

9 February 2012

ROLLS-ROYCE HOLDINGS PLC
2011 FULL YEAR REPORT**Group Highlights**

- Record order book of £62.2bn, up five per cent.
- Record underlying revenue of £11.3bn, up four per cent.
- Record underlying profit before tax of £1.16bn, up 21 per cent.
- Full year payment to shareholders of 17.5 pence per share, up nine per cent.
- Joint acquisition of Tognum, Rolls-Royce investment £1.5bn.
- Proposed restructuring of International Aero Engines (IAE) and sale of share holding.

Summary data - £ million	2011	2010	Change
Order book	62,201	59,153	+5%
Underlying revenue*	11,277	10,866	+4%
Underlying profit before tax*	1,157	955	+21%
Underlying earnings per share*	48.54p	38.73p	+25%
Full year payment to shareholders	17.5p	16.0p	+9%
Reported revenue	11,124	11,085	0%
Reported profit before financing	1,189	1,134	+5%
Net cash	223	1,533	
Average net cash	320	960	

* See explanations in Note 2 on p.20 and Note 4 on p23

John Rishton, Chief Executive, said:

“Rolls-Royce performed well in 2011, and at the year-end had a record order book, record underlying revenue and record underlying profit. We continue to benefit from a broad portfolio, a large and growing customer base and access to markets where demand remains strong for our products and services.

“Our order book gives us good visibility of future revenues and demonstrates the confidence our customers have in us.

“We see opportunities for profitable growth across our portfolio. In particular, the acquisition of Tognum, that we have made in partnership with Daimler, adds significantly to the breadth of our portfolio and will accelerate growth.

“For 2012 we expect good growth in both underlying revenue and underlying profit with cash flow around breakeven as we continue to invest in future growth.”

Group Overview

Rolls-Royce continued to perform well in 2011. Our order book grew to £62.2bn, underlying revenue increased to £11.3bn and underlying profit rose to £1.16bn. This strong performance demonstrates the increasing resilience of our business and underpins our confidence for the future which is reflected in a final payment to shareholders of 10.6 pence per share, bringing the full year payment to 17.5 pence per share.

Rolls-Royce is a long-term business. We invest in products, systems and services that take many years to develop but then have life cycles that last for decades. The Group has consistently invested in future growth and we continue to develop technology and expand capacity in order to meet our customers' current and future needs. This consistent record of long-term investment has given Rolls-Royce a broad portfolio, a strong market position and access to world markets, creating a powerful platform for future growth.

This disciplined application of a long-term strategy has enabled Rolls-Royce to grow its underlying revenue, profit and order book consistently over a decade. This has been achieved despite the financial crisis of 2008, recessions in Europe and the USA and significant economic and social turmoil. We have doubled our revenues within the past decade and expect to double them again in the coming ten years through organic growth alone.

To fulfil our record order book, we continue to invest in operational capacity. During 2011, we opened a major new facility at Crosspointe, in Virginia USA, where we are now manufacturing gas turbine discs. We completed the construction of a 65,000 sq metre facility at Seletar in Singapore where, for the first time outside the UK, we will manufacture wide-chord fan blades and assemble and test Trent engines. We also continued to add to our network of Marine service centres during the year, opening or expanding sites in the Netherlands, Poland, Namibia, Germany and Hong Kong. These investments and others across the portfolio add to our capacity and increase productivity.

Close collaboration with our suppliers is critical to our continued success. Around 70 per cent of our manufacturing is conducted within our supply chain. Our partners and suppliers are also investing significantly to deliver future growth and improve productivity.

During 2011, we took three strategic actions that will further strengthen our position and underpin long-term growth. The first was our acquisition of the German industrial engines group Tognum, that we made in a joint offer with Daimler. It brings together highly complementary product and technology portfolios and creates significant new opportunities for our Marine and Energy businesses. Second, we signed an exclusive deal to develop an enhanced Trent XWB that will power the long-range Airbus A350-1000 aircraft. Third, we agreed to sell our equity stake in IAE to Pratt & Whitney, at the same time announcing our intention to form a new joint venture to develop engines for the next generation of mid-size aircraft. This agreement builds on a long and successful partnership with Pratt & Whitney in this segment and charts a clear course for our future in this important market.

Progress was evident in each of our business segments in 2011.

In Civil Aerospace good order intake accompanied strong growth in underlying revenue and profit. We celebrated the first commercial flight of the Boeing 787 Dreamliner powered by Trent 1000 engines. The Trent XWB engine programme for the Airbus A350 progressed well, with over 1,500 test hours completed. Our BR725 engine, developed for Gulfstream's new flagship executive jet, the Gulfstream G650, is due to enter service in 2012.

Our Defence Aerospace business performed well despite the pressure on defence spending in Europe and the USA. We continue to benefit from the diversity of our portfolio and our access to emerging markets. Our LiftFan™ system for the F-35 Lightning II Joint Strike Fighter (JSF) continued to make good progress during intensive flight tests that included multiple take offs and vertical landings on board the aircraft carrier USS Wasp. The TP400 engine for the Airbus A400M is on course to enter service in 2013.

While the underlying profit generated by the Marine business was broadly flat, original equipment (OE) revenue failed to meet our expectations as some offshore customers deferred investment decisions beyond 2011. Set against this, revenue from services grew strongly as the business benefited from the expansion of our network of service centres and the growth of the fleet equipped with our systems. During the year, we received an order to power a further ten US Navy Littoral Combat Ships, our largest ever surface fleet order. We also secured the first orders for our award winning Enviroship, a cargo vessel powered by liquid natural gas.

In Energy, underlying profit fell, primarily due to our investment in Civil Nuclear and revenues declined, reflecting weak demand for gas turbine power generation. However, strong demand from the oil and gas industry drove a significant increase in the order book. This included our biggest ever single contract, to supply Petrobras, Brazil's leading oil company, with 32 gas turbine power generators for its offshore operations.

Trading Summary

Underlying revenue

The Group's underlying revenue increased four per cent to £11.3bn. This includes a nine per cent growth in services revenue to £6.0bn that more than offset a one per cent reduction in OE revenue to £5.3bn. OE performance included strong 18 per cent growth in Civil Aerospace offset by a greater than anticipated reduction of 23 per cent in Marine OE revenue.

Underlying services revenue continues to represent more than half (53 per cent) of the Group's revenue. In 2011, we achieved growth in services revenue in each of our businesses as we continue to benefit from the growth in our installed base and the expansion of our services network. Defence Aerospace income included contract termination settlements resulting from the Strategic Defence and Security Review (SDSR) of the UK Ministry of Defence (MoD).

Underlying profit

Underlying profit before tax increased 21 per cent to £1.16bn. This was due to a better mix between OE and services, an improvement in productivity resulting from the focus on cost, net foreign exchange (FX) benefits of £54m including an eight cent improvement in the achieved rate on selling USD income. In addition there was a benefit of £30m from Tognum net of the costs of the acquisition and a £60m benefit from the SDSR settlements referred to above.

Cash and liquidity

The reported net cash position was £223m after the impact of the acquisition of Tognum and R Brooks Associates totalling £1.5bn. Excluding these acquisitions and FX translation there was a cash inflow of £210m. The Group retains a strong balance sheet with debt maturities well spread and total liquidity of £2.5bn.

Tognum

The Group's joint venture with Daimler now owns over 99 per cent of Tognum AG for which Rolls-Royce paid a cash consideration of £1.5bn in 2011. This joint venture investment made a £30m net contribution to underlying profit before tax but did not impact the Group's 2011 revenues.

International Aero Engines (IAE)

The Group's proposed sale of its 32.5 per cent shareholding in IAE is subject to regulatory approval and did not impact 2011 financial performance. Rolls-Royce will continue to play an active role as a first tier supplier of high pressure compressors and fan blades and remains responsible for the final assembly of 50 per cent of the production engines. The announced new joint venture with Pratt & Whitney to develop an engine to power the next generation of mid-size aircraft is also subject to regulatory approval and had no effect on 2011 financial performance.

Group Prospects

Our consistent strategy, which has been pursued over many years, has created a broad and balanced portfolio and established a strong financial position. Despite continued macroeconomic uncertainty, our record order book and strong market positions underpin our confidence in the future. The increasing resilience of the business has enabled Rolls-Royce consistently to grow its underlying revenue, underlying profit and order book in spite of the significant macro economic turbulence of recent years.

