

# 50

## Consolidated income statement

For the year ended December 31, 2005

	Notes	2005 £m	2004 £m
<b>Revenue</b>		<b>6,603</b>	5,947
Cost of sales	2,3	<b>(4,924)</b>	(4,744)
<b>Gross profit</b>		<b>1,679</b>	1,203
Other operating income	4	<b>60</b>	73
Commercial and administrative costs		<b>(624)</b>	(599)
Research and development costs		<b>(282)</b>	(288)
Share of profit of joint ventures	11	<b>46</b>	19
<b>Group operating profit</b>		<b>879</b>	408
(Loss)/profit on sale of businesses	32	<b>(2)</b>	9
<b>Profit before financing costs</b>		<b>877</b>	417
Financial income	5	<b>442</b>	372
Financial expenses	5	<b>(842)</b>	(425)
Net financing costs*		<b>(400)</b>	(53)
<b>Profit before taxation**</b>	4	<b>477</b>	364
Taxation	6	<b>(130)</b>	(100)
<b>Profit for the period</b>		<b>347</b>	264
<b>Attributable to:</b>			
Equity holders of the parent		<b>350</b>	263
Minority interest		<b>(3)</b>	1
<b>Profit for the period</b>		<b>347</b>	264
<b>Earnings per ordinary share:</b>			
Basic	7	<b>20.11p</b>	15.56p
Diluted	7	<b>19.31p</b>	15.05p
Payments to shareholders		<b>(154)</b>	(140)
*Net interest payable	5	<b>(39)</b>	(52)
**Underlying profit before taxation	2	<b>584</b>	364

	Notes	2005 £m	2004 £m
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets	9	1,281	1,227
Property, plant and equipment	10	1,683	1,672
Investments – joint ventures	11	247	211
Other investments	12	52	57
Deferred tax assets	21	439	318
		<b>3,702</b>	<b>3,485</b>
<b>Current assets</b>			
Inventory	13	1,309	1,090
Trade and other receivables	14	2,047	2,049
Taxation recoverable		3	2
Other financial assets	20	464	
Short-term investments		37	36
Cash and cash equivalents	15	1,757	1,452
		<b>5,617</b>	<b>4,629</b>
<b>Total assets</b>		<b>9,319</b>	<b>8,114</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Borrowings	16	(75)	(207)
Other financial liabilities	20	(234)	
Trade and other payables	17	(2,689)	(2,395)
Current tax liabilities		(171)	(176)
Provisions	22	(138)	(173)
		<b>(3,307)</b>	<b>(2,951)</b>
<b>Non-current liabilities</b>			
Borrowings	18	(1,458)	(1,430)
Other financial liabilities	20	(339)	
Other payables	19	(650)	(543)
Deferred tax liabilities	21	(178)	(115)
Provisions	22	(223)	(220)
Post-retirement benefit obligations	23	(1,659)	(1,409)
		<b>(4,507)</b>	<b>(3,717)</b>
<b>Total liabilities</b>		<b>(7,814)</b>	<b>(6,668)</b>
<b>Net assets</b>		<b>1,505</b>	<b>1,446</b>
<b>EQUITY</b>			
<b>Capital and reserves</b>			
Called-up share capital	24	352	346
Share premium account	25	30	4
Merger reserve	25	3	3
Capital redemption reserve	25	206	74
Transition hedging reserve	25	379	
Cash flow hedging reserve	25	—	
Translation reserve	25	17	(38)
Retained earnings	25	512	1,053
<b>Equity attributable to equity holders of the parent</b>		<b>1,499</b>	<b>1,442</b>
<b>Minority interest</b>	26	<b>6</b>	<b>4</b>
<b>Total equity</b>		<b>1,505</b>	<b>1,446</b>

The financial statements on pages 50 to 107 and 114 to 117 were approved by the Board on February 8, 2006 and signed on its behalf by:



