INDEPENDENT AUDITORS' REPORT

to the members of Rolls-Royce Holdings plc

Report on the audit of the financial statements

Opinion

In our opinion:

- **Rolls-Royce Holdings plc's Consolidated Financial Statements and Company Financial Statements (the "financial statements") give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2019 and of the Group's loss and cash flows for the year then ended;**
- **the Consolidated Financial Statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;**
- **the Company Financial Statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and**
- **the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.**

We have audited the financial statements, included within the Annual Report, which comprise: the Consolidated and Company Balance Sheets at 31 December 2019; the Consolidated Income Statement and Consolidated Statement of Comprehensive Income; the Consolidated Cash Flow Statement for the year then ended; the Consolidated and Company Statements of Changes in Equity for the year then ended; and the notes to the Consolidated and Company Financial Statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Company.

Other than those disclosed in note 7 on page 145, we have provided no non-audit services to the Group or the Company in the period from 1 January 2019 to 31 December 2019.

Our audit approach

Overview

- Overall Group materiality: £75 million (2018: £56 million), based on 0.5% of total underlying revenue.
- Overall Company materiality: £126 million (2018: £128 million), based on 1.0% of total assets. This exceeds Group materiality as it is determined on a different basis given the nature of the Company's operations. For the purposes of the audit of the Consolidated Financial Statements, our procedures, including those on balances in the Company, are undertaken with reference to Group materiality.

- Following our assessment of the risks of material misstatement of the Consolidated Financial Statements we subjected 30 individual components (including three joint ventures) to full scope audits for Group purposes, which following an element of consolidation, equates to 14 Group reporting opinions. In addition seven components performed targeted specified procedures.
- In addition, the Group engagement team audited the Company and other centralised functions including those covering the Group treasury operations, corporate costs, corporate taxation, post-retirement benefits and goodwill and intangible asset impairment assessments.
- The components on which full scope audits, targeted specified procedures and centralised work was performed accounted for 90% of revenue, 86% of loss before tax and 85% of total assets.
- Central audit testing was performed where appropriate for reporting components in Group audit scope supported by the Group's Finance Service Centres (FSCs).
- As part of the supervision process, the Group engagement team has visited 14 components as well as the FSCs. Interactions with component auditors also included formal written instructions, meetings and reviewing selected audit papers.

Our assessment of the risk of material misstatement also informed our views of the areas of particular focus of our work which are listed below:

- Long-term contract accounting and associated provisions (Group);
- The recognition of deferred tax assets (Group);
- The translation of foreign-currency denominated transactions and balances (Group);
- The presentation and accuracy of underlying results and disclosure of other one-off items (including exceptional items) (Group);
- Implementation of IFRS 16: Leases (Group);
- Response to deferred prosecution and leniency agreements in connection with alleged bribery and corruption in overseas markets (Group); and
- Recoverability of the Company's investment in subsidiary undertakings (Company).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the Group and industries in which it operates, we identified that the principal risks of non-compliance with laws and regulations related to international tax legislation, Civil Aviation Authority regulations, import and export restrictions (including International Traffic in Arms Regulations), UK Bribery Act, US Foreign Corrupt Practices Act and the requirements of the deferred prosecution and leniency agreements the Group previously entered into and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls) and determined that the principal risks were related to posting journal entries to increase profits or reclassify costs, management bias in accounting estimates especially long-term contract accounting and associated provisions, sale of engines to joint ventures for no clear commercial purpose or above market prices and inappropriately including or excluding transactions from underlying or free cash flow metrics. The Group engagement team shared this risk assessment with the component auditors so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the Group engagement team and/or component auditors included:

– Discussions with management, internal audit and the Group's internal and external legal counsel, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;

– Assessment of matters reported on the Group's whistle-blowing helpline and the results of management's investigation of such matters;

– Challenging assumptions and judgements made by management in determining significant accounting estimates, in particular in relation to long-term contract accounting and associated provisions (see related key audit matters below);

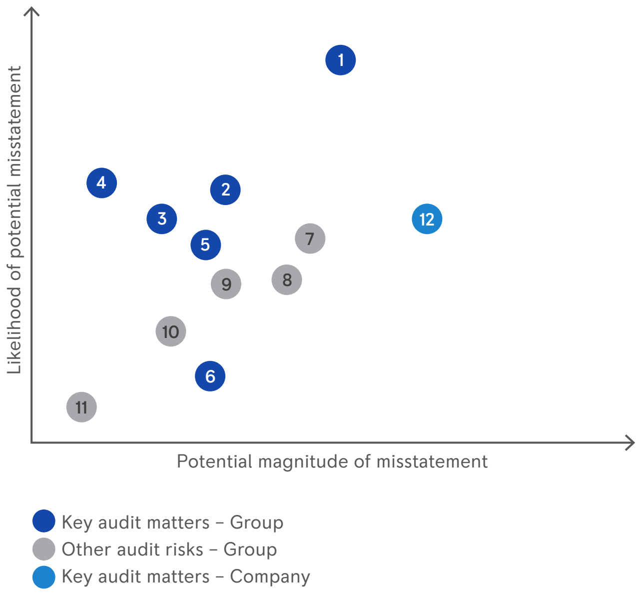
– Identifying and testing journal entries, in particular journal entries posted with unusual account combinations; and

– Challenging why certain items are excluded or included from underlying profit or free cash flow and review of disclosures included in the Annual Report explaining and reconciling alternative performance measures to statutory metrics.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have presented the key audit matters and the other risks subject to audit focus in the graph and table below. This is not a complete list of all risks identified by our audit.



	Risks	Change from prior year
Key audit matters – Group		
1	Long-term contract accounting and associated provisions	<>
2	The recognition of deferred tax assets	<>
3	Presentation of underlying results and disclosure of other one-off items (including exceptional items)	<>
4	Translation of foreign currency denominated transactions and balances	<>
5	Response of the Group to the deferred prosecution and leniency agreements in connection with alleged bribery and corruption in overseas markets	↓
6	Implementation of IFRS 16	new
Other audit risks – Group		
7	Accounting for complex treasury instruments	<>
8	Measurement of post-retirement benefits	<>
9	Recoverability of programme assets	↓
10	Consolidation process and joint venture accounting	<>
11	Uncertain tax positions	<>
Key audit matters – Company		
12	Recoverability of the Company's investments in subsidiary undertakings	new

Key changes in the assessment of audit risks for the current period compared to the prior period are:

- Capitalisation and amortisation of development costs is no longer considered a key audit matter after no material issues were identified in the 2018 audit following changes in methodology for starting and subsequently ceasing the capitalisation of development costs which became effective on 1 January 2018;
- Implementation of IFRS 15: Revenue from Contracts with Customers is no longer considered a key audit matter as 2019 is the second year that the accounting standard has been applied by the Group. A new key audit matter has been included for IFRS 16: Leases which was adopted on 1 January 2019 and resulted in material right-of-use assets and lease liabilities being recognised on the Consolidated Balance Sheet;
- The valuation of ITP Aero is no longer considered a key audit matter after the finalisation of the purchase price allocation in 2018; and
- A new key audit matter has been included for the recoverability of the Company's investments in subsidiary undertakings reflecting the decline in the market capitalisation of the Group and the net liability position of the Consolidated Balance Sheet, which represent potential indicators of impairment.