In 2012 the Group expects to see good growth in underlying revenue and underlying profit with a cash flow around breakeven as we continue to invest for future growth, excluding the impact of the Tognum acquisition and the proposed IAE transaction.

In Civil Aerospace, we anticipate good growth in underlying revenue and strong growth in underlying profit. In Defence Aerospace we expect modest growth in underlying revenue and profit. In Marine we expect a modest increase in underlying revenue, with underlying profit broadly flat. And in Energy we see growth in underlying revenue and some improvement in underlying profit.

Enquiries:

Investors:

Simon Goodson

Director – Investor Relations

Rolls-Royce plc

Tel: +44 (0)20 7227 9237

simon.goodson@rolls-royce.com

Media:

Josh Rosenstock

Director of External Communications

Rolls-Royce plc

Tel: +44 (0)20 7227 9163

josh.rosenstock@rolls-royce.com

Photographs and broadcast-standard video are available at www.rolls-royce.com.

A PDF copy of this report can be downloaded from www.rolls-royce.com/investors.

This Full Year Results Announcement contains certain forward-looking statements. These forward-looking statements can be identified by the fact that they do not relate only to historical or current facts. In particular, all statements that express forecasts, expectations and projections with respect to future matters, including trends in results of operations, margins, growth rates, overall market trends, the impact of interest or exchange rates, the availability of financing to the Company, anticipated cost savings or synergies and the completion of the Company's strategic transactions, are forward-looking statements. By their nature, these statements and forecasts involve risk and uncertainty because they relate to events and depend on circumstances that may or may not occur in the future. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements and forecasts. The forward-looking statements reflect the knowledge and information available at the date of preparation of this Full Year Results Announcement, and will not be updated during the year. Nothing in this Preliminary Full Year Results Announcement should be construed as a profit forecast.

Civil Aerospace

FY Review - £ million	2011	2010	Change
Order book	51,942	48,490	+7%
Engine deliveries	962	846	+14%
Underlying revenue	5,572	4,919	+13%
Underlying OE revenue	2,232	1,892	+18%
Underlying services revenue	3,340	3,027	+10%
Underlying profit before financing	499	392	+27%

Financial

The order book increased by seven per cent, including new orders of £11.0bn. The order book contains over 5,000 engines that will add around 250m pounds of installed thrust to our current installed base of 400m pounds of thrust. During 2011 we secured orders for more than 200 Trents, among the most significant were:

- Trent XWB engines for up to 60 Airbus A350 XWBs from AirFrance KLM Group.
- Trent 1000 engines for six Boeing 787s from Oman Air.
- Trent 900 engines for six Airbus A380s from Skymark Airlines and for six A380s from Asiana.
- Trent 700 engines for 15 Airbus A330s from Singapore Airlines and for 15 A330s from Cathay Pacific.

Revenue increased by 13 per cent. OE revenue grew 18 per cent, largely as a result of higher deliveries of widebody and corporate and regional engines. Services revenue grew by 10 per cent. This was due to growth in TotalCare revenue during the year and a recovery in time and materials.

Profit increased by 27 per cent due to increased volume, improving productivity, FX benefits and the non-recurrence of a one-off charge. This improvement was partially offset by higher R&D charges and the launch costs associated with major new programmes.

Portfolio

- In June, Rolls-Royce announced an exclusive agreement to produce a higher thrust version of the Trent XWB, to offer increased range and capacity for the Airbus A350-1000.
- In September, Rolls-Royce powered the entry into service of the Boeing 787 Dreamliner with launch customer All Nippon Airways (ANA).
- In October 2011 we announced a new joint venture with Pratt & Whitney to develop engines for future generation mid-size aircraft. We also agreed to sell our shareholding in IAE.
- We delivered production BR725 engines for the Gulfstream 650 that is due to enter service in 2012.

Defence Aerospace

FY Review - £ million	2011	2010	Change
Order book	6,035	6,522	-7%
Engine deliveries	814	710	+15%
Underlying revenue	2,235	2,123	+5%
Underlying OE revenue	1,102	1,020	+8%
Underlying services revenue	1,133	1,103	+3%
Underlying profit before financing	376	309	+22%

Financial

The order book declined by seven per cent as OE deliveries exceeded order intake, reflecting the pressures on defence budgets in Europe and the USA. However, new orders of £1.8bn in the year demonstrate that there are still opportunities for growth in both traditional and in developing markets. Significant orders included:

- Two major service contracts, worth almost US\$250m for AE2100 engines powering C-130J military transport aircraft for the US and UK armed forces.
- A US\$100m MissionCare contract from the US Department of Defence to provide support for F405 (Adour) engines on T-45 training aircraft.

Revenue grew by five per cent benefiting from increased OE deliveries of eight per cent, reflecting LiftSystem, AirTanker, and Military Transport production increases, and a three per cent increase in services revenue, principally due to the impact of the SDSR settlement and increases in fleet sizes for C-130J and V-22 aircraft.

Profit grew by 22 per cent as a result of increased revenue, cost reduction programmes and the £60m benefit of the SDSR settlement.

Portfolio

- In February, funding for the development programme of the F136 engine for the JSF in which Rolls-Royce was a 40 per cent partner, was terminated by the US Department of Defense.
- In May, the TP400 engine for the Airbus A400M military transport aircraft received civil certification from European Aviation Safety Agency (EASA). The programme has amassed over 8,000 flying hours as part of the flight test programme. Deliveries for the first production engines are due to begin in 2012 as part of the initial order of 180 aircraft.
- In the combat sector, the LiftSystem for the STOVL variant of the JSF achieved its 'Initial Service Release'. In October, two F-35B aircraft accomplished 72 short take-offs and vertical landings on the USS Wasp during sea trials. In January 2012, probationary status was lifted for the F-35B and the first STOVL aircraft were delivered to the customer.
- The Eurofighter Typhoon was deployed on combat operations for the first time as part of the NATO operation in Libya, displaying outstanding levels of performance and reliability. During 2011, we delivered the 750th EJ200 engine on behalf of Eurojet for the Eurofighter programme.

Marine

FY Review - £ million	2011	2010	Change
Order book	2,737	2,977	-8%
Underlying revenue	2,271	2,591	-12%
Underlying OE revenue	1,322	1,719	-23%
Underlying services revenue	949	872	+9%
Underlying profit before financing	323	332	-3%

Financial

The order book declined by eight per cent. However new order intake during the year improved by 15 per cent to £2.1bn providing some evidence of recovering demand. Significant systems and equipment orders during the period included:

- MT30 gas turbines and water jets for a ten vessel contract for the US Navy Littoral Combat Ship.
- First orders for the award-winning Environship, including two vessels for Norway's Nor Lines AS.
- 60 water jets for a new fleet of 20 Fast Patrol Vessels for the Indian Coast Guard.
- An order to design and equip two anchor handling vessels for Farstad Shipping in Norway.

Revenue declined by 12 per cent due to a 23 per cent decline in OE revenue that was partially offset by a nine per cent improvement in service revenue. The recovery in OE that had been expected in the second half of the year did not materialise as customer investment decisions were deferred. The improved service revenue was driven by the expansion of our network of marine supply centres and the growth of our installed fleet.

Profit declined by three per cent relative to a fall in revenue of 12 per cent reflecting an improved revenue mix and an increased focus on costs and operational performance.

Portfolio

- In May, the UK Government announced its decision to replace the UK's Vanguard class nuclear submarines with a new design of submarine utilising our Pressurised Water Reactor (PWR) Generation 3 reactor technology.
- In September, we announced the success of our joint tender offer for Tognum. This acquisition brings together highly complementary product and technology sets and represents an important strategic step in the long-term development of the business.
- We continue to invest in our service capability and capacity, with customer training centres opening in Norway and Singapore, and service centres opened or expanded in Namibia, the Netherlands, Poland, Germany and Hong Kong.