Simon Robertson Chairman



Andrew Shilston Finance Director

	2005 £m	2004 £m
<b>Reconciliation of operating cash flows</b>		
Profit before taxation	477	364
Share of profit of joint ventures	(46)	(19)
Loss/(gain) on sale of businesses	2	(9)
Loss on sale of property, plant and equipment	1	2
Net interest payable	39	52
Net other financing expenses	361	1
Taxation paid	(60)	(84)
Depreciation of intangible assets (note 9)	54	58
Depreciation of property, plant and equipment (note 10)	200	242
Decrease in provisions	(31)	(8)
Increase in inventories	(221)	(116)
(Increase)/decrease in trade and other receivables	(252)	179
Increase/(decrease) in payables	720	(31)
Decrease in other financial assets and liabilities	283	
Post-retirement benefits adjustment	(69)	(42)
Share-based payments	26	6
Hedge reserve movements	(459)	
Dividends received from joint ventures	35	15
<b>Net cash inflow from operating activities</b>	<b>1,060</b>	<b>610</b>
<b>Cash flows from investing activities</b>		
Disposals of unlisted investments	5	—
Additions to intangible assets	(116)	(142)
Purchases of property, plant and equipment	(235)	(175)
Disposals of property, plant and equipment	69	66
Disposals of businesses (note 32)	1	16
Investments in joint ventures	(13)	(2)
<b>Net cash outflow from investing activities</b>	<b>(289)</b>	<b>(237)</b>
<b>Cash flows from financing activities</b>		
Borrowings due within one year – repayment of loans	(202)	(57)
– increase in loans	—	—
Borrowings due after one year – repayment of loans	(5)	(95)
– increase in loans	—	500
Capital element of finance lease payments	(11)	(52)
Net cash (outflow)/inflow from (decrease)/increase in borrowings	(218)	296
Interest received	41	58
Interest paid	(88)	(107)
Interest element of finance lease payments	(2)	(3)
(Increase)/decrease in government securities and corporate bonds	(1)	3
Equity dividends paid	—	(33)
Issue of ordinary shares	26	4
Settlement of financial liabilities to purchase own shares	(149)	(2)
Redemption of B Shares	(52)	(27)
<b>Net cash (outflow)/inflow from financing activities</b>	<b>(443)</b>	<b>189</b>
<b>Increase in cash and cash equivalents</b>	<b>328</b>	<b>562</b>
<b>Cash and cash equivalents at January 1</b>	<b>1,439</b>	<b>909</b>
<b>Exchange and other non-cash adjustments</b>	<b>46</b>	<b>(32)</b>
<b>Adjustment on implementation of IAS 32 and IAS 39</b>	<b>(68)</b>	
<b>Cash and cash equivalents at December 31</b>	<b>1,745</b>	<b>1,439</b>

	2005 £m	2004 £m
<b>Reconciliation of increase in cash and cash equivalents to movement in net funds</b>		
Increase in cash and cash equivalents	328	562
Cash outflow/(inflow) from increase/(decrease) in government securities and corporate bonds	1	(3)
Net cash outflow/(inflow) from decrease/(increase) in borrowings	218	(296)
Change in net funds resulting from cash flows	547	263
Borrowings of businesses disposed	1	—
Finance lease additions	(1)	—
Zero-coupon bonds 2005/2007 (9.0% interest accretion)	—	(4)
Exchange adjustments	5	(8)
Fair value adjustments	47	—
<b>Movement in net funds</b>	<b>599</b>	<b>251</b>
<b>Net debt at January 1</b>	<b>(149)</b>	<b>(400)</b>
<b>Adjustment on implementation of IAS 32 and IAS 39</b>	<b>(189)</b>	<b>—</b>
	<b>261</b>	<b>(149)</b>
<b>Fair value of swaps hedging fixed rate borrowings</b>	<b>74</b>	<b>—</b>
<b>Net funds/(debt) at December 31</b>	<b>335</b>	<b>(149)</b>