Key audit matter	How our audit addressed the key audit matter
Long-term contract accounting and associated provisions *(relevant to the Consolidated Financial Statements)* *Page 82 (Audit Committee report) and page 125 (note 1 to the Consolidated Financial Statements – Accounting policies – Revenue recognition)* The Civil Aerospace and Defence businesses operate primarily with long-term customer contracts that span multiple periods. These long-term contracts require a number of assumptions to be made in order to determine the level of revenue and profit that is recognised in each period. For Civil Aerospace aftermarket contracts, the profitability typically assumes that there will be significant cost improvements over the lifetime (15–25 years) of the contracts. Significant judgement needs to be applied in determining the engine flying hours, time-on-wing, whether incremental costs should be treated as wastage or are part of the ongoing cost of servicing a contract, and other operating parameters used to calculate the projected life cycle. These future costs are also risk adjusted to take into account forecasting accuracy which represents an additional judgement. Small adjustments can have a significant impact on the results of an individual financial year. In addition, changes to the operating condition of engines such as changes in route structure can result in different performance assumptions and hence cost profiles which impact the profitability of a contract. The Group continues to experience significant in-service issues on the Trent 1000 programme with an additional exceptional charge booked in the year. The assessment of the total cost of delivering this programme, the cost of the proposed engineering solutions, changes in the shop visit profile, speed of implementation of design, manufacture and installation of improved parts and the level of customer disruption which was not expected at the inception of the contract are all significant judgements which impact the value and timing of revenue and profit recognition. In addition, certain contracts may become onerous as a result and require immediate recognition of the loss. At the development stage of a programme, agreements are entered into with certain suppliers to share in the risk and rewards of the contracts (Risk and Revenue Sharing Partners – 'RRSP'). This can involve upfront participation fees from the RRSP that are amortised over the engine production phase. In addition, specified revenue and costs are recorded in the Consolidated Income Statement net of the RRSP's share. The nature of the Civil Aerospace business gives rise to a number of contractual guarantees, warranties and potential claims. The accounting for these can be complex and judgemental and may impact the Consolidated Income Statement immediately or over the life of the contract.	Our procedures over the long-term contract accounting applied in the Civil Aerospace and Defence businesses are largely substantive in nature and included: – We attended meetings with Civil Aerospace and Defence programme and contract managers in order to understand the operational matters impacting the performance of specific contracts and any amendments to contractual arrangements; required by changes to underlying expectations of the contract performance; – We obtained and read the relevant sections of a sample of contracts to understand the key terms including performance obligations and pricing structures; – We re-performed the calculations used to determine the degree of completion for a sample of contracts and this was also used in assessing the magnitude of any catch-up adjustments; – We compared the previously forecast results of a sample of contracts with the actual results to assess the performance of the contract and the historical accuracy of forecasting; – We verified a sample of costs incurred to third party documentation in order to assess the validity of the forecast costs to complete; – We challenged management's judgement around whether incremental contract costs arising from in-service issues should be accounted for over the expected duration of the underlying contract or recognised immediately; – Where the disruption has resulted in payments to customers we have validated the settlement to contractual agreements, considered the terms of previous settlements, correspondence with customers, the forecast period of further aircraft being on the ground and the completeness of the liability; – We assessed the assumptions relating to life cycle cost reductions to determine the likelihood of realisation and where relevant the speed at which they would be achieved, including the impact on the number of shop visits, validating these assumptions directly with the senior programme engineers; – Where the revision of assumptions has resulted in catch-up adjustments we have understood the driver of the adjustments and validated the impact to appropriate source information; – We obtained support for the risk adjustments made in respect of future costs and challenged management's assumptions through assessment against historical performance, known technical issues and the stage of completion of the programme; – We challenged the assessment of provisions for loss making or onerous contracts to determine the completeness of the unavoidable costs to fulfil the contractual obligations; – We assessed the sensitivity of the Trent 1000 provision to reasonable changes in estimates, particularly in respect of the repair and overhaul facility capacity, technical cost creep on the known issues and cost outturns against previous provisions, in determining whether the provision was sufficient;

Key audit matter	How our audit addressed the key audit matter
Long-term contract accounting and associated provisions continued The valuation of associated amounts may be highly judgemental and needs to be considered on a contract by contract basis.	– We reviewed a sample of RRSP contracts to assess whether revenue and costs had been appropriately reflected, net of the share attributable to the RRSP in the Consolidated Income Statement; – We considered whether there were any indicators of management override of controls or bias in arriving at their reported position; and – We also assessed the adequacy of disclosures in note 1 of the key judgements and estimates involved in long-term contract accounting. Overall we concluded that the key estimates and judgements used by management in the long-term contract accounting were supportable and the balances recorded in the financial statements to be materially correct.
The recognition of deferred tax assets *(relevant to the Consolidated Financial Statements)* *Page 82 (Audit Committee report), page 127 (note 1 to the Consolidated Financial Statements – Accounting policies – Taxation), and pages 141 to 144 (note 5 to the Consolidated Financial Statements – Taxation)* The recognition and recoverability of deferred tax assets is a significant judgement. The Group has recognised significant deferred tax assets on the basis of future levels of profitability in the relevant tax jurisdiction. The magnitude of the assets recognised necessitates the need for significant judgement in assessing the future levels of profitability over an extended period. The loss reported for 2019 in the UK presents a heightened risk that deferred tax assets are recognised inappropriately. Further there is an inherent increased level of uncertainty in the level of forecast profits over an extended period.	We evaluated management's assessment as to the availability of sufficient taxable profits in future periods to support the recognition of deferred tax assets, taking into account both business model and the tax jurisdiction. We assessed the future profit forecasts and the underpinning assumptions including management's risk weighting of particular profit streams in the UK where the largest deferred tax asset is recognised. The right of offset of certain deferred tax liabilities and deferred tax assets was also assessed. Where applicable we reconciled the forecasts used to justify the recognition of deferred tax assets to those used elsewhere in the business including for long-term contract accounting, impairment assessments, or for the Directors' viability and going concern statements. We also assessed the adequacy of disclosures over this area, particularly the impact of changes in key estimates of the asset recognised and this has been disclosed in note 1. We did not identify any material uncorrected exceptions from our audit work.
The translation of foreign-currency denominated transactions and balances *(relevant to the Consolidated Financial Statements)* *Page 128 (note 1 to the Consolidated Financial Statements – Accounting policies – Foreign currency translation)* Foreign exchange rate movements influence the reported Consolidated Income Statement, the Consolidated Cash Flow Statement and closing net funds balance. One of the Group's primary accounting systems translates transactions denominated in foreign currencies at a fixed rate. Foreign currency denominated transactions and balances are then re-translated to actual average and spot rates through manual adjustments. Due to the manual nature of the process and significance of the recurring adjustment there is a risk that transactions and balances denominated in foreign currencies are inappropriately translated in the Consolidated Financial Statements.	In addition to our testing in other areas of the various financial statement line items, we performed the following specific audit procedures over this area: – Obtained an understanding of the process employed by management to correctly report the translation of foreign currency balances and transactions; – Tested system reports identifying transactions and balances in source currency by agreeing these to general ledger balances; – Reperformed manual calculations of the adjustment needed to correctly report the translation of the foreign currency denominated transactions and balances; – We reconciled the balances and transactions requiring adjustment by source currency to source data and assessed the completeness of these balances and transactions; – For exchange rates used in management's calculations for the translation adjustments we agreed these to an independent source; and – For each adjustment sampled we assessed whether the foreign currency denominated balance or transaction was translated at the appropriate exchange rate depending on its nature. We did not identify any material uncorrected exceptions from our audit work.