Energy

FY Review - £ million	2011	2010	Change
Order book	1,487	1,164	+28%
Engine Deliveries	75	95	-21%
Underlying revenue	1,199	1,233	-3%
Underlying OE revenue	602	691	-13%
Underlying services revenue	597	542	+10%
Underlying profit before financing	24	27	-11%

Financial

The order book increased by 28 per cent, driven by significant demand in the oil and gas industry. New orders of £1.5bn included a number of significant contracts:

- 32 RB211 gas turbines for offshore application in support of Petrobras. This US\$650m contract is the largest signed by the Energy business.
- Six RB211 compressor units for Petro China's WEPP Line 2 East project.
- Eight Bergen engines for power generation in Bangladesh - 82 now sold in Bangladesh.
- A €250m contract with EDF to supply instrumentation and control (I&C) technologies to the world's largest reactor upgrade programme, being carried out in France.

Revenue declined by three per cent largely due to the phasing of OE deliveries in power generation. Demand for aftermarket products and services continue to grow with an increase of ten per cent.

Profit fell by 11 per cent as a result of lower revenue and investment in the future growth of our Civil Nuclear business.

Portfolio

- In February 2011, we announced plans for the construction of a new purpose-built gas turbine package, assembly and test facility in Rio de Janeiro, Brazil. The facility, expected to become operational in the first quarter of 2013, will strengthen our support of Petrobras and other customers in the rapidly expanding offshore market in Brazil.
- As in the Marine business, Energy will benefit from the joint acquisition of Tognum. By combining our medium-speed diesel and gas Bergen engines business with Tognum's high-speed reciprocating engines and systems capabilities, we have significantly enhanced our core product portfolio and global network of sales and service facilities.

We continued to build our capability in the Civil Nuclear sector, with a number of important milestones reached during the year.

- A cooperation agreement was signed with Areva for the manufacture of complex components for the first European Pressurised Reactors to be built in the UK.
- Enhanced MoUs were agreed with Nuclear Power Delivery UK, EDF and Rosatom.
- We acquired the US-based R.Brooks Associates, a world leader in remote inspection.

Additional Financial Information

Underlying income statement

Underlying income statement extracts - £ million	2011	2010	Change
Revenue	11,277	10,866	+4%
Civil Aerospace	5,572	4,919	+13%
Defence Aerospace	2,235	2,123	+5%
Marine	2,271	2,591	-12%
Energy	1,199	1,233	-3%
Profit before financing costs and taxation	1,206	1,010	+19%
Civil Aerospace	499	392	+27%
Defence Aerospace	376	309	+22%
Marine	323	332	-3%
Energy	24	27	-11%
Engine Holding (Tognum JV)	36	-	-
Central costs	(52)	(50)	-4%
Net financing costs	(49)	(55)	+11%
Profit before taxation	1,157	955	+21%
Taxation	(261)	(236)	+11%
Profit for the year	896	719	+25%
EPS	48.54p	38.73p	+25%
Payment to shareholders	17.5p	16.0p	+9%
<i>Other items</i>			
Other operating income	70	87	-20%
Gross R&D investment	908	923	-2%
Net R&D charged to the income statement	463	422	+10%

- **Underlying revenue and underlying profit before financing costs and taxation** are discussed in the relevant business sections.
- **Underlying financing costs** declined by 11 per cent to £49m, including a small reduction in financial Risk & Revenue Sharing Partners (RRSP) costs and lower funding costs due to the settlement of the Group's €750m Eurobond during the year.
- **Underlying taxation** was £261m, an underlying tax rate of 22.6 per cent compared with 24.7 per cent in 2010. This reduction reflects increased profits from joint ventures (which are accounted for on post-tax basis) and some adjustments to prior year estimates.
- **Underlying EPS** increased by 25 per cent to 48.54 pence, broadly in line with the increase in the underlying profit after tax.

- **Payments to shareholders** At the AGM on May 4, 2012, the directors will recommend an issue of 106 C Shares with a total nominal value of 10.6 pence for each ordinary share. The final payment is payable on July 4, 2012 to shareholders on the register on April 27, 2012 and the final day of trading with entitlement to C Shares is April 24, 2012. Together with the interim issue on January 3, 2012 of 69 C Shares for each ordinary share with a total nominal value of 6.9 pence, this is the equivalent of a total annual payment to ordinary shareholders of 17.5 pence for each ordinary share.

The payment to shareholders will, as before, be made in the form of redeemable C Shares which shareholders may either choose to retain or redeem for a cash equivalent. The Registrar, on behalf of the Company, operates a C Share Reinvestment Plan (CRIP) and can, on behalf of shareholders, purchase ordinary shares from the market rather than delivering a cash payment. Shareholders wishing to redeem their C Shares or else redeem and participate in the CRIP must ensure that their instructions are lodged with the Registrar, Computershare Investor Services Plc, no later than 5pm on Friday June 1, 2012.

- **Other operating income** relates to programme receipts from RRSPs, which reimburse past R&D costs. These receipts decreased by 20 per cent in 2011 due to the phasing of major programmes.
- **Net R&D charged to the income statement** increased by 10 per cent to £463m. The Group recruited an additional 1,000 engineers to develop the products of the future and to help continue to improve the in-service performance of the existing installed base of products. This investment and the 29 per cent increase in capital expenditure to £467m will prepare our infrastructure and global supply chain for significant growth in the next decade. The Group continues to expect net R&D investment to remain within four to five per cent of Group underlying revenue.
- **Foreign exchange** rate movements influence the reported income statement, the cash flow and closing net cash balance. The average and spot rates for the principal trading currencies of the Group are shown in the table below:

		2011	2010	Change
USD per GBP	Year end spot rate	1.55	1.57	-1%
	Average spot rate	1.60	1.54	+4%
EUR per GBP	Year end spot rate	1.20	1.17	+3%
	Average spot rate	1.15	1.17	-2%

- The adjustments between the underlying income statement and the reported income statement are set out in note 2 to the condensed financial statements.

Balance Sheet

Summary balance sheet - £ million	2011	2010
Intangible assets	2,882	2,884
Property, plant and equipment	2,338	2,136
Net post-retirement scheme deficits (IAS19 basis)	(397)	(856)
Net working capital	(1,098)	(973)
Net funds	223	1,533
Provisions	(502)	(544)
Net financial assets and liabilities	(718)	(627)
Investments in joint ventures and associates	1,680	393
Assets held for sale	178	9
Other net assets and liabilities	(67)	24
Net assets	4,519	3,979
<i>Other items</i>		
USD hedge book	\$22,000	\$20,900
Net TotalCare assets	956	920
Gross customer finance contingent liabilities	612	633
Net customer finance contingent liabilities	124	121

- Intangible assets** relate to goodwill, certification costs, participation fees, development expenditure, recoverable engine costs, software and other costs that represent long-term assets of the Group. In aggregate, these assets remained broadly unchanged at £2.9bn: this was largely due to increased development, certification and software costs being offset by the reclassification of V2500 assets on the balance sheet as “Assets held for sale”. The carrying values of the intangible assets are assessed for impairment against the present value of forecast cash flows generated by the intangible asset. The principal risks remain: reductions in assumed market share; programme timings; increases in unit cost assumptions; and adverse movements in discount rates. There have been no impairments in 2011. Further details are given in note 6 of the condensed financial statements.
- Property, plant and equipment** increased by nine per cent to £2.3bn due to the ongoing development and refreshment of facilities and tooling as the Group prepares for increased production volumes.
- Net post-retirement scheme** deficits decreased 54 per cent to £397m, including: (i) the impact of the change in pensions’ indexing to CPI in the UK (£130m); (ii) revised healthcare benefits in certain overseas schemes (£74m); and (iii) the reduction in discount rates having a larger impact on the value of the assets than the obligations (calculated on an IAS 19 basis). Overall funding across the schemes has improved in recent years as the Group has improved funding of the schemes with an increasingly lower risk investment strategy that reduces volatility going forward and enables the funding position to remain stable: interest rate and inflation risks are largely hedged; exposure to equities has reduced to around 20 per cent of scheme assets, this has been achieved against the headwind of increasing life expectancy assumptions. In 2011, the Group made further arrangements to reduce volatility and enable future funding to be predicted with more certainty. A longevity swap was transacted with a third party to eliminate the risk of increasing life expectancy of pensioners in the largest UK defined benefit scheme. No significant change expected to the ongoing funding levels of the UK pension schemes in 2012.

