

Registration number: 00329435

Rolls-Royce Leasing Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2019



Rolls-Royce Leasing Limited

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Rolls-Royce Leasing Limited
Company Information

Registered office Moor Lane
Derby
Derbyshire
DE24 8BJ

Independent Auditors PricewaterhouseCoopers LLP
1 Embankment Place
Charing Cross
London
WC2N 6RH

Rolls-Royce Leasing Limited

Strategic Report for the Year Ended 31 December 2019

The Directors present their Strategic Report on Rolls-Royce Leasing Limited (the 'Company') together with the audited financial statements for the year ended 31 December 2019.

Principal activities

The Company predominantly provides short-term lease solutions to support its immediate parent company, Rolls-Royce plc, in honouring its obligations under TotalCare Packages or on a Time and Material basis. The volume of engines within the lease pool has continued to grow in line with the increase in the volume of aircraft in service and the number of customers opting for a TotalCare Agreement. The size of the pool for New Product Introduction ('NPI') is anticipated to grow however the number of engines supporting the older fleet is expected to reduce as airlines retire older aircraft due to the impact of COVID-19.

Financial position and performance/Review of the year ended 31 December 2019

The financial position of the Company at 31 December 2019 is shown in the Balance Sheet on page 13, the Statement of Changes in Equity on page 14 and the Statement of Comprehensive Income on page 12.

The net assets of the Company at 31 December 2019 were £20,762 thousand (2018 net assets: £14,764 thousand).

Revenue was higher in 2019 compared to 2018, driven by both higher external revenue and internal revenue. External revenue is higher due to increased billing on contractual enforcements. On the more mature engine types there has been an increase in the number of Time and Material customers requesting short term leases to support their operations. There is higher internal revenue due to the increased cost based on transition to IFRS 16 which has resulted in a larger recharge to RR Plc. As a result of higher external revenue, the gross margin increased due to the shift in mix between the intercompany operating fee and external lease income.

Principal risks and uncertainties

The Rolls-Royce Holdings plc group has an established structured approach to risk management which is detailed in the Rolls-Royce Holdings plc Annual Report (see note 20). The Company acts in accordance with this policy.

The key risks within the Company are the management of the size of the lease pool to meet the varying customer demand and to continually manage the mature products to extract the value of engines as the fleet sizes reduce.

From the perspective of the Company, the principal risks and uncertainties are integral to the principal risks of the Rolls-Royce Holdings plc group and are not managed separately. Accordingly, a full consideration of the principal risks and uncertainties of Rolls-Royce Holdings plc group, which include those of the Company, is discussed in the Rolls-Royce Holdings plc group's annual report which does not form part of this report (see note 20).

Financial risk management

The Rolls-Royce Holdings plc group has an established, structured approach to risk management, which is detailed in the consolidated financial statements of Rolls-Royce Holdings plc (see note 20). The Company acts in accordance with this policy. The following risks are considered key by the Directors:

Price risk

The Company recharges all costs associated with providing engines on a demand basis to satisfy Rolls-Royce's obligations to Rolls-Royce plc. For external sales, the Company makes a fixed 3% margin before tax, and so overall pricing risk is considered to be low.

Rolls-Royce Leasing Limited

Strategic Report for the Year Ended 31 December 2019 (continued)

Financial risk management (continued)

Credit risk

The Company's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables. The main customer of the Company is Rolls-Royce plc. The Company has a number of receivables with airlines and monitors the recoverability of these balances on a monthly basis. Due to the trading relationship with Rolls-Royce plc the Company only makes a fixed 3% margin before tax on external revenue and therefore the impact of doubtful receivables is minimal and so the overall credit risk is low.

Liquidity risk

The Company does not operate any bank accounts and liquidity along with the associated risk is managed through an inter-company position with Rolls-Royce plc and so the overall liquidity risk is considered to be low.

Foreign exchange risk

The Company does not hold any cash balances and operates through an intercompany cash pooling arrangement. Purchases and sales are predominantly made in US Dollars and therefore the Company is exposed to foreign exchange fluctuations. However, this risk is mitigated by the Rolls-Royce Holdings plc group managing the foreign exchange risk at a group level and so the overall foreign exchange risk to the Company is considered to be low.

Key performance indicators

Non-financial KPIs

	2019	2018
Turn round time post engine redelivery	40 days	48 days

The number of days on a 12-month average that an engine is unavailable for post engine redelivery from a customer. The decrease in redelivery time is due to the rigour in managing end of lease process driving down the time it takes for operators to meet the end of leases obligations.