	At January 1, 2005 £m	Adjustment for IAS 32/39 £m	Restated at January 1, 2005 £m	Cash flow £m	Borrowings of businesses disposed £m	Exchange adjustments £m	Fair value adjustments £m	Other non-cash changes £m	At December 31, 2005 £m
<b>Analysis of net funds</b>									
Cash at bank and in hand	758	(68)	690	(374)	—	22	—	—	338
Overdrafts	(13)	—	(13)	—	1	—	—	—	(12)
Short-term deposits	694	—	694	702	—	23	—	—	1,419
Cash and cash equivalents	1,439	(68)	1,371	328	1	45	—	—	1,745
Investments	36	—	36	1	—	—	—	—	37
Other borrowings due within one year	(182)	(7)	(189)	202	—	(5)	7	(70)	(55)
Borrowings due after one year	(1,410)	(114)	(1,524)	5	—	(35)	40	70	(1,444)
Finance leases	(32)	—	(32)	11	—	—	—	(1)	(22)
	(149)	(189)	(338)	547	1	5	47	(1)	261
Fair value of swaps hedging fixed rate borrowings		121	121				(47)		74
	(149)	(68)	(217)	547	1	5	—	(1)	335

	2005 £m	2004 £m
Foreign exchange adjustments <sup>1</sup>	49	(38)
Actuarial losses	(282)	(7)
Deferred taxation on actuarial losses	84	2
Transfers from transition hedging reserve	(324)	
Transfers from cash flow hedging reserve	3	
Other adjustments	—	2
Net expense recognised directly in equity	(470)	(41)
Profit for the period	347	264
<b>Total recognised income and expense for the period</b>	<b>(123)</b>	<b>223</b>
<b>Attributable to:</b>		
Equity holders of the parent	(120)	222
Minority interest	(3)	1
<b>Total recognised income and expense for the period</b>	<b>(123)</b>	<b>223</b>
Total recognised income and expense for the period	(123)	223
Adjustments relating to implementation of IAS 32 and IAS 39 from January 1, 2005 <sup>2</sup>	151	
	28	223

<sup>1</sup> Loss on net investment hedge relating to foreign subsidiaries £26m (2004 £19m gain).

<sup>2</sup> See note 33.

## Summary of movements in equity

For the year ended December 31, 2005

	2005 £m	2004 £m
At January 1 (as previously reported under UK GAAP)	1,446	2,143
Adjustments on adoption of IFRS from January 1, 2004 <sup>1</sup>		(927)
At January 1	1,446	1,216
Total recognised income and expense for the period	(123)	223
Adjustments relating to implementation of IAS 32 and IAS 39 from January 1, 2005 <sup>1</sup>	151	
Scrip dividend adjustments	—	20
Redemption of B Shares		(27)
Issue of B Shares	(141)	
On issue of ordinary shares	117	4
Relating to own shares	2	(2)
Share-based payment adjustment	48	12
Sale of shares in subsidiary company to a minority interest	5	—
At December 31	1,505	1,446
<b>Attributable to:</b>		
Equity holders of the parent	1,499	1,442
Minority interest	6	4
<b>Total equity</b>	<b>1,505</b>	<b>1,446</b>

<sup>1</sup> See note 33.

The directors are responsible for preparing the Annual report and the Group and parent company financial statements, in accordance with applicable law and regulations.

Company law requires the directors to prepare Group and parent company financial statements for each financial year. Under that law the directors are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards.

The Group financial statements are required by law and IFRSs as adopted by the EU to present fairly the financial position and performance of the Group; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

The parent company financial statements are required by law to give a true and fair view of the state of affairs of the parent company.