- **Net funds** reduced to £223m largely due to the £1.5bn consideration paid during the year for the Group's shared investment in Tognum AG. As a result, average net funds fell by £640m to £320m (£805m excluding acquisitions). The Group continues to have access to good liquidity with £1.2bn undrawn committed facilities and bond proceeds of £1.1bn, providing total liquidity of £2.5bn when net funds of £223m are taken into consideration.
- **Investment – joint ventures and associates** increased in the year as a result of the investment in Tognum.
- **Assets held for sale** represent the assets and liabilities expected to be derecognised as a result of the anticipated restructuring of IAE.
- **Provisions** largely relate to warranties and guarantees provided to secure the sale of OE and services. These provisions reduced modestly during the year.
- **Net financial assets and liabilities** relate to financial RRSPs and the fair value of foreign exchange, commodity and interest rate contracts, set out in detail in note 7 to the condensed financial statements. The change largely reflects the impact of the change in the GBP/USD exchange rate on the valuation of foreign exchange contracts.
- The **USD hedge book** increased five per cent to US\$22.0bn. This represents around four and a half years of net exposure and has an average book rate of £1 to US\$1.60. Current forward market exchange rates are similar to current average book rates.
- **Net TotalCare assets** relate to Long Term Service Agreement (LTSA) contracts in the Civil Aerospace business, including the flagship services product TotalCare. These assets represent the timing difference between the recognition of income and costs in the income statement and cash receipts and payments.
- **Customer financing** facilitates the sale of OE and services by providing financing support to certain customers. Where such support is provided by the Group, it is generally to customers of the Civil Aerospace business and takes the form of various types of credit and asset value guarantees. These exposures produce contingent liabilities that are outlined in note 10 to the condensed financial statements. The contingent liabilities represent the maximum aggregate discounted gross and net exposure in respect of delivered aircraft, regardless of the point in time at which such exposures may arise. During 2011, the Group's exposure remained stable with gross and net exposures of £612m and £124m respectively. As has been well publicised, some banks that have been active in recent years in providing funds for aircraft financing have chosen during 2011 to substantially reduce their exposure in this market segment. Although this may have some effect on the terms and pricing of new aircraft finance transactions in the near future, the Group expects that other providers of USD funding and ongoing support from the export credit agencies will largely fill the gap left by these banks.

Group 2012 Guidance

Excluding the impact of the Tognum acquisition and the proposed IAE transaction, in 2012 the Group expects to see good growth in underlying revenue and underlying profit with a cash flow around breakeven as we continue to invest for future growth.

In Civil Aerospace, we anticipate good growth in underlying revenue and strong growth in underlying profit. In Defence Aerospace we expect modest growth in underlying revenue and profit. In Marine we expect a modest increase in underlying revenue, with underlying profit broadly flat. And in Energy we see growth in revenue and some improvement in profit.

Other relevant data

- **Foreign exchange:** neutral.
- **R&D:** a modest increase in expenditure combined with lower net capitalisation and higher amortisation due to the phasing of new programmes.
- **Taxation:** the underlying tax rate is expected to be around 24 per cent.
- **Capital expenditure:** a modest increase, including increased investment in IT.
- **Intangible assets:** modest increase compared with 2011 due to a modest increase in recoverable engine costs partially offset by a decrease in development costs due to the phasing of new programmes.
- **Property, plant and equipment:** modest increase compared with 2011 as we continue to invest in capability and infrastructure.
- **Pensions:** no material changes expected to funding levels.

Tognum and IAE transactions

- Tognum is expected to contribute in the first half to the Group's share of results of joint ventures and associates. Tognum's results are expected to be fully consolidated around the half year with Daimler's 50 per cent share of the result recorded as a non-controlling interest. For 2012, Tognum will be reported as a separate segment. As Tognum remains a listed company, the Group is not permitted to provide guidance at this time. Tognum will issue their preliminary results on 8 March, 2012.
- The sale of the Group's 32.5 per cent shareholding in IAE is expected to receive regulatory approval during the first half of 2012, at which time the initial cash consideration of \$1.5bn will be received. For the first full year following settlement, the impact of the sale on subsequent trading will have a small negative effect on underlying revenue and a positive effect of around £140m on underlying profit. The impact on the order book will be a reduction of around £4bn.

Condensed consolidated income statement

For the year ended December 31, 2011

	Notes	2011 £m	2010 £m
Revenue	2	11,124	11,085
Cost of sales		(8,676)	(8,885)
Gross profit		2,448	2,200
Other operating income		69	95
Commercial and administrative costs		(984)	(836)
Research and development costs		(463)	(422)
Share of results of joint ventures and associates		116	93
Operating profit		1,186	1,130
Profit on disposal of businesses		3	4
Profit before financing and taxation	2	1,189	1,134
Financing income		456	453
Financing costs		(540)	(885)
Net financing	3	(84)	(432)
Profit before taxation ¹		1,105	702
Taxation		(257)	(159)
Profit for the year		848	543
Attributable to:			
Ordinary shareholders		850	539
Non-controlling interests		(2)	4
Profit for the year		848	543
Earnings per ordinary share attributable to shareholders ²	4		
Basic		45.95p	29.20p
Diluted		45.33p	28.82p
Payments to ordinary shareholders in respect of the year	5		
Per share		17.5p	16.0p
Total		328	299
¹ Underlying profit before taxation		1,157	955

² Underlying earnings per share is shown in note 4

Condensed consolidated statement of comprehensive income

For the year ended December 31, 2011

	2011 £m	2010 £m
Profit for the year	848	543
Other comprehensive income (OCI)		
Foreign exchange translation differences on foreign operations	(102)	22
Movements in post-retirement schemes	123	(94)
Share of OCI of joint ventures and associates	(10)	(16)
Related tax movements	(54)	29
Total comprehensive income for the year	805	484
Attributable to:		
Ordinary shareholders	808	480
Non-controlling interests	(3)	4
Total comprehensive income for the year	805	484

Condensed consolidated balance sheet

At December 31, 2011

	Notes	2011 £m	2010 £m
ASSETS			
Non-current assets			
Intangible assets	6	2,882	2,884
Property, plant and equipment		2,338	2,136
Investments - joint ventures and associates		1,680	393
Investments - other		10	11
Other financial assets	7	327	371
Deferred tax assets		368	451
Post-retirement scheme surpluses	9	503	164
		8,108	6,410
Current assets			
Inventories		2,561	2,429
Trade and other receivables		4,009	3,943
Taxation recoverable		20	6
Other financial assets	7	91	250
Short-term investments		11	328
Cash and cash equivalents		1,310	2,859
Assets held for sale		313	9
		8,315	9,824
Total assets		16,423	16,234
LIABILITIES			
Current liabilities			
Borrowings		(20)	(717)
Other financial liabilities	7	(111)	(105)
Trade and other payables		(6,236)	(5,910)
Current tax liabilities		(138)	(170)
Provisions for liabilities and charges		(276)	(276)
Liabilities associated with assets held for sale		(135)	-
		(6,916)	(7,178)
Non-current liabilities			
Borrowings		(1,184)	(1,135)
Other financial liabilities	7	(919)	(945)
Trade and other payables		(1,314)	(1,271)
Deferred tax liabilities		(445)	(438)
Provisions for liabilities and charges		(226)	(268)
Post-retirement scheme deficits	9	(900)	(1,020)
		(4,988)	(5,077)
Total liabilities		(11,904)	(12,255)
Net assets		4,519	3,979
EQUITY			
Equity attributable to ordinary shareholders			
Called-up share capital		374	374
Share premium account		-	133
Capital redemption reserve		173	209
Cash flow hedging reserve		(52)	(37)
Other reserves		433	527
Retained earnings		3,590	2,769
		4,518	3,975
Non-controlling interests		1	4
Total equity		4,519	3,979