Key audit matter	How our audit addressed the key audit matter
Presentation of underlying results and disclosure of other one-off items (including exceptional items) *(relevant to the Consolidated Financial Statements)* *Page 124 (note 1 to the Consolidated Financial Statements – Accounting policies – Presentation of underlying results), page 134 (Note 2 to the Consolidated Financial Statements – Segmental analysis) and page 179 (note 28 to the Consolidated Financial Statements – Derivation of summary of funds flow statement.* In addition to the performance measures prescribed by International Financial Reporting Standards, the Group also presents the results on an "underlying" basis, as the Directors believe this better reflects the performance of the Group during the year. The Group also presents a free cash flow metric which the Directors believe reflects the cash generated from underlying trading, which differs from the cash flows presented in the Consolidated Cash Flow Statement. A key adjustment between the statutory results and the underlying results relates to the foreign exchange rates used to translate foreign currency transactions. The underlying results reflect the achieved rate on foreign currency contracts settled in the period and retranslates assets and liabilities at the foreign currency rates expected to be achieved in the future. As the Group can influence which contracts are settled in each reporting period it has the ability to influence the achieved rate and hence the underlying result. The underlying results differ significantly from the reported statutory results and are used extensively to explain performance to the shareholders. Alternative performance measures can provide investors with a better understanding of the Group's performance if properly used and presented. However, when improperly used and presented, these kinds of measures can mislead investors by masking the real financial performance and position.	We considered the judgements taken by management to determine what should be treated as a one-off or exceptional item and the translation of foreign currency amounts and obtained corroborative evidence for these. We also considered whether there were items that were recorded within underlying profit that we consider are exceptional in nature and should be reported as an exceptional item. No such material items were identified. As part of this assessment we challenged management's rationale for the designation of certain items as exceptional or one-off and assessed such items against the Group's accounting policy considering the nature and value of those items. We tested management's calculation to translate foreign currency transactions to reflect the achieved foreign exchange rates based on foreign currency contracts settled in the year, and to translate year end assets and liabilities at foreign currency rates that are expected to be achieved in the future. We corroborated these rates to the Group's hedging contracts. We also assessed whether the discretion used by management over the date on which forward foreign exchange contracts are settled indicated any evidence of bias. We audited the reconciling items between the underlying profit before tax and free cash flow disclosed in note 28 including verifying that the items adjusted for are consistent with the prior period. We also considered whether free cash flow contains material one-off items which require further disclosure. We also assessed the appropriateness and completeness of the disclosures of the impact of one-off or non-underlying items in note 1 and note 2 and other related notes to the Consolidated Financial Statements and found them to be appropriate. Overall we found that the classification judgements made by management were in line with their policy for underlying results and exceptional items, had been consistently applied and found no material exceptions from our testing.
Implementation of IFRS 16: Leases *(relevant to the Consolidated Financial Statements)* *Page 181 to 182 (note 29 to the Consolidated Financial Statements)* At 1 January 2019, the Group adopted IFRS 16: Leases. This accounting standard required operating leases to be brought onto the Consolidated Balance Sheet for the first time and resulted in right-of-use assets of £2,254 million and lease liabilities of £2,289 million being recognised on adoption. The right-of-use assets and lease liabilities are estimated based on the discounted future lease payments. There is judgement over the period that the balances are calculated where lease agreements contain options for the contract to be extended or terminated early. Furthermore, there is judgement over the discount rate applied to the forecast cash flows, determining the lease term and where lease agreements contain residual value guarantees, the refurbishment costs that will be required to settle these. There is also a risk that the lease liabilities or right-of-use asset balances do not include all of the lease arrangements that the Group is party to.	For a sample of leases, we recalculated the right-of-use asset and associated lease liability and validated the characteristics that determine these to the underlying lease agreements. Our internal experts compared the rate used to discount future lease payments against corporate bond yields, adjusted property yields and borrowing costs and found that the rate was a reasonable approximation of the incremental borrowing rate of the lessee. We tested management's reconciliation between the operating lease commitments at 31 December 2018 and the lease liability recognised on adoption disclosed in note 29 and compared lease expenses for the year ended 31 December 2018 to leases included in management's calculations for IFRS 16 adoption to validate that management's list of leases was complete. Where leases contained an option for early termination or extension, we considered how likely it was to be exercised, based on the nature of the assets and the terms including charges in the period under option. Certain engine leases also contain clauses that guarantee the value of the engine when it is returned to the lessor. This charge is included in lease liabilities. We validated management's estimate of this charge based on the flying hours and forecast shop visit costs, including comparing these costs to historical charges. We also considered the adequacy of the Group's disclosure of the impacting on the adoption of IFRS 16 as set out in notes 1 and 29 which we found to be appropriate. As a result of our work, we did not identify any material differences in the adjustments recorded on the implementation of IFRS 16.

Key audit matter	How our audit addressed the key audit matter
Response to deferred prosecution and leniency agreements in connection with alleged bribery and corruption in overseas markets *(relevant to the Consolidated Financial Statements)* *Page 176 (note 25 to the Consolidated Financial Statements – Contingent Liabilities)* In January 2017, the Group became party to deferred prosecution agreements with the UK Serious Fraud Office ("SFO") and the US Department of Justice ("DoJ"), and a leniency agreement with the Brazilian Federal Prosecution Service ("MPF") (collectively the "Agreements") as a consequence of allegations of fraudulent payments to overseas intermediaries. Prosecution was deferred provided that the Group fulfils certain requirements, including the settlement of a financial penalty. The Group operates in industries which are characterised by competition for individually significant contracts with customers which are often directly or indirectly associated with governments, and in a number of territories where the use of intermediaries is viewed as normal practice. This means the risk of future instances of corruption remains present. The possible implications of these high profile and sensitive Agreements on the future business if the terms are not met, including additional fines and prosecution, are significant. There is also the risk that historical activities could result in allegations and penalties in other territories not subject to the Agreements.	We planned and designed our audit approach to this area in conjunction with our in-house forensic specialists and after reading the Agreements and compliance reports made to the SFO and DoJ during the year. Where applicable we vouched the assertions made by management to objective evidence. We assessed the overall control environment and 'tone at the top', including understanding and assessing the Group's internal investigations processes which identify and assess possible non-compliance, such as whistle-blowing hotlines. We evaluated key controls over the appointment, monitoring and payments made to intermediaries. We independently circularised and spoke with the Group's external legal counsel to obtain their views about the status of the Agreements and to test management's assertions of the likely outcome. Together with our forensic specialists, we designed questionnaires to be performed in certain markets not otherwise included in Group audit scope to assess the risk of arrangements being in place in those markets which may require follow-up procedures to be performed. Taking into account the findings from our audit procedures, we assessed the appropriateness of the contingent liability disclosure in note 25 of the Consolidated Financial Statements and found it to be reasonable and consistent with the information we obtained during the course of our audit.
Recoverability of the Company's investments in subsidiary undertakings *(relevant to the Company Financial Statements)* *Page 184 to 186 (note 2 to the Company Financial Statements – Investments – Subsidiary Undertakings)* Investments in subsidiaries of £12,801 million (2018: £12,521 million) are accounted for at cost less provision for impairment in the Company Balance Sheet at 31 December 2019. Investments are tested for impairment if impairment indicators exist. If such indicators exist, the recoverable amounts of the investments in subsidiaries are estimated in order to determine the extent of the impairment loss, if any. Any such impairment loss is recognised in the income statement. At certain points following 31 December 2019, the market capitalisation of the Group fell to below the carrying value of the Company's investment in subsidiary undertakings. This and the consolidated net liability position of the Consolidated Balance Sheet represent potential indicators of impairment and necessitated an impairment review to be performed. Management judgement is required in the area of impairment testing, particularly in assessing: (1) whether an event has occurred that may indicate that the related asset values may not be recoverable; (2) whether the carrying value of an asset can be supported by the recoverable value, being the higher of fair value less cost of disposal or the net present value of future cash flows which are estimated based on the continued use of the asset in the business; and (3) key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of any impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the recoverable value determined by the impairment test and as a result affect the Company's financial condition and results of operations.	We evaluated management's assessment whether any indicators of impairment existed by comparing the carrying value of investments in subsidiary undertakings to the market capitalisation of the Group at 31 December 2019 and post year-end. To determine the recoverable value, management prepared a valuation based on the discounted future cash flows of the Group. We have tested the reasonableness of key assumptions, including revenue, profit and cash flow growth rates, terminal growth rates and the discount rate management has applied. Deploying our valuations experts, we assessed the terminal growth rate and discount rate applied to the cash flow investment compared with third party information, past performance, the Group's cost of capital and relevant risk factors. We also compared the valuation implied by the discounted cash flow model to third party analyst reports. We performed our own independent sensitivity analysis to understand if reasonably possible changes in management's assumptions would result in an impairment. As a result of our work, we did not identify any material impairments and consider the carrying value of the investments in subsidiary undertakings to be supportable in the context of the Company Financial Statements taken as a whole.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Company, the accounting processes and controls, and the industry in which they operate.