In preparing each of the Group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;

- for the parent company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the parent company financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a directors' report, directors' remuneration report and corporate governance statement that comply with that law and those regulations. The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## Independent auditors' report

To the members of Rolls-Royce Group plc

We have audited the Group financial statements of Rolls-Royce Group plc for the year ended December 31, 2005 which comprise the Group consolidated income statement, the Group consolidated balance sheet, the Group consolidated cash flow statement, the Group consolidated statement of recognised income and expense and the related notes. These Group financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the parent company financial statements of Rolls-Royce Group plc for the year ended December 31, 2005 and on the information in the directors' remuneration report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU are set out in the statement of directors' responsibilities on this page.

Our responsibility is to audit the Group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Group financial statements give a true and fair view and whether the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you if, in our opinion, the directors' report is not consistent with the Group financial statements, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed. We review whether the corporate governance statement reflects the Company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we

report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual report and consider whether it is consistent with the audited Group financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group financial statements. Our responsibilities do not extend to any other information.

### Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Group financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the Group financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Group financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Group financial statements.

### Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the Group's affairs as at December 31, 2005 and of its profit for the year then ended; and
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation.

### KPMG Audit Plc

Chartered Accountants, Registered Auditor

London

February 8, 2006

# 109

## Company balance sheet

At December 31, 2005

	Notes	2005 £m	2004 £m
<b>Fixed assets</b>			
Investments – subsidiary undertakings	2	2,153	2,198
<b>Current assets</b>			
Debtors – amounts falling due within one year	3	829	501
Cash at bank		1	—
		<b>830</b>	501
<b>Creditors – amounts falling due within one year</b>			
Other creditors	4	(7)	—
<b>Net current assets</b>		<b>823</b>	501
<b>Total assets less current liabilities</b>		<b>2,976</b>	2,699
<b>Net assets</b>		<b>2,976</b>	2,699
<b>Capital and reserves</b>			
Called-up share capital	5	352	346
Share premium account	6	30	4
Merger reserve	6	777	918
Capital redemption reserve	6	206	74
Profit and loss account	6	1,611	1,357
<b>Shareholders' funds<sup>1</sup></b>		<b>2,976</b>	2,699

<sup>1</sup> Equity shareholders' funds £2,976m (2004 £2,694m); non-equity shareholders' funds £nil (2004 £5m) (see note 4).

The financial statements on pages 109 to 112 were approved by the Board on February 8, 2006 and signed on its behalf by:



Simon Robertson Chairman



Andrew Shilston Finance Director

## Reconciliation of movements in shareholders' funds

For the year ended December 31, 2005

	2005 £m	2004 £m
At January 1 as previously stated	2,699	2,101
Adjustment on adoption of FRS 25 and FRS 26	(5)	—
At January 1 restated	2,694	2,101
Retained profit for the year	306	601
Scrip dividend adjustment	—	20
Redemption of B Shares	(141)	(27)
On issue of ordinary shares	117	4
At December 31	<b>2,976</b>	2,699

We have audited the parent company financial statements of Rolls-Royce Group plc for the year ended December 31, 2005 which comprise the balance sheet and the related notes. These parent company financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the directors' remuneration report that is described as having been audited.

We have reported separately on the Group financial statements of Rolls-Royce Group plc for the year ended December 31, 2005.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

#### Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual report, the directors' remuneration report and the parent company financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the statement of directors' responsibilities on page 108.

Our responsibility is to audit the parent company financial statements and the part of the directors' remuneration report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the parent company financial statements give a true and fair view and whether the parent company financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the parent company financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual report and consider whether it is consistent with the audited parent company financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent company financial statements. Our responsibilities do not extend to any other information.

#### Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the parent company financial statements and the part of the directors' remuneration report to be audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the parent company financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the parent company financial statements and the part of the directors' remuneration report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the parent company financial statements and the part of the directors' remuneration report to be audited.

#### Opinion

In our opinion:

- the parent company financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2005; and
- the parent company financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985.