Condensed consolidated cash flow statement

For the year ended December 31, 2011

	Notes	2011 £m	* Restated 2010 £m
Reconciliation of cash flows from operating activities			
Profit before taxation		1,105	702
Share of results of joint ventures and associates		(116)	(93)
Profit on disposal of businesses		(3)	(4)
Profit on disposal of property, plant and equipment		(8)	(10)
Net financing	3	84	432
Taxation paid		(208)	(168)
Amortisation of intangible assets		169	130
Depreciation and impairment of property, plant and equipment		241	237
Impairment of investments		-	3
(Decrease)/increase in provisions		(28)	99
(Increase)/decrease in inventories		(140)	41
(Increase)/decrease in trade and other receivables		(62)	39
Increase in trade and other payables		416	248
Movement in other financial assets and liabilities		68	(299)
Net defined benefit post-retirement (credit)/cost recognised in profit before financing		(43)	147
Cash funding of defined benefit post-retirement schemes		(304)	(282)
Share-based payments		59	50
Dividends received from joint ventures and associates		76	68
Net cash inflow from operating activities		1,306	1,340
Cash flows from investing activities			
Additions of unlisted investments		-	(1)
Disposals of unlisted investments		1	46
Additions of intangible assets		(363)	(321)
Disposals of intangible assets		6	-
Purchases of property, plant and equipment		(412)	(354)
Government grants received		38	38
Disposals of property, plant and equipment		31	38
Acquisitions of businesses		(19)	(150)
Disposals of businesses		7	2
Investments in joint ventures and associates		(1,329)	(19)
Loan to Engine Holding GmbH		(167)	-
Net cash outflow from investing activities		(2,207)	(721)
Cash flows from financing activities			
Repayment of loans		(567)	(108)
Proceeds from increase in loans		-	68
Net cash flow from decrease in borrowings		(567)	(40)
Interest received		19	23
Interest paid		(50)	(77)
Decrease/ (increase) in short-term investments		316	(326)
Issue of ordinary shares (net of expenses)		(1)	67
Purchase of ordinary shares		(57)	(124)
Redemption of C Shares		(315)	(266)
Net cash outflow from financing activities		(655)	(743)
Net decrease in cash and cash equivalents		(1,556)	(124)
Cash and cash equivalents at January 1		2,851	2,958
Exchange (losses)/gains on cash and cash equivalents		(4)	17
Cash and cash equivalents at December 31		1,291	2,851

* Restated to show government grants, previously included in trade and other payables, separately.

Reconciliation of movement in cash and cash equivalents to movements in net funds

	2011 £m	2010 £m
Decrease in cash and cash equivalents	(1,556)	(124)
Cash flow from decrease in borrowings	567	40
Cash flow from (decrease)/ increase in short-term investments	(316)	326
Change in net funds resulting from cash flows	(1,305)	242
Net funds (excluding cash and cash equivalents) of businesses acquired	-	(1)
Exchange (losses)/gains on net funds	(5)	17
Fair value adjustments	92	26
Movement in net funds	(1,218)	284
Net funds at January 1 excluding the fair value of swaps	1,335	1,051
Net funds at December 31 excluding the fair value of swaps	117	1,335
Fair value of swaps hedging fixed rate borrowings	106	198
Net funds at December 31	223	1,533

The movement in net funds (defined by the Group as including the items shown below) is as follows:

	At January 1, 2011 £m	Funds flow £m	Exchange differences £m	Fair value adjustments £m	At December 31, 2011 £m
Cash at bank and in hand	1,266	26	(7)	-	1,285
Money-market funds	381	(370)	-	-	11
Short-term deposits	1,212	(1,201)	3	-	14
Overdrafts	(8)	(11)	-	-	(19)
Cash and cash equivalents	2,851	(1,556)	(4)	-	1,291
Short-term investments	328	(316)	(1)	-	11
Other current borrowings	(709)	566	-	142	(1)
Non-current borrowings	(1,134)	1	-	(50)	(1,183)
Finance leases	(1)	-	-	-	(1)
	1,335	(1,305)	(5)	92	117
Fair value of swaps hedging fixed rate borrowings	198			(92)	106
	1,533	(1,305)	(5)	-	223

Condensed consolidated statement of changes in equity

For the year ended December 31, 2011

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

- 1 Other reserves include a merger reserve of £3m (2010: £3m; 2009: £3m) and a translation reserve of £430m (2010: £524m; 2009: £503m).
- 2 At December 31, 2011, 22,541,187 ordinary shares with a net book value of £116m (2010: 28,320,962; 2009: 7,156,497 ordinary shares with net book values of £125m and £25m respectively) were held for the purpose of share-based payment plans and included in retained earnings. During the year, 14,822,563 ordinary shares with a net book value of £66m (2010: 6,586,568 shares with a net book value of £24m) vested in share-based payment plans. During the year the Company acquired 9,042,788 of its ordinary shares through purchases on the London Stock Exchange.
- 3 Share-based payments - direct to equity is the net of the credit to equity in respect of the share-based payment charge to the income statement and the actual cost of shares vesting, excluding those vesting from own shares.
- 4 On May 23, 2011, under a scheme of arrangement between Rolls-Royce Group plc, the former holding company of the Group, and its shareholders under Part 26 of the Companies Act 2006, and as sanctioned by the High Court, all the issued ordinary shares in that company were cancelled and the same number of new ordinary shares were issued to Rolls-Royce Holdings plc in consideration for the allotment to shareholders of one ordinary share in Rolls-Royce Holdings plc for each ordinary share in Rolls-Royce Group plc held on the record date (May 20, 2011). Pursuant to the scheme of arrangement, 1,872,188,709 ordinary shares of 150 pence were issued. As required by Section 612 of the Companies Act 2006, no share premium was recognised.

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

1 Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) adopted for use in the EU (Adopted IFRS) in accordance with EU law (IAS Regulation EC 1606/2002).

The financial information set out above does not constitute the Company's statutory accounts for the year ended December 31, 2011, but is derived from those accounts. Statutory accounts for Rolls-Royce Group plc for the year ended December 31, 2010 have been delivered to the Registrar of Companies. Statutory accounts for Rolls-Royce Holdings plc will be delivered to the registrar of Companies following the Company's Annual General Meeting. The auditors have reported on those accounts; their reports were (i) unqualified, (ii) did not include references to any matters to which the auditors drew attention by way of emphasis without qualifying their reports and (iii) did not contain statements under section 498(2) or (3) of the Companies Act 2006.

There were no revisions to Adopted IFRS that became applicable in 2011 which had a significant impact on the Group's financial statements.

2 Analysis by business segment

The analysis by business segment is presented in accordance with IFRS 8 *Operating segments*, on the basis of those segments whose operating results are regularly reviewed by the Board (the Chief Operating Decision Maker as defined by IFRS 8), as follows:

Civil aerospace	development, manufacture, marketing and sales of commercial aero engines and aftermarket services.
Defence aerospace	development, manufacture, marketing and sales of military aero engines and aftermarket services.
Marine	development, manufacture, marketing and sales of marine-power propulsion systems and aftermarket services.
Energy	development, manufacture, marketing and sales of power systems for the offshore oil and gas industry and electrical power generation and aftermarket services.

Engineering and Technology and Operations, discussed in the business review, operate on a Group-wide basis across all the above segments. The equity accounted share of the Engine Holding GmbH business acquired during the year is shown separately.

The operating results reviewed by the Board are prepared on an underlying basis, which the Board considers reflects better the economic substance of the Group's trading in the year. The principles adopted to determine underlying results are:

Underlying revenues – Where revenues are denominated in a currency other than the functional currency of the Group undertaking, these reflect the achieved exchange rates arising on settled derivative contracts. There is no inter-segment trading and hence all revenues are from external customers.

Underlying profit before financing – Where transactions are denominated in a currency other than the functional currency of the Group undertaking, this reflects the transactions at the achieved exchange rates on settled derivative contracts. In addition, adjustments have been made to exclude one-off past-service credits on post retirement schemes and the effect of acquisition accounting.

Underlying profit before taxation – In addition to those adjustments in underlying profit before financing:

- Includes amounts realised from settled derivative contracts and revaluation of relevant assets and liabilities to exchange rates forecast to be achieved from future settlement of derivative contracts.
- Excludes unrealised amounts arising from revaluations required by IAS 39 *Financial Instruments: Recognition and Measurement*, changes in value of financial RRSP contracts arising from changes in forecast payments and the net impact of financing costs related to post-retirement scheme benefits.

This analysis also includes a reconciliation of the underlying results to those reported in the consolidated income statement.