Our scoping is based on the Group's consolidation structure. We define a component as a single reporting unit which feeds into the Group consolidation. Of the Group's 437 reporting components, 30 individual components (including three joint ventures) were subject to full scope audits for Group purposes, which following an element of consolidation, equates to 14 Group reporting opinions; and seven components performed targeted specified procedures.

In order to achieve audit coverage over the financial statements, under our audit methodology, we test both the design and operation of relevant business process controls and perform substantive testing over each financial statement line item.

The Group operates Finance Service Centres (FSCs) to bulk process financial transactions in Derby (UK), Indianapolis (US) and Bangalore (India). Based on our assessment with management it is not possible to fully test revenue and profit centrally as certain key processes, such as long-term contracting, remain within the business due to their nature.

Our audit covered 90% of revenue, 86% of loss before tax and 85% of total assets. All entities that contribute in excess of 4% of the Group's revenue were included in full scope.

Further specific audit procedures over central functions, the Group consolidation and areas of significant judgement (including corporate costs, taxation, goodwill, intangible assets, treasury and post-retirement benefits) were directly led by the Group audit team.

Where work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those reporting units to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Consolidated Financial Statements.

We issued formal written instructions to all component auditors setting out the audit work to be performed by each of them and maintained regular communication with the component auditors throughout the audit cycle. These interactions included attending certain component clearance meetings and holding regular conference calls, as well as reviewing and assessing any matters reported. The Group engagement team also reviewed selected audit working papers for certain component teams.

In addition, senior members of the Group engagement team visited component teams across all group segments in the United Kingdom, United States of America, Germany, Spain, Hong Kong and Singapore. These visits included meetings with local management and with the component auditors.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group Financial Statements	Company Financial Statements
Overall materiality	£75 million (2018: £56 million).	£126 million (2018: £128 million).
How we determined it	0.5% of total underlying revenue.	1% of total assets.
Rationale for benchmark applied	We have consistently used underlying revenue to determine materiality as opposed to a profit based benchmark. This is because there is considerable volatility in profit before tax as a result of revenue recognition under IFRS 15 and from the fair value movement in the Group's derivatives. Underlying revenue continues to be a key performance metric for the Group and is much less volatile than the profit metric.	We determined our materiality based on total assets, which is more applicable than a performance-related measure as the Company is an investment holding company for Group. Where there were balances and transactions within the Company accounts that were within the scope of the audit of the Group financial statements, our procedures were undertaken using the lower materiality level applying to the Group audit.

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was between £5 million and £67.5 million. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £3 million (Group audit) (2018: £2 million) and £6 million (Company audit) (2018: £2 million) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Going concern

In accordance with ISAs (UK) we report as follows:

Reporting obligation	Outcome
We are required to report if we have anything material to add or draw attention to in respect of the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the Directors' identification of any material uncertainties to the Group's and the Company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's and Company's ability to continue as a going concern. For example, the terms of the United Kingdom's withdrawal from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the Group's and Company's trade, customers, suppliers and the wider economy.
We are required to report if the Directors' statement relating to Going Concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.	We have nothing to report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The Directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006 (CA06), ISAs (UK) and the Listing Rules of the Financial Conduct Authority (FCA) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

In light of the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report. *(CA06)*

The Directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group

We have nothing material to add or draw attention to regarding:

- The Directors' confirmation on page 68 of the Annual Report that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The Directors' explanation on page 55 of the Annual Report as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing to report having performed a review of the Directors' statement that they have carried out a robust assessment of the principal risks facing the Group and statement in relation to the longer-term viability of the Group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the UK Corporate Governance Code (the "Code"); and considering whether the statements are consistent with the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit. *(Listing Rules)*

Other Code Provisions

We have nothing to report in respect of our responsibility to report when:

- The statement given by the Directors, on page 114, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the Group's and Company's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group and Company obtained in the course of performing our audit.
- The section of the Annual Report on pages 79 to 84 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.
- The Directors' statement relating to the Company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

Directors' Remuneration

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006. *(CA06)*

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' responsibilities set out on page 114, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- the Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit Committee, we were appointed by the members on 3 May 2018 to audit the financial statements for the year ended 31 December 2018 and subsequent financial periods. The period of total uninterrupted engagement is two years, covering the years ended 31 December 2018 to 31 December 2019.

Ian Chambers (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
28 February 2020

SUSTAINABILITY ASSURANCE STATEMENT

To the stakeholders of Rolls-Royce Holdings plc

Independent limited assurance statement

Introduction and objectives of work

Bureau Veritas UK Limited (Bureau Veritas) has been engaged by Rolls-Royce Holdings plc (Rolls-Royce) to provide limited assurance over selected sustainability performance indicators for inclusion in its 2019 Annual Report and website. This assurance statement applies to the related information included within the scope of work described below.

Scope of work

The scope of our work was limited to assurance over the following information included within Rolls-Royce's 2019 Annual Report (the Report) for the period 1 January to the 31 December 2019 (the Selected Information):

- energy consumption;
- scope 1 & 2 greenhouse gases (GHG) emissions;
- total solid and liquid waste;
- total reportable injury; and
- the number of people reached through the science, technology, engineering and mathematics (STEM) education outreach programmes.

Reporting criteria

The Selected Information is reported according to the Rolls-Royce 'Basis of Reporting', a copy of which is available from www.rolls-royce.com/sustainability.

Limitations and exclusions

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

- activities outside the defined verification period; and
- other information included in the Report.

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

Responsibilities

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

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

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

Assessment standard

We performed our work to a limited level of assurance in accordance with the International Standard on Assurance Engagements (ISAE) 3000 Revised, Assurance Engagements Other than Audits or Reviews of Historical Financial Information (effective for assurance reports dated on or after 15 December 2015), and in accordance with the main requirements of ISO 14064:2006 Part 3 – Specification with Guidance for the Validation and Verification of Greenhouse Gas Assertions.

Summary of work performed

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

- assessed the appropriateness of the reporting criteria for the Selected Information;
- conducted interviews with relevant personnel of Rolls-Royce;
- carried out nine site visits, selected employing a risk-based approach, in the UK, US, Canada, France, Germany and Spain;
- reviewed the data collection and consolidation processes used to compile the Selected Information, including assessing assumptions made, the data scope and reporting boundaries;
- reviewed documentary evidence produced by Rolls-Royce;
- agreed a sample of the Selected Information to the corresponding source documentation; and
- re-performed aggregation calculations of the Selected Information.

