\$45,021). PACs are a common feature of the US political system and are governed by the Federal Election Campaign Act.

The PAC is independent of the Group and independent of any political party. The PAC funds are contributed voluntarily by employees and the Group cannot affect how they are applied, although under US Law, the business expenses are paid by the employee's company. Such contributions do not require authorisation by shareholders under the Act and therefore do not count towards the limits for political donations and expenditure for which shareholder approval will be sought at this year's AGM to renew the authority given at the 2016 AGM.

### Greenhouse gas emissions

In 2016, our total greenhouse gas (GHG) emissions from our facilities and processes, including product test and development, was 587 kilotonnes carbon dioxide equivalent (ktCO<sub>2</sub>e). This represents a decrease of 3% compared with 602 ktCO<sub>2</sub>e in 2015.

We have introduced reporting of fugitive emissions of hydrofluorocarbons (HFCs), associated with air conditioning equipment, into our GHG emissions figures for 2016. These include emissions from our facilities in the UK, US, Canada and France only. We do not anticipate that emissions from other facilities will have a material impact. Figures from prior years (2012 to 2015) exclude emissions associated with HFCs.

Total GHG emissions (ktCO <sub>2</sub> e)	2012	2013	2014*	2015 <sup>☑</sup>	2016 <sup>☑</sup>
Direct emissions – facilities, processes, product test and development (Scope 1)	219	241	301	242	240
Indirect emissions – facilities, processes, product test and development (Scope 2)	313	313	382	360	347
<b>Total for facilities, processes, product test and development</b>	532	554	683	602	587
Direct emissions – power generation to grid (Scope 1)		153	155	132	132
Indirect emissions – power generation to grid (Scope 2)		12	14	15	11
<b>Total for facilities, processes, product test and development, and power generation to grid</b>		719	852	749	730
<b>Intensity ratio (total emissions normalised by revenue) for facilities, processes, product test and development, and power generation to grid (ktCO<sub>2</sub>e/£m)</b>		0.048	0.062	0.055	0.052

\* 2014 data has been restated to reflect the inclusion of greenhouse gas emissions data from Power Systems. Figures for prior years (2012 to 2013) do not include data from Power Systems and therefore are not directly comparable.

☑ We engaged Bureau Veritas to undertake a limited assurance engagement, reporting to Rolls-Royce Holdings plc, using the assurance standards ISAE 3000 and ISAE 3410 over the energy, GHG, TRI rate and STEM data that has been highlighted with ☑ and as set out on pages 41 to 44 and in the table above. The sustainability assurance statement is included on page 183.

With the exceptions noted above, we have reported on all of the emission sources required under the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013. These sources fall within our consolidated financial statements. We do not have responsibility for any emission sources that are not included in our consolidated financial statements.

We have used the GHG Protocol Corporate Accounting and Reporting Standard (revised edition) as of 31 December 2014, data gathered to fulfil our requirements under the Carbon Reduction Commitment (CRC) Energy Efficiency scheme, and emission factors from the UK government's GHG Conversion Factors for Company Reporting 2016.

Further details on our methodology for reporting and the criteria used can be found within our basis of reporting, available to download from our website at [www.rolls-royce.com/sustainability](http://www.rolls-royce.com/sustainability).

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## Branches

Rolls-Royce is a global company and our activities and interests are operated through subsidiaries, branches of subsidiaries, joint ventures and associates which are subject to the laws and regulations of many different jurisdictions. Our subsidiaries, joint ventures and associates are listed on pages 170 to 175.

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## Post balance sheet events

In January 2017, the Group entered into Deferred Prosecution Agreements with the UK Serious Fraud Office and the US Department of Justice, and a leniency agreement with the Brazilian authority, MPF. These agreements require that the Group pays financial penalties, the details of which are set out on page 8.

There have been no other events affecting the Group since 31 December 2016 which need to be reflected in the 2016 Consolidated financial statements.

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## Financial instruments

Details of the Group's financial instruments are set out in note 17 to the consolidated financial statements.

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## Related party transactions

Related party transactions are set out in note 24 to the Consolidated financial statements.

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## Information required by UK Listing Rule (LR) 9.8.4

There are no disclosures to be made under LR 9.8.4.

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## Management report

The Strategic report and the Directors' report together are the management report for the purposes of Rule 4.1.8R of the FCA's Disclosure Guidance and Transparency Rules.