	2011			2010		
	Original equipment £m	Aftermarket £m	Total £m	Original equipment £m	Aftermarket £m	Total £m
Underlying revenues						
Civil aerospace	2,232	3,340	5,572	1,892	3,027	4,919
Defence aerospace	1,102	1,133	2,235	1,020	1,103	2,123
Marine	1,322	949	2,271	1,719	872	2,591
Energy	602	597	1,199	691	542	1,233
	5,258	6,019	11,277	5,322	5,544	10,866

	2011 £m	2010 £m
Underlying profit before financing and taxation		
Civil aerospace	499	392
Defence aerospace	376	309
Marine	323	332
Energy	24	27
Engine Holding	36	-
Reportable segments	1,258	1,060
Central items	(52)	(50)
	1,206	1,010
Underlying net financing	(49)	(55)
Underlying profit before taxation	1,157	955
Underlying taxation	(261)	(236)
Underlying profit for the year	896	719

Net assets/(liabilities)

	Total assets		Total liabilities		Net assets	
	2011	2010	2011	2010	2011	2010
	£m	£m	£m	£m	£m	£m
Civil aerospace	8,621	8,162	(5,982)	(5,435)	2,639	2,727
Defence aerospace	1,311	1,344	(1,831)	(1,867)	(520)	(523)
Marine	2,227	2,363	(1,544)	(1,548)	683	815
Energy	1,285	1,182	(617)	(748)	668	434
Engine Holding	1,418	-	-	-	1,418	-
Reportable segments	14,862	13,051	(9,974)	(9,598)	4,888	3,453
Eliminations	(757)	(823)	757	823	-	-
Net funds/(debt)	1,427	3,385	(1,204)	(1,852)	223	1,533
Tax assets/(liabilities)	388	457	(583)	(608)	(195)	(151)
Net post-retirement scheme surpluses/(deficits)	503	164	(900)	(1,020)	(397)	(856)
Net assets	16,423	16,234	(11,904)	(12,255)	4,519	3,979

Group employees at year end

	2011	2010
Civil aerospace	21,100	19,600
Defence aerospace	6,900	7,000
Marine	9,500	9,400
Energy	3,800	3,600
	41,300	39,600

Reconciliation to reported results

	Total reportable segments	Underlying central items	Total underlying	Underlying adjustments	Group
	£m	£m	£m	£m	£m
Year ended December 31, 2011					
Revenue from sale of original equipment	5,258	-	5,258	(19)	5,239
Revenue from aftermarket services	6,019	-	6,019	(134)	5,885
Total revenue	11,277	-	11,277	(153)	11,124
Operating profit excluding share of results of joint ventures and associates	1,083	(52) ¹	1,031	39	1,070
Share of results of joint ventures and associates	172	-	172	(56)	116
Profit on disposal of businesses	3	-	3	-	3
Profit before financing and taxation	1,258	(52)	1,206	(17)	1,189
Net financing		(49)	(49)	(35)	(84)
Profit before taxation		(101)	1,157	(52)	1,105
Taxation		(261)	(261)	4	(257)
Profit for the year		(362)	896	(48)	848
Year ended December 31, 2010					
Revenue from sale of original equipment	5,322	-	5,322	112	5,434
Revenue from aftermarket services	5,544	-	5,544	107	5,651
Total revenue	10,866	-	10,866	219	11,085
Operating profit excluding share of results of joint ventures and associates	963	(50) ¹	913	124	1,037
Share of results of joint ventures and associates	93	-	93	-	93
Profit on disposal of businesses	4	-	4	-	4
Profit before financing and taxation	1,060	(50)	1,010	124	1,134
Net financing		(55)	(55)	(377)	(432)
Profit before taxation		(105)	955	(253)	702
Taxation		(236)	(236)	77	(159)
Profit for the year		(341)	719	(176)	543

¹ Central corporate costs

Underlying adjustments

2011

2010

	2011				2010			
	Revenue £m	Profit before financing £m	Net financing £m	Taxation £m	Revenue £m	Profit before financing £m	Net financing £m	Taxation £m
Underlying performance	11,277	1,206	(49)	(261)	10,866	1,010	(55)	(236)
Revenue recognised at exchange rate on date of transaction	(153)	-	-	-	219	-	-	-
Realised (gains)/losses on settled derivative contracts ¹	-	(116)	24	-	-	180	(7)	-
Net unrealised fair value changes to derivative contracts ²	-	(5)	(49)	-	-	-	(341)	-
Effect of currency on contract accounting	-	4	-	-	-	(56)	-	-
Revaluation of trading assets and liabilities	-	-	-	-	-	-	8	-
Financial RRSPs - foreign exchange differences and changes in forecast payments	-	-	2	-	-	-	(6)	-
Effect of acquisition accounting ³	-	(64)	-	-	-	-	-	-
Post-retirement scheme past- service credits ^{4, 5}	-	164	-	-	-	-	-	-
Net post-retirement scheme financing	-	-	(12)	-	-	-	(31)	-
Related tax effect	-	-	-	4	-	-	-	77
Total underlying adjustments	(153)	(17)	(35)	4	219	124	(377)	77
Reported per consolidated income statement	11,124	1,189	(84)	(257)	11,085	1,134	(432)	(159)

¹ Realised (gains)/losses on settled derivative contracts include adjustments to reflect the (gains)/losses in the same period as the related trading cash flows.

² Unrealised fair value changes to derivative contracts include those included in equity accounted joint ventures and exclude those for which the related trading contracts have been cancelled when the fair value changes are recognised immediately in underlying profit.

³ The adjustment eliminates charges recognised as a result of recognising assets in acquired businesses at fair value.

⁴ In 2010, the UK Government announced changes to the basis of the statutory indexation for pension increases. As a result, the relevant arrangements have been amended, resulting in a gain in the income statement of £130m, which has been excluded from underlying profit.

⁵ The Group has agreed revised post-retirement healthcare arrangements on certain of its overseas schemes. This has resulted in a net gain in the income statement of £34m which has been excluded from underlying profit.

The reconciliation of underlying earnings per ordinary share is shown in note 4.

3 Net financing

	2011		2010	
	Per consolidated income statement £m	Underlying financing ¹ £m	Per consolidated income statement £m	Underlying financing ¹ £m
Financing income				
Interest receivable	20	20	23	23
Financial RRSPs - foreign exchange differences and changes in forecast payments	2	-	-	-
Fair value gains on commodity derivatives	-	-	29	-
Expected return on post-retirement scheme assets	410	-	400	-
Net foreign exchange gains	24	-	1	-
	456	20	453	23
Financing costs				
Interest payable	(51)	(51)	(63)	(63)
Fair value losses on foreign currency contracts	(21)	-	(370)	-
Financial RRSPs - foreign exchange differences and changes in forecast payments	-	-	(6)	-
Financial charge relating to financial RRSPs	(11)	(11)	(13)	(13)
Fair value losses on commodity contracts	(28)	-	-	-
Interest on post-retirement scheme liabilities	(422)	-	(431)	-
Other financing charges	(7)	(7)	(2)	(2)
	(540)	(69)	(885)	(78)
Net financing	(84)	(49)	(432)	(55)
Analysed as:				
Net interest payable	(31)	(31)	(40)	(40)
Net post-retirement scheme financing	(12)	-	(31)	-
Net other financing	(41)	(18)	(361)	(15)
Net financing	(84)	(49)	(432)	(55)

¹ See note 2

4 Earnings per ordinary share

Basic earnings per ordinary share (EPS) are calculated by dividing the profit attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares held under trust, which have been treated as if they had been cancelled.

Diluted EPS are calculated by adjusting the weighted average number of ordinary shares in issue during the year for the bonus element of share options.