Conclusion

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

Further detailed recommendations are provided in the form of an internal management report to be issued to Rolls-Royce.

Statement of independence, integrity and competence

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

Bureau Veritas operates a certified [1] quality management system which complies with the requirements of ISO 9001:2015, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

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

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

Bureau Veritas UK Limited
London
26 February 2020

BUREAU VERITAS 1828

[1] Certificate of registration can be provided on request.
[2] International Federation of Inspection Agencies – compliance code – third edition.

OTHER FINANCIAL INFORMATION

Foreign exchange

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

		2019	2018	Change
USD per GBP	Year-end spot rate	1.32	1.28	+3%
	Average spot rate	1.28	1.33	-4%
EUR per GBP	Year-end spot rate	1.18	1.12	+5%
	Average spot rate	1.14	1.13	+1%

The Group's global corporate income tax contribution

The Group's total corporation tax payments in 2019 were £175m. Around 85% of this was paid in the US, Germany, UK and Singapore which reflects the fact that the majority of the Group's business is undertaken, and employees are based, in these countries. The balance was paid in around 40 other countries.

In common with most multinational groups, the total of all profits in respect of which corporate income tax is paid is not the same as the consolidated loss before tax reported on page 116. The main reasons for this are:

(i) the consolidated income statement is prepared under Adopted IFRS, whereas tax is paid on the profits of each Group company, which are determined by local accounting rules;

(ii) accounting rules require certain income and costs relating to our commercial activities to be eliminated from, or added to, the aggregate of all the profits of the Group companies when preparing the consolidated income statement (consolidation adjustments); and

(iii) specific tax rules including exemptions or incentives as determined by the tax laws in each country.

The level of tax paid in each country is impacted by the above. In most cases, (i) and (ii) are only a matter of timing and therefore tax will be paid in an earlier or later year. As a result they only have a negligible impact on the Group's underlying tax rate. The core underlying tax rate can be found on page 19. This is due to deferred tax accounting, details of which can be found in note 5 to the Consolidated Financial Statements. The impact of (iii) will often be permanent depending on the relevant tax law.

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

- Audit Committee Report (page 81) – The group tax director gave a presentation to the Audit Committee during the year which covered various matters including tax risks and how they are managed and key sources of estimation uncertainty (in particular the recognition of deferred tax assets);
- note 1 to the Consolidated Financial Statements (page 127) – Details of key areas of uncertainty and accounting policies for tax; and
- note 5 to the Consolidated Financial Statements (pages 141 to 144) – Details of the tax balances in the Consolidated Financial Statements together with a tax reconciliation. This explains the main drivers of the tax rate and the impact of our assessment on the recovery of UK deferred tax assets.

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

Information on the Group's approach to managing its tax affairs can be found at www.rolls-royce.com.

Investments and capital expenditure

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

The Group has a portfolio of projects at different stages of their lifecycles. All of our major investments and projects are assessed using a range of financial metrics, including discounted cash flow and return on investment.

Financial risk management

The Board has established a structured approach to financial risk management. The Financial risk committee (Frc) is accountable for managing, reporting and mitigating the Group's financial risks and exposures. These risks include the Group's principal counterparty, currency, interest rate, commodity price, liquidity and credit rating risks outlined in more depth in note 19. The Frc is chaired by the Chief Financial Officer or group controller. The Group has a comprehensive financial risk policy that advocates the use of financial instruments to manage and hedge business operations risks that arise from movements in financial, commodities, credit or money markets. The Group's policy is not to engage in speculative financial transactions. The Frc sits quarterly to review and assess the key risks and agree any mitigating actions required.

Capital structure

£m	2019	2018
Total equity	(3,354)	(1,052)
Cash flow hedges	96	106
Group capital	(3,258)	(946)
Net funds (excluding lease liabilities)	1,361	840

Operations are funded through various shareholders' funds, bank borrowings, bonds and notes. The capital structure of the Group reflects the judgement of the Board as to the appropriate balance of funding required. Funding is secured by the Group's continued access to the global debt markets. Borrowings are funded in various currencies using derivatives where appropriate to achieve a required currency and interest rate profile. The Board's objective is to retain sufficient financial investments and undrawn facilities to ensure that the Group can both meet its medium-term operational commitments and cope with unforeseen obligations and opportunities.

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

During the year, the Group extended the maturity of the £2,500m committed bank borrowing facility from 2023 to 2024. This facility was undrawn at the period end. The Group also repaid £1.1bn of borrowings during the year. At the year end, the Group retained aggregate liquidity of £6.9bn, including cash and cash equivalents of £4.4bn and undrawn borrowing facilities of £2.5bn.

Circa £435m of drawn borrowings mature in 2020 (£775m including lease liabilities).

The maturity profile of the borrowing facilities is regularly reviewed to ensure that refinancing levels are manageable in the context of the business and market conditions. There are no rating triggers in any borrowing facility that would require the facility to be accelerated or repaid due to an adverse movement in the Group's credit rating. The Group conducts some of its business through a number of joint ventures. A major proportion of the debt of these joint ventures is secured on the assets of the respective companies and is non-recourse to the Group. This debt is further outlined in note 12.

Credit rating

	Rating	Outlook	Grade
Moody's Investors Service	Baa2	Negative	Investment
Standard & Poor's	BBB-	Stable	Investment
Fitch	BBB+	Stable	Investment

The Group subscribes to Moody's, Standard & Poor's and Fitch for independent long-term credit ratings. At the date of this report, the Group maintained investment-grade rating from all three agencies.

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

Accounting

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

IFRS 16 *Leases* was adopted from 1 January 2019 and the impact is described in notes 1 and 29 of the Consolidated Financial Statements. The adoption of IFRS 16 has resulted in the recognition of additional lease liabilities in relation to leases which had previously been classified as operating leases under the principles of IAS 17 *Leases*, with the associated right-of-use assets recognised in non-current assets. The net impact on adoption of IFRS 16 was a £40m reduction in total equity.

Additional commentary on key performance indicators

Order backlog, also known as unrecognised revenue, is the amount of revenue on current contracts that is expected to be recognised in future periods. Civil Aerospace OE orders where the customer has retained the right to cancel (for deliveries in the next 7-12 months) are excluded. Further details are included in note 2 on page 138.

Underlying revenue is used as it reflects the impact of our foreign exchange (FX) hedging policy by valuing foreign currency revenue at the actual exchange rates achieved as a result of settling FX contracts in the year. This provides a clearer measure of our year-on-year performance. Further details and reconciliation to reported revenue are included in note 2 on page 139.

Self-funded R&D as a proportion of underlying revenue – We expect to spend approximately 5% of underlying revenue on R&D although this proportion will fluctuate depending on the stage of development of current programmes. We expect this proportion will reduce modestly over the medium term. Further details are included in note 3 on page 140.

Capital expenditure as a proportion of underlying revenue – All proposed investments are subject to rigorous review to ensure that they are consistent with forecast activity and will provide value for money. We measure annual capital expenditure as the cash purchases of property, plant and equipment acquired during the period; over the medium-term we expect a proportion of around 4%. Further details are included in note 10 on page 149.