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## Disclosure of information to auditors

Each of the persons who is a Director at the date of approval of this report confirms that:

- So far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware.
- The Director has taken all steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given, and should be interpreted, in accordance with the provisions of Section 418 of the Companies Act 2006.

## Shareholder information

### Financial calendar 2017-2018



### 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), a 10-digit number prefixed with the letter 'C' 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](http://www.investorcentre.co.uk), speak to the Registrar on +44 (0)370 703 0162 (8.30am to 5.30pm Monday to Friday) or you can write to the Registrar 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 0.1p each. You can redeem C Shares for cash and either take the cash or reinvest the cash to purchase additional ordinary shares 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 strongly 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 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 available from its website [www.computershare.co.uk](http://www.computershare.co.uk) and a telephone dealing service (+44 (0)370 703 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% of the transaction value subject to a minimum fee of £30. The fee for telephone dealing is 1% of the transaction plus £35. Stamp duty of 0.5% is payable on all purchases. Other share dealing facilities are available but you should always use a firm regulated by the FCA (see [www.fca.org.uk/register](http://www.fca.org.uk/register)).

### Your share certificate

Your share certificate is an important document. If you sell or transfer your shares you must make sure 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 may be liable for any costs incurred by the broker. Share certificates issued in the name of Rolls-Royce plc or Rolls-Royce Group plc are invalid and should be destroyed. If you are unable to find your share certificate please inform the Registrar immediately.

### American Depositary Receipts (ADR)

ADR holders should contact the depositary, JP Morgan, by calling +1 (800) 990 1135 (toll free within the US) or emailing [adr@jpmorgan.com](mailto:adr@jpmorgan.com).

## Warning to shareholders – investment scams

We are aware that some of our shareholders have received unsolicited telephone calls or correspondence, offering to buy or sell their shares at very favourable terms. The callers can be very persuasive and extremely persistent and often have professional websites and telephone numbers to support their activities. These callers will sometimes imply a connection to Rolls-Royce and provide incorrect or misleading information. This type of call should be treated as an investment scam – the safest thing to do is hang up.

You should always check that any firm contacting you about potential investment opportunities is properly authorised by the FCA. If you deal with an unauthorised firm you will not be eligible for compensation under the Financial Services Compensation Scheme. You can find out more about protecting yourself from investment scams by visiting the FCA's website [www.fca.org.uk/consumers](http://www.fca.org.uk/consumers), or by calling the FCA's consumer helpline on 0800 111 6768 (overseas callers dial +44 20 7066 1000). If you have already paid money to share fraudsters contact Action Fraud immediately on 0300 123 2040, whose website is at [www.actionfraud.police.uk](http://www.actionfraud.police.uk).

**Remember: if it sounds too good to be true it probably is.**

## Visit Rolls-Royce online

Visit [www.rolls-royce.com](http://www.rolls-royce.com) 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 updates to your phone or email address by visiting [www.rolls-royce.com](http://www.rolls-royce.com) and registering for our alert service.

## DIVIDENDS PAID ON C SHARES HELD

C Share calculation period	C Share dividend rate (%)	Record date for C Share dividend	Payment date
1 July 2016 – 31 December 2016	0.254	11 November 2016	4 January 2017
1 January 2016 – 30 June 2016	0.282	3 June 2016	1 July 2016

## PREVIOUS C SHARE ISSUES

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)	Apportionment values		CGT apportionment		
						Ordinary shares (%)	C Shares (%)	Date of redemption of C Shares	CRIP purchase date	CRIP purchase price (p)
4 January 2017	46	21 October 2016	1 December 2016	670.00	4.60	99.32	0.68	6 January 2017	12 January 2017	665.4883
1 July 2016	71	29 April 2016	1 June 2016	711.25	7.10	99.01	0.99	4 July 2016	5 July 2016	709.4997

For information on earlier C Share issues, please refer to the Group's website [www.rolls-royce.com](http://www.rolls-royce.com).