#### KPMG Audit Plc

Chartered Accountants, Registered Auditor

#### London

February 8, 2006

**Incorporated within the UK – held by Rolls-Royce Group plc**

Rolls-Royce plc	Principal trading/holding company
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**Incorporated within the UK – held by Rolls-Royce plc unless otherwise stated****Civil aerospace**

Rolls E.L.Turbofans Limited	Engine support services/holding company
Rolls-Royce General Partner Limited <sup>1</sup>	Management company
Rolls-Royce Total Care Services Limited	Aftermarket support services

**Marine**

Rolls-Royce Marine Electrical Systems Limited <sup>2</sup>	Marine electrical systems
Rolls-Royce Marine Power Operations Limited	Nuclear submarine propulsion systems

**Energy**

Rolls-Royce Fuel Cell Systems Limited	Development of fuel cell systems
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**Financial services and corporate**

Rolls-Royce Aircraft Management Limited	Sales finance and other financial services
Rolls-Royce Capital Limited <sup>3</sup>	Sales finance and other financial services
Rolls-Royce International Limited	International support and commercial information services
Rolls-Royce Leasing Limited	Engine leasing
Rolls-Royce Overseas Holdings Limited	Holding company
Rolls-Royce Overseas Investments Limited <sup>4</sup>	Holding company
Rolls-Royce Power Engineering plc	Power generation and marine systems
Rolls-Royce Power Ventures Limited	Provision of project development capabilities
Vinters Engineering plc <sup>5</sup>	Holding company
Vinters plc	Holding company

<sup>1</sup> The interest is held by Rolls-Royce Supplies Limited.

<sup>2</sup> The interest is held by Rolls-Royce Power Engineering plc.

<sup>3</sup> This subsidiary acts as an agent of Rolls-Royce plc.

<sup>4</sup> The interest is held by Rolls-Royce Overseas Holdings Limited.

<sup>5</sup> The interest is held by Vinters plc.

The above companies operate principally in the UK and the effective Group interest is 100 per cent, other than Rolls-Royce Fuel Cell Systems Limited which is 75 per cent.

**Incorporated overseas – held by Rolls-Royce plc unless otherwise stated****Civil aerospace**

Brazil	Rolls-Royce Brasil Limitada	Repair and overhaul
France	Rolls-Royce Technical Support SARL <sup>1</sup>	Project support
Germany	Rolls-Royce Deutschland Ltd & Co KG <sup>2</sup>	BR700 series engine development and manufacture
Italy	Europea Microfusioni Aerospaziali S.p.A.	Manufacture of castings
USA	Rolls-Royce Corporation <sup>3</sup>	Design, development and manufacture of gas turbine engines
USA	Rolls-Royce Engine Services – Oakland Inc. <sup>4</sup>	Repair and overhaul

**Defence**

USA	Rolls-Royce Defense Services Inc. <sup>5</sup>	Repair and overhaul
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**Marine**

China	Rolls-Royce Marine (Shanghai) Limited <sup>6</sup>	Manufacture and supply of marine equipment
Finland	Rolls-Royce OY AB <sup>7</sup>	Manufacture of winches and propeller systems
Norway	Rolls-Royce Marine AS <sup>7</sup>	Design and manufacture of ship equipment/holding company
Norway	Ulstein Holding AS <sup>8</sup>	Holding company
Sweden	Kamewa Holding AB <sup>7</sup>	Holding company
Sweden	Rolls-Royce AB <sup>9</sup>	Manufacture of propeller systems
USA	Rolls-Royce Commercial Marine Inc. <sup>10</sup>	Aftermarket support services
USA	Rolls-Royce Naval Marine Inc. <sup>5</sup>	Design and manufacture of ship propellers

**Energy**

Canada	Rolls-Royce Canada Limited <sup>11</sup>	Industrial gas turbines and aero-engine sales, service and overhaul
India	Rolls-Royce Energy Systems India Private Limited <sup>1</sup>	Project management and customer support
Singapore	Rolls-Royce Pte Limited <sup>1</sup>	Engine and turbine compression systems, spares
USA	Rolls-Royce Energy Systems Inc. <sup>5</sup>	Turbine generator packages