Underlying operating profit includes: (a) revenue and costs denominated in US dollars and euros on the basis of the exchange rates achieved based on our FX hedge book; (b) similar adjustments in respect of commodity derivatives; (c) consequential adjustments to reflect the impact of exchange rates on trading assets and liabilities, and long-term contracts, on a consistent basis; and (d) items of a one-off nature. Further details and reconciliation to reported operating profit are included in note 2 on page 139.

Free cash flow is the movement in net funds excluding lease liabilities during the year, before movements arising from payments to shareholders, acquisitions and disposals, and FX. It excludes the cash cost of the restructuring plan and SFO payments. Further details and reconciliation to reported cash flow are included in note 28 on page 179.

Cash flow per share is calculated using free cash flow (as defined above) and the average number of shares in issue during the year, consistent with the EPS calculations in note 6 on page 144.

Cash return on invested capital (CROIC) is calculated as cash flow divided by invested capital. Cash flow is the free cash flow (as defined above), adjusted to remove R&D, PPE and software capital expenditure, certification costs, other intangibles, and working capital (excluding change in the net LTSA balance in Civil Aerospace). Invested capital is defined as the sum of 15 years net R&D investment, PPE and software at cost, certification costs, other intangibles (excluding M&A and goodwill), and working capital (excluding net LTSA balance in Civil Aerospace) and ten times current year lease payments.

OTHER STATUTORY INFORMATION

Share price

During the year, the share price reduced by 18% from 830p to 683p, compared to a 14% increase in the FTSE aerospace and defence sector and a 12% increase in the FTSE 100. The Company's share price ranged from 680p in December 2019 to 1004p in February 2019.

Share capital

On 31 December 2019, the Company's issued share capital comprised of:

1,930,995,313	Ordinary shares	20p each
30,607,559,470	C Shares	0.1p each
1	Special Share	£1

The ordinary shares are listed on the London Stock Exchange.

Payment to shareholders

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

Shareholders can choose to:

- redeem all C Shares for cash;
- redeem all C Shares for cash and reinvest the proceeds in the C Share Reinvestment Plan (CRIP); or
- keep the C Shares.

The CRIP is operated by Computershare Investor Services PLC (the Registrar). The Registrar will purchase ordinary shares in the market for shareholders electing to reinvest their C Share proceeds. Shareholders wishing to participate in the CRIP or redeem their C Shares in July 2020 must ensure that their instructions are lodged with the Registrar no later than 5.00pm on 1 June 2020 (CREST holders must submit their election in CREST in sufficient time for it to settle before 2.55pm on 1 June 2020). Redemption will take place on 3 July 2020.

At the 2020 AGM, the Directors will recommend an issue of 71 C Shares with a total nominal value of 7.1p for each ordinary share. The C Shares will be issued on 1 July 2020 to shareholders on the register on 24 April 2020 and the final day of trading with entitlement to C Shares is 23 April 2020. Together with the interim issue on 3 January 2020 of 46 C Shares for each ordinary share with a total nominal value of 4.6p, this is the equivalent of a total annual payment to ordinary shareholders of 11.7p for each ordinary share.

Further information for shareholders is on pages 210 and 211.

Share class rights

The full share class rights are set out in the Company's Article, which are available at www.rolls-royce.com. The rights are summarised below.

Ordinary shares

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

C Shares

C Shares have limited voting rights and attract a preferential dividend of 75% of LIBOR on the 0.1p nominal value of each share, paid on a twice-yearly basis. The Company has the option to redeem the C Shares compulsorily, at any time if: the aggregate number of C Shares in issue is less than 10% of the aggregate number of all C Shares issued on or prior to that time or the event of a capital restructuring of the Company; the introduction of a new holding company; the acquisition of the Company by another company; or a demerger from the Group.

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

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

Special Share

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

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

Restrictions on transfer of shares and limitations on holdings

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

Shareholder agreements and consent requirements

No disposal may be made to a non-Group member which, alone or when aggregated with the same or a connected transaction, constitutes a disposal of the whole or a material part of either the nuclear propulsion business or the assets of the Group as a whole, without the consent of the Special Shareholder.

Changes to the Articles of Association

The Articles may be altered or added to or new articles may be adopted by a special resolution of the shareholders of the Company, subject to the provisions of the Act.

Authority to issue shares

At the 2019 AGM, authority was given to the Directors to allot new C Shares up to a nominal value of £500m as an alternative to a cash dividend.

In addition, an ordinary resolution was passed authorising the Directors to allot new ordinary shares up to a nominal value of £126,387,015 equivalent to one-third of the issued share capital of the Company. This resolution also authorised the Directors to allot up to two-thirds of the total issued share capital of the Company, but only in the case of a rights issue.

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

These authorities are valid until the 2020 AGM or 30 June 2020, whichever is earlier, and the Directors propose to renew each of them at the 2020 AGM. The Board believes that these authorities will allow the Company to retain flexibility to respond to circumstances and opportunities as they arise.

ITP Aero

Following approval from the relevant authorities in Spain, on 19 December 2017 the Group acquired a 53.1% shareholding in ITP Aero from SENER resulting in ITP Aero becoming a wholly-owned subsidiary of the Company. The consideration of €718m was settled over a two-year payment period, payable in eight equal instalments, and the agreement with SENER allowed the Company flexibility to settle up to 100% of the consideration in the form of ordinary shares. Three payments were settled in 2019 all in the form of ordinary shares, as follows:

Instalment	No. of ordinary shares	Date
6th	8,681,110	19 March 2019
7th	9,301,958	19 June 2019
8th	10,990,194	19 September 2019

Authority to purchase own shares

At the 2019 AGM, the Company was authorised by shareholders to purchase up to 189,580,523 of its own ordinary shares representing 10% of its issued ordinary share capital.

The authority for the Company to purchase its own shares expires at the conclusion of the 2020 AGM or 30 June 2020, whichever is the earlier. A resolution to renew the authority will be proposed at the 2020 meeting.

The Company did not purchase any of its own ordinary shares during 2019.

Deadlines for exercising voting rights

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

Voting rights for employee share plan shares

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

Change of control

Contracts and joint venture agreements

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

Borrowings and other financial instruments

The Group has a number of borrowing facilities provided by various banks. These facilities generally include provisions which may require any outstanding borrowings to be repaid or the alteration or termination of the facility upon the occurrence of a change of control of the Company. At 31 December 2019, these facilities were less than 2% drawn (2018: 19%).

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

Employee share plans

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

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

Accounting policies, financial instruments and risk

Details of the Group's accounting policies, together with details of financial instruments and risk, are provided in notes 1 and 19 to the Consolidated Financial Statements on pages 123 and 157.

Major shareholdings

At 31 December 2019, the following shareholders had notified an interest in the issued ordinary share capital of the Company in accordance with section 5.1.2 of the Disclosure and Transparency Rules:

Shareholder	Date notified	% of issued ordinary share capital*
Blackrock, Inc.	5 November 2019	below 5
Harris Associates L.P.	21 October 2019	5.01
ValueAct Indirect Holdings	22 March 2019	9.48
The Capital Group Companies, Inc	12 October 2017	5.07

* Percentages are shown as a percentage of the Company's issued share capital when the Company was notified of the change in holding.

As at 27 February 2020, no further changes had been notified.

Directors

The names of the Directors who held office during the year are set out on pages 62 to 64. In addition, Brad Singer and Ruth Cairnie were directors during the year. They stepped down on 9 December and 31 December respectively.

Directors' Indemnities

The Directors have the benefit of an indemnity provision contained in the Articles. In addition, the Directors have been granted a qualifying third party indemnity provision which was in force throughout the financial year and remains in force. Also, throughout the year, the Company purchased and maintained Directors' and Officers' liability insurance in respect of itself and for its Directors and Officers.