	2011			2010		
	Basic	Potentially dilutive share options	Diluted	Basic	Potentially dilutive share options	Diluted
Profit attributable to ordinary shareholders (£m)	850		850	539		539
Weighted average number of shares (millions)	1,850	25	1,875	1,846	24	1,870
EPS (pence)	45.95	(0.62)	45.33	29.20	(0.38)	28.82

The reconciliation between underlying EPS and basic EPS is as follows:

	2011		2010	
	Pence	£m	Pence	£m
Underlying EPS/Underlying profit attributable to ordinary shareholders	48.54	898	38.73	715
Total underlying adjustments to profit before tax (note 2)	(2.81)	(52)	(13.70)	(253)
Related tax effects	0.22	4	4.17	77
EPS/Profit attributable to ordinary shareholders	45.95	850	29.20	539
Diluted underlying EPS	47.89		38.24	

5 Payments to shareholders in respect of the year

Payments to shareholders in respect of the year represent the value of C Shares to be issued in respect of the results for the year. Issues of C Shares were declared as follows:

	2011		2010	
	Pence per share	£m	Pence per share	£m
Interim (issued in January)	6.9	129	6.4	119
Final (issued in July)	10.6	199	9.6	180
	17.5	328	16.0	299

6 Intangible assets

	Goodwill £m	Certification costs and participation fees £m	Development expenditure £m	Recoverable engine costs £m	Software and other £m	Total £m
Cost:						
At January 1, 2011	1,115	686	862	697	413	3,773
Exchange differences	(20)	(2)	(1)	-	(2)	(25)
Additions	-	44	93	135	95	367
Acquisitions of businesses	11	-	-	-	8	19
Transferred to assets held for sale	-	-	-	(368)	-	(368)
Disposals	-	(8)	-	-	(24)	(32)
At December 31, 2011	1,106	720	954	464	490	3,734
Accumulated amortisation:						
At January 1, 2011	7	190	232	351	109	889
Charge for the year	-	15	36	62	56	169
Transferred to assets held for sale	-	-	-	(182)	-	(182)
Disposals	-	(8)	-	-	(16)	(24)
At December 31, 2011	7	197	268	231	149	852
Net book value at December 31, 2011	1,099	523	686	233	341	2,882
Net book value at December 31, 2010	1,108	496	630	346	304	2,884

Certification costs and participation fees, development costs and recoverable engine costs have been reviewed for impairment in accordance with the requirements of IAS 36 *Impairment of Assets*. Where an impairment test was considered necessary, it has been performed on the following basis:

- The carrying values have been assessed by reference to value in use. These have been estimated using cash flows from the most recent forecasts prepared by management, which are consistent with past experience and external sources of information on market conditions over the lives of the respective programmes.
- The key assumptions underlying cash flow projections are assumed market share, programme timings, unit cost assumptions, discount rates, and foreign exchange rates.
- The pre-tax cash flow projections have been discounted at 11 per cent (2010 11 per cent), based on the Group's weighted average cost of capital.
- No impairment is required on this basis. However, a combination of changes in assumptions and adverse movements in variables that are outside the Group's control (discount rate, exchange rate and airframe delays), could result in impairment in future years.

7 Other financial assets and liabilities

	Derivatives				Financial RRSPs £m	C Shares £m	Total £m
	Foreign exchange contracts £m	Commodity contracts £m	Interest rate contracts £m	Total £m			
At December 31, 2011							
Non-current assets	237	7	83	327	-	-	327
Current assets	84	7	-	91	-	-	91
	321	14	83	418	-	-	418
Current liabilities	(85)	(7)	-	(92)	(15)	(4)	(111)
Non-current liabilities	(683)	(19)	(2)	(704)	(215)	-	(919)
	(768)	(26)	(2)	(796)	(230)	(4)	(1,030)
	(447)	(12)	81	(378)	(230)	(4)	(612)
At December 31, 2010							
Non-current assets	317	18	36	371	-	-	371
Current assets	98	10	142	250	-	-	250
	415	28	178	621	-	-	621
Current liabilities	(38)	(5)	-	(43)	(39)	(23)	(105)
Non-current liabilities	(713)	(2)	(3)	(718)	(227)	-	(945)
	(751)	(7)	(3)	(761)	(266)	(23)	(1,050)
	(336)	21	175	(140)	(266)	(23)	(429)

Derivative financial instruments

Movements in the fair value of derivative financial instruments were as follows:

	2011				2010
	Foreign exchange £m	Commodity £m	Interest rate £m	Total £m	
At January 1	(336)	21	175	(140)	44
Movements in fair value hedges	2	-	83	85	(14)
Movements in cash flow hedges	(1)	-	-	(1)	-
Movements in other derivative contracts	(21)	(28)	1	(48)	(342)
Contracts settled	(91)	(5)	(178)	(274)	172
At December 31	(447)	(12)	81	(378)	(140)

Financial risk and revenue sharing partnerships (RRSPs)

Movements in the recognised values of financial RRSPs were as follows:

	2011 £m	2010 £m
At January 1	(266)	(363)
Cash paid to partners	46	114
Exchange adjustments included in OCI	(1)	2
Financing charge ¹	(11)	(13)
Excluded from underlying profit:		
Exchange adjustments ¹	1	(6)
Changes in forecast payments ¹	1	-
At December 31	(230)	(266)

¹ Total charge included within finance in the income statement is £9m (2010 charge £19m).

8 Borrowings

During 2011, the £250m bank revolving credit facility ("RCF") due in 2012 and £750m RCF due in 2013 were both refinanced with a new £1.0bn RCF due in 2016 provided by a syndicate of relationship banks.

9 Pensions and other post-retirement benefits

Movements in the net post-retirement position recognised in the balance sheet were as follows:

	UK schemes £m	Overseas schemes £m	Total £m
At January 1, 2011	(220)	(636)	(856)
Exchange differences	-	1	1
Current service cost	(119)	(34)	(153)
Past-service credit	126	162	288
Curtailment	-	2	2
Finance cost	(372)	(50)	(422)
Expected return on assets	381	29	410
Contributions by employer	256	48	304
Net actuarial gains/(losses)	790	(84)	706
Movement in unrecognised past-service credit	-	(94)	(94)
Movement in unrecognised surplus ¹	(690)	7	(683)
Movement on minimum funding liability ²	100	-	100
At December 31, 2011	252	(649)	(397)
Analysed as:			
Post-retirement scheme surpluses - included in non-current assets	495	8	503
Post-retirement scheme deficits - included in non-current liabilities	(243)	(657)	(900)
	252	(649)	(397)

¹ Where a surplus has arisen on a scheme, in accordance with IAS 19 and IFRIC 14, the surplus is recognised as an asset only if it represents an unconditional economic benefit available to the Group in the future. Any surplus in excess of this benefit is not recognised in the balance sheet.

² A minimum funding liability arises where the statutory funding requirements require future contributions in respect of past service that will result in a future unrecognisable surplus.

10 Contingent liabilities

In connection with the sale of its products the Group will, on some occasions, provide financing support for its customers. The Group's contingent liabilities related to financing arrangements are spread over many years and relate to a number of customers and a broad product portfolio.

Contingent liabilities are disclosed on a discounted basis. As the directors consider the likelihood of these contingent liabilities crystallising to be remote, this amount does not represent the value that is expected to crystallise. However, the amounts are discounted at the Group's borrowing rate to reflect better the time span over which these exposures could arise. The contingent liabilities are denominated in US dollars. As the Group does not adopt hedge accounting for forecast foreign currency transactions, this amount is reported, together with the sterling equivalent at the reporting date spot rate.

The discounted values of contingent liabilities relating to delivered aircraft and other arrangements where financing is in place, less insurance arrangements and relevant provisions were:

	2011		2010	
	£m	\$m	£m	\$m
Gross contingent liabilities	612	951	633	991
Contingent liabilities net of relevant security ¹	124	192	121	190
Contingent liabilities net of relevant security reduced by 20% ²	201	312	200	314
	67	104	68	106

¹ Security includes unrestricted cash collateral of:

² Although sensitivity calculations are complex, the reduction of the relevant security by 20% illustrates the sensitivity of the contingent liability to changes in this assumption

There are also net contingent liabilities in respect of undelivered aircraft, but it is not considered practicable to estimate these as deliveries can be many years in the future, and the relevant financing will only be put in place at the appropriate time.

Contingent liabilities exist in respect of guarantees provided by the Group in the ordinary course of business for product delivery, performance and reliability. The Group has, in the normal course of business, entered into arrangements in respect of export finance, performance bonds, countertrade obligations and minor miscellaneous items. Various Group undertakings are parties to legal actions and claims which arise in the ordinary course of business, some of which are for substantial amounts. While the outcome of some of these matters cannot precisely be foreseen, the directors do not expect any of these arrangements, legal actions or claims, after allowing for provisions already made, to result in significant loss to the Group.