**Financial services and corporate**

Canada	Rolls-Royce Holdings Canada Inc.	Holding company
Guernsey	Nightingale Insurance Limited <sup>1</sup>	Insurance services
India	Rolls-Royce Operations (India) Pvt Limited <sup>1</sup>	Provision of support services
USA	Rolls-Royce North America (USA) Holdings Co. <sup>12</sup>	Holding company
USA	Rolls-Royce North America Holdings Inc. <sup>13</sup>	Holding company

<sup>1</sup> The interests are held by Rolls-Royce Overseas Holdings Limited.

<sup>2</sup> The interest is held as follows: 49.5 per cent Rolls-Royce Erste Beteiligungs GmbH, 50.5 per cent Rolls-Royce Zweite Beteiligungs GmbH.

<sup>3</sup> The interest is held by Rolls-Royce Asset Management Inc.

<sup>4</sup> The interest is held by Rolls-Royce Defense Services Inc.

<sup>5</sup> The interests are held by Rolls-Royce North America Holdings Inc.

<sup>6</sup> The interest is held by Rolls-Royce Marine Asia Limited.

<sup>7</sup> The interests are held by Vinters International Limited.

<sup>8</sup> The interest is held by Rolls-Royce Marine AS.

<sup>9</sup> The interest is held by Kamewa Holding AB.

<sup>10</sup> The interest is held by Rolls-Royce Naval Marine Inc.

<sup>11</sup> The interest is held by Rolls-Royce Holdings Canada Inc.

<sup>12</sup> The interest is held by Rolls-Royce Overseas Investments Limited.

<sup>13</sup> The interest is held by Rolls-Royce North America (USA) Holdings Co.

The above companies operate principally in the country of their incorporation.

The effective Group interest is 100 per cent, other than Europea Microfusioni Aerospaziali S.p.A. which is 51 per cent.

A list of all subsidiary undertakings will be included in the Company's annual return to Companies House.

## Incorporated within the UK – held by Rolls-Royce plc

	Class	% of class held	% of total equity held
<b>Civil aerospace</b>			
TRT Limited	A Ordinary	—	49.5
Turbine blade repair services	B Ordinary	100	
Turbine Surface Technologies Limited	A Ordinary	—	50
Turbine surface coatings	B Ordinary	100	
<b>Defence</b>			
Airtanker Holdings Limited	Ordinary	20	20
Holding company			
Rolls-Royce Snecma Limited (UK & France)	A Shares	—	50
Engine collaboration	B Shares	100	
Rolls-Royce Turbomeca Limited (UK & France)	A Shares	—	50
Adour and RTM322 engines collaboration	B Shares	100	
Turbo-Union Limited (UK, Germany & Italy)	Ordinary	40	40
RB199 engine collaboration	A Shares	37.5	
<b>Energy</b>			
Genistics Holdings Limited	A Ordinary	100	50
Holding company of Genistics Limited	B Ordinary	—	
Rolls Wood Group (Repair and Overhauls) Limited	A Ordinary	100	50
Repair and overhaul	B Ordinary	—	
<b>Financial services and corporate</b>			
Alpha Partners Leasing Limited	A Ordinary	100	50
Engine leasing	B Ordinary	—	