Disclosures in the Strategic Report

The Board has taken advantage of section 414C(11) of the Act to include disclosures in the Strategic Report including:

- employee involvement;
- the employment of disabled people;
- information about charitable donations;
- the future development, performance and position of the Group;
- the financial position of the Group;
- R&D activities;
- the principal risks and uncertainties; and
- particulars of important events affecting the Company since the financial year end.

Political donations

The Company's policy is that it does not, directly or through any subsidiary, make what are commonly regarded as donations to any political party. However, the Act defines political donations very broadly and so it is possible that normal business activities, such as sponsorship, subscriptions, payment of expenses, paid leave for employees fulfilling certain public duties and support for bodies representing the business community in policy review or reform, which might not be thought of as political expenditure in the usual sense, could be captured. Activities of this nature would not be thought of as political donations in the ordinary sense of those words. The resolution to be proposed at the 2020 AGM, authorising political donations and expenditure, is to ensure that the Group does not commit any technical breach of the Act.

During the year, expenses incurred by Rolls-Royce North America, Inc. in providing administrative support for the Rolls-Royce North America political action committee (PAC) was US$81,866 (2018: US$111,961). PACs are a common feature of the US political system and are governed by the Federal Election Campaign Act.

The PAC is independent of the Group and independent of any political party. The PAC funds are contributed voluntarily by employees and the Group cannot affect how they are applied, although under US law, the business expenses are paid by the employee's company. Such contributions do not count towards the limits for political donations and expenditure for which shareholder approval will be sought at this year's AGM to renew the authority given at the 2019 AGM.

Branches

Rolls-Royce is a global company and our activities and interests are operated through subsidiaries, branches of subsidiaries, joint ventures and associates which are subject to the laws and regulations of many different jurisdictions. Our subsidiaries, joint ventures and associates are listed on pages 187 to 193.

Financial instruments

Details of the Group's financial instruments are set out in note 19 to the Consolidated Financial Statements.

Related party transactions

Related party transactions are set out in note 26 to the Consolidated Financial Statements.

Information required by UK Listing Rule (LR) 9.8.4

There are no disclosures to be made under LR 9.8.4.

Management report

The Strategic Report and the Directors' Report together are the management report for the purposes of Rule 4.1.8R of the DTR.

Disclosure of information to auditors

Each of the persons who is a Director at the date of approval of this report confirms that so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware. The Director has taken all steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

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

Greenhouse gas emissions

In 2019, our total net greenhouse gas (GHG) emissions were 586 kilotonnes carbon dioxide equivalent ($ktCO_2e$). This represents a decrease of 3% compared with 602 $ktCO_2e$ in 2018.

Aspect	Tonnes CO_2e	2015	2016	2017	2018	**2019**
Emissions from activities for which the Company owns or controls including the combustion of fuel and operation of facilities. Direct GHG emissions (Scope 1)	Global (excluding UK)	209,302	229,691	254,032	250,237	**247,159**
	UK	108,325	103,581	99,918	85,120	**91,396**
Emissions from the purchase of electricity, heat, steam and cooling purchased for our use. Indirect GHG Emissions (Scope 2) location-based	Global (excluding UK)	170,276	168,849	161,115	166,199	**161,035**
	UK	173,535	144,334	122,657	100,827	**86,548**
Total gross GHG emissions	Global (excluding UK)	379,578	398,540	415,147	416,436	**408,193**
	UK	281,861	247,915	222,575	185,947	**177,944**
Energy consumption used to calculate above emissions – kWh	Global (excluding UK)	1,538,198,000	1,639,939,000	1,694,823,000	1,707,642,000	**1,648,572,000**
	UK	885,952,000	832,549,000	811,948,000	762,917,000	**767,701,000**
Intensity Ratio (total GHG emissions per £m revenue)	Total	0.054	0.047	0.046	0.040	**0.038**
Emissions from the purchase of electricity, heat, steam and cooling purchased for our use. Indirect GHG emissions (Scope 2) market-based]	Global (excluding UK)	–	–	–	–	**–**
	UK	–	–	–	–	**874**
Outside of Scopes	Global (excluding UK)	–	–	–	–	**–**
	UK	–	–	–	–	**19,336**

The above figures include 230,972,000 kWh of renewable energy purchased via a long-term Power Purchase Agreement (PPA) for use by our facilities based in the UK, supplied through a third party. The source includes a proportion of electricity that was generated by the combustion of biofuel. The associated emissions are included above under the location-based Scope 2 emissions (using grid average emission factors). They are also reported separately as market-based Scope 2 emissions (covering the emissions of nitrous oxide and methane) and Outside of Scopes (covering the emissions of carbon dioxide). This has resulted in a net reduction of 39 kilotonnes from our total GHG emissions.

In addition, the above figures include 7,354,000 kWh of electricity generated on-site from renewable energy sources.

The figures for 2015 through to 2018 inclusive have been restated to remove emissions associated with the Commercial Marine business sold on 1 April 2019. Figures for 2015 exclude emissions associated with ITP Aero (which became a wholly owned subsidiary on 19 December 2017). We have included the reporting of fugitive emissions of hydrofluorocarbons (HFCs), associated with air conditioning equipment, into our GHG emissions figures from 2016. These include emissions from our facilities in the UK, US, Canada and France only. We do not anticipate that emissions from other facilities will have a material impact.

With the exceptions noted above, we have reported on the underlying energy use and emission sources required under the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018. All these sources fall within the scope of our Consolidated Financial Statements.

We have used the GHG Protocol Corporate Accounting and Reporting Standard (revised edition) as of 31 December 2014 utilising the operational control approach and emission factors from the UK Government's GHG Conversion Factors for Company Reporting 2019. We report our emissions of: carbon dioxide; methane; nitrous oxide; hydrofluorocarbons; and perfluorocarbons on a carbon dioxide equivalent basis. We have no emissions of sulphur hexafluoride or nitrogen trifluoride.

Further details on our methodology for reporting and the criteria used can be found within our basis of reporting, available to download at www.rolls-royce.com.

SHAREHOLDER INFORMATION

Financial calendar 2020–2021

7 MAY 11.00AM
AGM
Kings Place
90 York Way
London
N1 9FX

1 JULY
Allotment of C Shares

2 JULY
Payment of cash dividend on C Shares

3 JULY
Payment of C Share redemption monies

22 JULY
New share certificates issued (at the latest)

6 AUGUST
Announcement of half-year results

1 DECEMBER
Record date for cash dividend on C Shares

5 JANUARY
Allotment of C Shares

5 JANUARY
Payment of cash dividend on C Shares

6 JANUARY
Payment of C Share redemption monies

20 JANUARY
New share certificates issued (at the latest)

APR 2020 | MAY 2020 | JUN 2020 | JUL 2020 | AUG 2020 | SEP 2020 | OCT 2020 | NOV 2020 | DEC 2020 | JAN 2021 | FEB 2021 | MAR 2021

23 APRIL
Ex-entitlement to C Shares

24 APRIL
Record date for entitlement to C Shares

1 JUNE 5.00PM
Deadline for receipt by Registrar of C Share instructions (2:55pm for CREST holders)

3 JUNE
Record date for cash dividend on C Shares

29 OCTOBER
Ex-entitlement to C Shares

30 OCTOBER
Record date for entitlement to C Shares

1 DECEMBER 5.00PM
Deadline for receipt by Registrar of C Share instructions (2:55pm for CREST holders)

31 DECEMBER
Financial year end

FEBRUARY/ MARCH
Announcement of full-year results and Annual Report published

Managing your shareholding

Your shareholding is managed by Computershare Investor Services PLC (the Registrar). When making contact with the Registrar please quote your Shareholder Reference Number (SRN). This is a 10-digit number prefixed with the letter 'C' that can be found on the right-hand side of your share certificate or in any other shareholder correspondence.

