

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

* Restated
2010
£m

	Notes	2011 £m	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	Total equity
	Share capital	Share premium	Capital redemption reserve	Cash flow hedging reserve	Other reserves ¹	Retained earnings ²	Total		
	£m	£m	£m	£m	£m	£m	£m	£m	£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 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £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 £m	Underlying central items £m	Total underlying £m	Underlying adjustments £m	Group £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			
	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	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
Significant external events affecting demand for transportation such as terrorism, political change, global pandemic, natural disaster or continued and deeper economic retrenchment	<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
Failure to minimise the environmental impact of the Group's products and operations leading to reputational damage and ultimately loss of market share	<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
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	<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
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	<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
Fluctuations in foreign currency exchange rates affecting operational results or the outcomes of financial transactions	<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
Regulatory changes relating to financial derivatives may require the Group to post cash collateral, increasing cash flow volatility and the risk of default	<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
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.	<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
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	<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
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	<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
Product performance not meeting expectations affecting safety and reliability with adverse long term financial consequences	<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
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	<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
Downgrade in credit rating restricting the Group's ability to secure funding, hedge forward or provide vendor financing	<ul style="list-style-type: none"> • The Group has developed a strong financial risk profile and continues to improve the business risk profile
Failure to conduct business in an ethical and socially responsible manner causing disruption and reputational damage	<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
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	<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
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	<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
Failure to execute of programme to modernise the IT infrastructure impacting efficiency and effectiveness of business operations	<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
Loss or unintended disclosure of Intellectual Property damaging the Group's competitive position and causing potential breach of contractual requirements	<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