## Incorporated overseas – held by Rolls-Royce plc unless otherwise stated

	Class	% of class held	% of total equity held
<b>Civil aerospace</b>			
China	Xian XR Aero Components Co Limited	Ordinary	49
	Manufacturing facility for aero-engine parts		
Germany	N3 Engine Overhaul Services GmbH & Co Kg <sup>1</sup>	Partnership	50
	Repair and overhaul		
Germany	N3 Engine Overhaul Services Verwaltungsgesellschaft mbh <sup>2</sup>	Ordinary	50
	Repair and overhaul		
Hong Kong	Hong Kong Aero Engine Services Limited <sup>3</sup>	Ordinary	45
	Repair and overhaul		
Israel	TechJet Aerofoils Limited <sup>3</sup>	A Ordinary	50
	Manufacture of compressor aerofoils	B Ordinary	
Saudi Arabia	Middle East Propulsion Company Limited <sup>4</sup>	Ordinary	16.7
	Repair and overhaul		
Singapore	International Engine Component Overhaul Pte Limited <sup>3</sup>	Common	50
	Repair and overhaul		
Singapore	Singapore Aero Engine Services Private Limited <sup>3</sup> (effective interest 39%)	Ordinary	30
	Repair and overhaul		
Spain	Industria de Turbo Propulsores SA	Ordinary	46.9
	Manufacture and maintenance of aero engines		
Switzerland	IAE International Aero Engines AG (UK, Germany, Japan & USA)	A Shares	32.5
	V2500 series engine collaboration	B Shares	
		C Shares	
		D Shares	

**Incorporated overseas – held by Rolls-Royce plc unless otherwise stated** continued

		Class	% of class held	% of total equity held
<b>Civil aerospace</b> continued				
USA	Data Systems & Solutions, LLC <sup>5</sup> Advanced controls and predictive data management	Partnership	50	—
USA	Texas Aero Engine Services, LLC <sup>6</sup> Repair and overhaul	Partnership	50	—
USA	Williams-Rolls Inc. <sup>7</sup> (UK & North America) Small engine collaboration	Common	15	15
<b>Defence</b>				
Germany	EPI Europrop International GmbH (Germany) (effective interest 35.5%) A400M engine collaboration	Ordinary	28	28
Germany	EUROJET Turbo GmbH (UK, Germany, Italy & Spain) (effective interest 39%) EJ200 engine collaboration	Ordinary	33	33
Germany	MTU, Turbomeca, Rolls-Royce GmbH (UK, France & Germany) MTR390 engine collaboration	Ordinary	33.3	33.3
USA	GE Rolls-Royce Fighter Engine Team LLC <sup>8</sup> F136 development engine for the Joint Strike Fighter (JSF) Programme	Partnership	40	40
<b>Financial services and corporate</b>				
Isle of Man	Pembroke Group Limited <sup>9</sup> (Eire) Aircraft leasing	Ordinary	50	50
USA	Alpha Leasing (US) LLC <sup>10</sup> Engine leasing	Partnership	50	—
USA	Alpha Leasing (US) (No.2) LLC <sup>10</sup> Engine leasing	Partnership	50	—
USA	Exostar LLC <sup>11</sup> B2B exchange	Partnership	17.6	—
USA	Rolls-Royce & Partners Finance (US) LLC <sup>9</sup> Engine leasing	Partnership	50	—

**Unincorporated overseas – held by subsidiary undertakings****Civil aerospace**

USA	Light Helicopter Turbine Engine Company (LHTEC) Rolls-Royce Corporation has a 50% interest in this unincorporated partnership which was formed to develop and market jointly the T800 engine.
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<sup>1</sup> The partner is Rolls-Royce Zweite Beteiligungs GmbH.<sup>2</sup> The interest is held by Rolls-Royce Zweite Beteiligungs GmbH.<sup>3</sup> The interests are held by Rolls-Royce Overseas Holdings Limited.<sup>4</sup> The interest is held by Middle East Equity Partners Limited.<sup>5</sup> The partner is Rolls-Royce Control Systems Holdings Co.<sup>6</sup> The partner is Rolls-Royce Engine Services Holdings Co.<sup>7</sup> The interest is held by Rolls E.L. Turbofans Limited.<sup>8</sup> The partner is Rolls-Royce JSF Holdings Inc.<sup>9</sup> The interest is held by Larten Limited.<sup>10</sup> The partner is Rolls-Royce Finance Holdings Co.<sup>11</sup> The partner is Rolls-Royce Investment Co.