You can manage your shareholding at www.investorcentre.co.uk, speak to the Registrar on +44 (0)370 703 0162 (8.30am to 5.30pm Monday to Friday) or you can write to the Registrar at Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS13 8AE.

If you hold your shares in a share dealing account (sometimes referred to as a nominee account) then you must contact your account provider with any questions about your shareholding.

Payments to shareholders

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

Share dealing

The Registrar offers shareholders an internet dealing service at www.computershare.co.uk and a telephone dealing service (+44 (0)370 703 0084). Real-time dealing is available during market hours, 8.00am to 4.30pm, Monday to Friday excluding bank holidays. Orders can still be placed outside of market hours. The fee for internet dealing is 1% of the transaction value subject to a minimum fee of £30. The fee for telephone dealing is 1% of the transaction value plus £50. Stamp duty of 0.5% is payable on all purchases. This service is only available to shareholders resident in certain jurisdictions. Before you can trade you must register to use the service. Other share dealing facilities are available but you should always use a firm regulated by the FCA (see www.fca.org.uk/register).

Your share certificate

Your share certificate is an important document. If you sell or transfer your shares you must make sure that you have a valid share certificate in the name of Rolls-Royce Holdings plc. If you place an instruction to sell your shares and cannot provide a valid share certificate, the transaction cannot be completed and you may be liable for any costs incurred by the broker. If you are unable to find your share certificate please inform the Registrar immediately.

American Depositary Receipts (ADR)

ADR holders should contact the depositary, JP Morgan, by calling +1 (800) 990 1135 (toll free within the US) or +1 (651) 453 2128 (outside the US) or emailing adr@jpmorgan.com.

Warning to shareholders – investment scams

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

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

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

Visit Rolls-Royce online

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

Keeping up to date

You can sign up to receive the latest news updates to your phone or email address by visiting www.rolls-royce.com and registering for our alert service.

Dividends paid on C Shares held

C Share calculation period	C Share dividend rate (%)	Record date for C Share dividend	Payment date
1 July 2019 – 31 December 2019	0.32	15 November 2019	6 January 2020
1 January 2019 – 30 June 2019	0.39	3 June 2019	2 July 2019

Previous C Share issues

	Apportionment values					CGT apportionment				
Issue date	No. of C Shares issued per ordinary share	Record date for entitlement to C Shares	Latest date for receipt of payment instruction forms by Registrar	Price of ordinary shares on first day of trading (p)	Value of C Share issues per ordinary shares (p)	Ordinary shares (%)	C Shares (%)	Date of redemption of C Shares	CRIP purchase date	CRIP purchase price (p)
3 January 2020	46	25 October 2019	2 December 2019	677.80	4.6	99.33	0.67	6 January 2020	6 January 2020	673.203
1 July 2019	71	26 April 2019	3 June 2019	857.40	7.1	99.18	0.82	4 July 2019	4 July 2019	871.5668

For information on earlier C Share issues, please refer to www.rolls-royce.com.

Analysis of ordinary shareholders at 31 December 2019

Type of holder	Number of shareholders	% of total shareholders	Number of shares	% of total shares
Individuals	167,391	97.90	85,147,751	4.41
Institutional and other investors	3,592	2.10	1,845,807,562	95.59
Total	170,983	100.00	1,930,955,313	100.00
Size of holding (number of ordinary shares)				
1 – 150	55,622	32.53	5,034,073	0.26
151 – 500	82,144	48.04	23,191,006	1.20
501 – 10,000	31,642	18.51	48,086,670	2.49
10,001 – 100,000	1,078	0.63	29,912,513	1.55
100,001 – 1,000,000	320	0.19	105,498,096	5.46
1,000,001 and over	177	0.10	1,719,272,955	89.04
Total	170,983	100.00	1,930,995,313	100.00

GLOSSARY

ABC	anti-bribery and corruption
ACARE	Advisory Council for Aviation Research and Innovation in Europe
AGM	annual general meeting
ALPS	Advanced Low Pressure System
AMRCs	Advanced Manufacturing Research Centres
AOG	aircraft on ground
APM	alternative performance measure
Articles	Articles of Association of Rolls-Royce Holdings plc
bps	basis points
Brexit	UK exit from the European Union
C Shares	non-cumulative redeemable preference shares
C&A	commercial and administrative
CARs	contractual aftermarket rights
CEO	chief executive officer
CFO	chief financial officer
CGT	capital gains tax
Our Code	Global Code of Conduct
the Code	UK Corporate Governance Code 2018
Company	Rolls-Royce Holdings plc
CPS	cash flow per share
CRIP	C Share reinvestment plan
CROIC	cash return on invested capital
D&I	diversity & inclusion
DJSI	Dow Jones Sustainability Index
DoJ	US Department of Justice
DPAs	deferred prosecution agreements
DTR	the FCA's Disclosure Guidance and Transparency Rules
EASA	European Aviation Safety Agency
EIS	entry into service
ELG	Enterprise Leadership Group
EPS	earnings per share
ERG	employee resource group
ESG	environment, social and governance
EU	European Union
EUR	euro
EVTOL	electric vertical take-off and landing
FCA	Financial Conduct Authority
FCF	free cash flow
FRC	Financial Reporting Council
FTE	full time equivalent
FX	foreign exchange
GBP	Great British pound or pound sterling
GHG	greenhouse gas
Group	Rolls-Royce Holdings plc and its subsidiaries

HPT	high pressure turbine
HSE	health, safety and environment
IASB	International Accounting Standards Board
IFRS	International financial reporting standards
KPIs	key performance indicators
$ktCO_2e$	kilotonnes carbon dioxide equivalent
kW	kilowatts
LGBT+	lesbian, gay, bisexual and transgender
LIBOR	London inter-bank offered rate
LRIP	low rate initial production
LTIP	long-term incentive plan
LTPR	long-term planning exchange rate
LTSA	long-term service agreement
M&A	mergers & acquisitions
MoU	memorandum of understanding
MRO	maintenance repair and overhaul
MW	megawatts
NCI	non-controlling interest
NOx	nitrogen oxide
OCI	other comprehensive income
OE	original equipment
OECD	Organisation for Economic Co-operation and Development
OEM	original equipment manufacturer
P&L	profit and loss
PBT	profit before tax
PPE	property, plant and equipment
PSMS	product safety management system
PSP	performance share plan
R&D	research and development
R&T	research and technology
REACH	registration, evaluation, authorisation and restriction of chemicals
Registrar	Computershare Investor Services PLC
RMS	risk management system
RRMS	Rolls-Royce management system
RRSAs	risk and revenue sharing arrangements
SFO	UK Serious Fraud Office
SMR	small modular reactors
STEM	science, technology, engineering and mathematics
TCFD	Taskforce on Climate-related Financial Disclosures
TRI	total reportable injuries
TSR	total shareholder return
USAF	United States Air Force
USD/US$	United States dollar
UTCs	University Technology Centres

Trade marks

The following trade marks which appear throughout this Annual Report are trade marks registered and owned by companies within the Rolls-Royce Group:

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Gnome®
LiftSystem™
MTU®
MTU PowerPacks®
Pearl®
Pioneering the power that matters™
Pioneers of Power®
RB211®
Reman®
TotalCare®
Trent®
UltraFan®

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