## ANALYSIS OF ORDINARY SHAREHOLDERS AT 31 DECEMBER 2016

Type of holder	Number of shareholders	% of total shareholders	Number of shares	% of total shares
Individuals	186,217	97.46	95,144,774	5.17
Institutional and other investors	4,850	2.54	1,743,651,989	94.83
Total	191,067	100.00	1,838,796,763	100.00
Size of holding				
1 – 150	62,115	32.51	5,793,739	0.32
151 – 500	94,927	49.68	26,096,749	1.42
501 – 10,000	32,319	16.91	52,267,639	2.84
10,001 – 100,000	1,163	0.61	32,145,373	1.75
100,001 – 1,000,000	378	0.20	125,958,367	6.85
1,000,001 and over	165	0.09	1,596,534,896	86.82
Total	191,067	100.00	1,838,796,763	100.00

## Glossary

<b>ABC</b>	anti-bribery and corruption	<b>IASB</b>	International Accounting Standards Board
<b>AGM</b>	Annual General Meeting	<b>IFRS</b>	International financial reporting standards
<b>AMC</b>	Approved Maintenance Centre	<b>KPIs</b>	key performance indicators
<b>AMRCs</b>	Advanced Manufacturing Research Centres	<b>ktCO<sub>2</sub>e</b>	kilotonnes carbon dioxide equivalent
<b>APRA</b>	annual performance related award plan	<b>LIBOR</b>	London inter-bank offered rate
<b>Articles</b>	Articles of Association of Rolls-Royce Holdings plc	<b>LTIP</b>	long-term incentive plan
<b>ASC</b>	Authorised Service Centres	<b>LTPR</b>	long-term planning exchange rate
<b>Brexit</b>	UK exit from the European Union	<b>L TSA</b>	long-term service agreement
<b>C Shares</b>	non-cumulative redeemable preference shares	<b>MPF</b>	Ministério Público Federal, Brazil
<b>C&amp;A</b>	commercial and administrative	<b>MRO</b>	maintenance repair and overhaul
<b>CARs</b>	contractual aftermarket rights	<b>MTC</b>	Manufacturing Technology Centre
<b>CEO</b>	chief executive officer	<b>NCI</b>	non-controlling interest
<b>CFO</b>	chief financial officer	<b>OCI</b>	other comprehensive income
<b>Company</b>	Rolls-Royce Holdings plc	<b>OE</b>	original equipment
<b>CPS</b>	cash flow per share	<b>OECD</b>	Organisation for Economic Co-operation and Development
<b>CRIP</b>	C Share reinvestment plan	<b>P&amp;L</b>	profit and loss
<b>DARPA</b>	Defense Advanced Research Projects Agency	<b>PBT</b>	profit before tax
<b>DoJ</b>	US Department of Justice	<b>PPE</b>	property, plant and equipment
<b>DPA</b>	Deferred Prosecution Agreements	<b>PSP</b>	performance share plan
<b>EASA</b>	European Aviation Safety Agency	<b>R&amp;D</b>	research and development
<b>ELT</b>	Executive Leadership Team	<b>R&amp;T</b>	research and technology
<b>EPS</b>	earnings per share	<b>Registrar</b>	Computershare Investor Services PLC
<b>EU</b>	European Union	<b>RMS</b>	risk management system
<b>EUR</b>	euro	<b>RRSAs</b>	risk and revenue sharing arrangements
<b>FCA</b>	Financial Conduct Authority	<b>SFO</b>	UK Serious Fraud Office
<b>FCAS</b>	UK-France Unmanned Combat Air System	<b>SMR</b>	small modular reactors
<b>FRC</b>	Financial Reporting Council	<b>SMS</b>	safety management system
<b>FX</b>	foreign exchange	<b>SSA</b>	Special Security Agreement
<b>GBP</b>	Great British pound or pound sterling	<b>STEM</b>	science, technology, engineering and mathematics
<b>GHG</b>	greenhouse gas	<b>the Code</b>	UK Corporate Governance Code
<b>Global Code</b>	Global Code of Conduct	<b>Trent 1000</b>	Thrust, Efficiency and New Technology
<b>Group</b>	Rolls-Royce Holdings plc and its subsidiaries	<b>TEN</b>	
<b>HPC</b>	high performance culture	<b>TRI</b>	total reportable injuries
<b>HS&amp;E</b>	health, safety and environment	<b>TSR</b>	total shareholder return
<b>IAB</b>	International Advisory Board	<b>USD/US\$</b>	United States dollar
<b>IAS</b>	International accounting standards	<b>UTCs</b>	University Technology Centres