The countries of principal operations are stated in brackets after the name of the company.

Income statement/Profit and loss account	Notes	2005 £m	2004 £m	2003 <sup>1</sup> £m	2002 <sup>1</sup> £m	2001 <sup>1</sup> £m
<b>Revenue/Group turnover</b>		<b>6,603</b>	5,947	5,645	5,788	6,328
<b>Profit before net research and development and share of joint venture profit</b>		<b>1,113</b>	686	499	443	587
Research and development (net)	1	(282)	(288)	(281)	(297)	(358)
Share of profit of joint ventures	2	46	19	52	66	82
<b>Profit before financing costs/profit on ordinary activities before interest</b>		<b>877</b>	417	270	212	311
Net financing costs/interest payable	3	(400)	(53)	(90)	(107)	(119)
<b>Profit before taxation</b>		<b>477</b>	364	180	105	192
Taxation	4	(130)	(100)	(64)	(52)	(86)
<b>Profit for the period</b>		<b>347</b>	264	116	53	106

### Attributable to:

Equity holders of the parent		350	263	116	53	106
Minority interest		(3)	1	—	—	—
		<b>347</b>	264	116	53	106

<sup>1</sup> Amounts as previously reported under UK GAAP. The impact of the transition from UK GAAP to IFRS is included in note 33 to the financial statements.

### Notes

1 Research and development (gross)		(663)	(601)	(619)	(590)	(636)
2 Under IFRS, share of profit of joint ventures is net of share of interest and taxation charges of		(34)	(31)	—	—	—
3 Under UK GAAP, interest payable includes the joint ventures share of		—	—	(24)	(35)	(42)
4 Under UK GAAP, taxation includes the joint ventures share of		—	—	(10)	(9)	(9)

### Earnings per ordinary share:

Basic – IFRS		20.11p	15.56p	—	—	—
Diluted – IFRS		19.31p	15.05p	—	—	—
Underlying – UK GAAP		—	—	12.20p	11.10p	20.20p
Basic – UK GAAP		—	—	7.04p	3.29p	6.67p

<b>Payments to shareholders per ordinary share</b>		<b>8.72p</b>	8.18p	8.18p	8.18p	8.18p
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Balance sheet	2005 £m	2004 £m	2003 <sup>1</sup> £m	2002 <sup>1</sup> £m	2001 <sup>1</sup> £m
Assets	9,319	8,114	7,414	7,296	7,334
Liabilities	(7,814)	(6,668)	(5,271)	(5,262)	(5,270)
	<b>1,505</b>	1,446	2,143	2,034	2,064
Called-up share capital	352	346	333	323	320
Reserves	1,147	1,096	1,807	1,709	1,742
Equity attributable to equity holders of the parent	1,499	1,442	2,140	2,032	2,062
Minority interest	6	4	3	2	2
	<b>1,505</b>	1,446	2,143	2,034	2,064

<sup>1</sup> Amounts as previously reported under UK GAAP.

Cash flow	2005 £m	2004 £m	2003 <sup>1</sup> £m	2002 <sup>1</sup> £m	2001 <sup>1</sup> £m
Cash inflow from operating activities	1,060	610	673	611	418
Cash outflow from investing activities – IFRS	(289)	(237)	—	—	—
Capital expenditure and financial investment – UK GAAP	—	—	(198)	(381)	(181)
Acquisitions and disposals – UK GAAP	—	—	(16)	(20)	79
Cash (outflow)/inflow from financing activities – IFRS	(443)	189	—	—	—
Interest, dividends and taxation – UK GAAP	—	—	(176)	(222)	(147)
Management of liquid resources – UK GAAP	—	—	(90)	217	(162)
Financing – UK GAAP	—	—	(17)	(81)	113
<b>Increase in cash and cash equivalents (IFRS)/Increase in cash (UK GAAP)</b>	<b>328</b>	562	176	124	120

<sup>1</sup> Amounts as previously reported under UK GAAP.