Principal risks and uncertainties

Risk or uncertainty and potential impact	Mitigation
<p>Significant external events affecting demand for transportation such as terrorism, political change, global pandemic, natural disaster or continued and deeper economic retrenchment</p>	<ul style="list-style-type: none"> ● Established a balanced business portfolio ● Strong access to parts of the world where demand remains robust ● Diversity of global operations ● Regularly exercised senior response team
<p>Failure to minimise the environmental impact of the Group's products and operations leading to reputational damage and ultimately loss of market share</p>	<ul style="list-style-type: none"> ● Research and development in low carbon technologies such as nuclear power, tidal energy and fuel cells ● Significant investment in innovative solutions for aviation, marine and energy markets ● Governance structure headed by the Environment Council to oversee improvements
<p>Reduction in Government spending due to global financial uncertainty and budgetary constraint in Europe and the US in particular causing reduced revenues on existing platforms and inhibiting investment in new technologies</p>	<ul style="list-style-type: none"> ● Development of a diversified portfolio of products and services for various markets and regions ● Proactive lobbying for research and technology funding ● Achieve commitments under current contracts
<p>Failure of counterparties, including financial institutions, customers, joint venture partners and insurers, driven mainly by the economic uncertainties and pressures in the current environment, potentially affecting short term cash flows</p>	<ul style="list-style-type: none"> ● Established policy for managing counterparty credit risk ● Common framework to measure, report and control exposures to counterparties across the Group using value-at-risk and fair-value techniques ● Internal credit rating assigned to each counterparty, assessed with reference to publicly available credit information and subject to regular review
<p>Fluctuations in foreign currency exchange rates affecting operational results or the outcomes of financial transactions</p>	<ul style="list-style-type: none"> ● Long-term hedging policy, using a variety of financial instruments ● Where applicable, currency matching of assets and liabilities to manage translational exposures ● Regular review of risks and appropriate risk mitigation performed where material mismatches arise
<p>Regulatory changes relating to financial derivatives may require the Group to post cash collateral, increasing cash flow volatility and the risk of default</p>	<ul style="list-style-type: none"> ● Close monitoring of proposed changes ● Evaluation of potential financial impact in terms of cash collateral required and use of public trading exchanges ● Lobbying politicians and regulators in conjunction with other large European corporates
<p>If the Rolls-Royce products, services and pricing do not remain competitive, this could result in the loss of market share, with attendant impact on long-term financial performance.</p>	<ul style="list-style-type: none"> ● Establishment of long-term customer relationships to differentiate products and services and protect margins ● Steady focus on improvement in operational performance, for example through the modernisation of facilities ● Increased focus on managing the costs of operations and products ● Sustained investment in technology acquisition
<p>Non-compliance with applicable legislation and regulations, for example export controls, anti-bribery and authorisation of chemicals and substances compromising the ability to conduct business in certain jurisdictions and exposing the Group to reputational damage and potential financial penalties</p>	<ul style="list-style-type: none"> ● A business-wide compliance structure focussing on anti-bribery and corruption legislation ● Exports Committee, chaired by the Chief Operating Officer directs strategy and policy on exports ● Resources to comply with requirements are embedded throughout the business ● Employee awareness training
<p>Failure to grow capable resource globally due to demographic trends and limited supply of appropriately skilled personnel affecting programme delivery, damaging reputation and stifling opportunities for future innovation</p>	<ul style="list-style-type: none"> ● Continued significant investment in resourcing and capability infrastructure ● Objective assessment of performance using improved system for developing and monitoring the competency of individuals ● Regularly refreshed framework to develop managers and leaders

Risk or uncertainty and potential impact	Mitigation
<p>Product performance not meeting expectations affecting safety and reliability with adverse long term financial consequences</p>	<ul style="list-style-type: none"> • Operating a 'safety first' culture, including delivery of regularly refreshed mandated product integrity training to employees and suppliers • Future safety requirements are defined by the Product Safety Assurance team • Activities to improve maturity of products at entry into service • Engineering focus on improvements to product reliability and service lives
<p>Disruption of supply chain due to external factors or failure to deliver parts to committed costs and quality reducing the ability to meet customer commitments, win future business or achieve operational results</p>	<ul style="list-style-type: none"> • Continuous improvement of all processes and project management controls to ensure both technical and business objectives are achieved • Customer Excellence Centre provides improved response to and analysis of supply chain disruption • Focus on production quality through plant and supplier improvement plans • Providing duality of capability through establishment of world-class manufacturing capabilities in Asia, North America and Europe • Pursuit of low cost sourcing strategies
<p>Downgrade in credit rating restricting the Group's ability to secure funding, hedge forward or provide vendor financing</p>	<ul style="list-style-type: none"> • The Group has developed a strong financial risk profile and continues to improve the business risk profile
<p>Failure to conduct business in an ethical and socially responsible manner causing disruption and reputational damage</p>	<ul style="list-style-type: none"> • Ethics Committee established to oversee and maintain the highest ethical standards • Global Code of Business Ethics, in 18 languages, issued to all employees supported by a training and engagement programme to improve awareness of the Group's values • Global telephone and intranet channels are available for employees to report in confidence any concerns regarding potentially unethical behaviours
<p>Failure to manage multiple complex product programmes effectively with potentially significant adverse financial and reputational consequences, including the risk of impairment of the carrying value of the Group's intangible assets and the impact of potential litigation</p>	<ul style="list-style-type: none"> • Continuous improvement of all processes and project management controls to ensure both technical and business objectives are achieved • All major programmes subject to approval and regular review by the Board, with particular focus on the nature and potential impact of emerging risks and the effective mitigation of previously identified threats
<p>Breach of IT security through increasing volumes of data being transmitted electronically across international borders may cause controlled data to be lost, corrupted or accessed by unauthorised users, impacting the Group's reputation</p>	<ul style="list-style-type: none"> • Continual upgrading of security equipment and software • Deployment of a multi-layered protection system that includes web gateway filtering, firewalls and intrusion detection • Specialist resources employed to increase capability • Active sharing of information through industry and government forums
<p>Failure to execute of programme to modernise the IT infrastructure impacting efficiency and effectiveness of business operations</p>	<ul style="list-style-type: none"> • Governance structure established to oversee the programme • Project and risk management methodologies are being followed • Specialist resources have been secured to increase capability • Involvement of multiple service providers to provide competition and remove dependency on any single supplier
<p>Loss or unintended disclosure of Intellectual Property damaging the Group's competitive position and causing potential breach of contractual requirements</p>	<ul style="list-style-type: none"> • Strengthening of resources to manage patents • Creation of a global framework of Intellectual Property officers • Procurement of a global IT system to make patent information more widely available to engineers

Annual report and financial statements

The statements below have been prepared in connection with the Company's full Annual report for the year ended December 31, 2011. Certain parts thereof are not included with this announcement.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position and a summary of the principal risks affecting the business are shown in the business review. The financial position of the Group, its cash flows, liquidity position, borrowing facilities and financial risks are also described in the business review. In addition the consolidated financial statements include the Group's objectives, policies and processes for financial risk management, details of its cash and cash equivalents, indebtedness and borrowing facilities and its financial instruments, hedging activities and its exposure to counterparty credit risk, liquidity risk, currency risk, interest rate risk and commodity pricing risk.

The Group meets its funding requirements through a mixture of shareholders' funds, bank borrowings, bonds, notes and finance leases. The Group has facilities of £2.3bn of which £1.1bn was drawn at the year end. None of these facilities expire in 2012.

The Group's forecasts and projections, taking into account reasonably possible changes in trading performance, show that the Group has sufficient financial resources. As a consequence, the Directors have a reasonable expectation that the Company and the Group are well placed to manage their business risks and to continue in operational existence for the foreseeable future, despite the current uncertain global economic outlook. Accordingly, the Directors continue to adopt the going concern basis (in accordance with the guidance 'Going Concern and Liquidity Risk: *Guidance for Directors of UK Companies 2009*' issued by the Financial Reporting Council) in preparing the consolidated financial statements.

Responsibility statement

Each of the persons who is a director at the date of approval of this report confirms that to the best of his or her knowledge:

- i) each of the Group and parent company financial statements, prepared in accordance with IFRS and UK Accounting Standards respectively, gives a true and fair view of the assets, liabilities, financial position and profit or loss of the issuer and the undertakings included in the consolidation taken as a whole; and
- ii) the Directors' report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

AGM and directorate change

This year's AGM will be held at 11.00am on Friday, May 4 2012 at the QEII Conference Centre, Broad Sanctuary, Westminster, London, SW1P 3EE. Under Article 112 of the Company's Articles of Association, all directors will retire at the 2012 AGM and offer themselves for re-election. However, Sir Peter Gregson has expressed his wish to retire as a non-executive director of Rolls-Royce at this year's Annual General Meeting and therefore will not be seeking re-election.

By order of the Board

John Rishton
Chief Executive
February 8, 2012

Mark Morris
Finance Director
February 8, 2012