Results

	2019 £ 000	2018 £ 000
Revenue comprises:		
Internal Revenue	328,311	211,036
External Revenue	147,938	71,855
	<u>476,249</u>	<u>282,891</u>

Rolls-Royce Leasing Limited
Strategic Report for the Year Ended 31 December 2019 (continued)

Balance Sheet

	2019 £ 000	2018 £ 000
Net assets	<u>20,762</u>	<u>14,764</u>

The lease pool grew to support the Trent 1000 and the Trent XWB engine types. These engines will be used to underpin the parent company's TotalCare commitments either supporting on a short-term basis or as part of TotalCare packages on a dedicated basis.

Section 172(1) Statement

Section 172 of the Companies Act 2006 requires a director of a company to act in the way he or she considers, in good faith, would most likely promote the success of the company for the benefit of its members as a whole. In doing this, Section 172 requires a director to have regard, amongst other matters, to the:

- likely consequences of any decisions in the long-term;
- the interests of the company's employees;
- need to foster the company's business relationships with suppliers, customers and others;
- impact of the company's operations on the community and environment;
- desirability of the company maintaining a reputation for high standards of business conduct; and
- need to act fairly between members of the company.

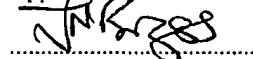
To discharge their Section 172 duties the Directors had regard to the factors set out above in making the principal decisions taken by the Company.

The Company's key stakeholders are its customers, suppliers and engine lessors worldwide. The Directors believe that, individually and together, they have acted in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole, having regard to the stakeholders and matters set out in s172(1)(a-f) of the Companies Act 2006 in the decisions taken during the year ended 31 December 2019.

As the Company predominantly provides short-term lease solutions to support its immediate parent company, Rolls-Royce plc, in honouring its obligations under TotalCare Packages or on a Time and Materials basis, the Company regularly liaises with Rolls-Royce plc to ensure that the interests of Rolls-Royce plc are considered during decision making, both inside and outside the board room. The volume of engines within the lease pool has continued to grow in line with the increase in the volume of aircrafts in service and the number of customers opting for a TotalCare Agreement, and as a result, consultation with Rolls-Royce plc has become much more frequent. In addition, the Company regularly engages with engine lessors to ensure their feedback is incorporated in decision making on modifications and extensions to agreements.

The Directors consider business relationships with the Company's wider stakeholders, the impact of Company operations on the environment and communities in which it operates is embedded in all Company decision-making and risk assessment made throughout the year. As a Rolls-Royce Holdings plc group company, the Company complies and acts in accordance with the Rolls-Royce Holdings plc policies in relation to the safeguarding of human rights and community relationships as outlined in the Rolls-Royce Holdings plc Annual Report (see note 20).

Approved by the Board on 9 September 2020 and signed on its behalf by:



J Burgess
Director

Rolls-Royce Leasing Limited
Directors' Report for the Year Ended 31 December 2019

The Directors present their Directors report and audited financial statements of the Company for the year ended 31 December 2019.

Directors

The Directors who held office during the year and up to the date of signing of this report were as follows:

J N Burgess

L McConnellogue (appointed 11 August 2020)

Results

The profit for the year, after taxation, amounted to £5,998 thousand (2018: £674 thousand loss).

Dividends

During the year a dividend of £Nil was paid, (2018: £Nil). No final dividend is proposed (2018: £Nil).

Future developments

The Company expects to see long term growth continue in the amount of leasing activity in support of the parent company obligations however, this is likely to be depressed in 2020 due to COVID-19.

Financial risk management

The details of the Company's financial risk management are set out in more detail in the Strategic Report on pages 2 and 3.

Going Concern

The Directors of the Company have prepared the financial statements on a going concern basis which assumes the Company will be able to meet its future obligations as they fall due and the Company will settle all payments within the agreed terms.

The Directors have received written confirmation from Rolls-Royce plc, the parent undertaking of the smallest group to consolidate the Company's financial statements and the principal trading company of the Rolls-Royce Holdings plc group, of its intention to support the Company with financial and other resources as necessary such that the Company can meet its financial obligations as they fall due. Furthermore, the parent undertaking has confirmed that it will not seek the repayment of amounts advanced to the Company by the parent undertaking and/or other members of the parent undertaking's group unless adequate financing has been secured by the Company. This written support is available for at least the next twelve months from the date of approval of these financial statements.

Rolls-Royce Holdings plc, the ultimate parent company of Rolls-Royce plc and the ultimate parent undertaking to consolidate the Company's financial statements, in its published results for the six-month period ended 30 June 2020 included a material uncertainty on going concern in relation to the severity, extent and duration of the disruption caused by the COVID-19 pandemic and the timing of recovery of commercial aviation to pre-crisis levels, along with the availability of sufficient funding. As the Company is reliant on the support of the parent undertaking as stated above, the material uncertainty also applies to the Company's assessment of the going concern basis for the preparation of its financial statements.

The Rolls-Royce Holdings plc group has considered the forecast cash flows of the Group and the liquidity available over an eighteen-month period to 28 February 2022 when assessing their going concern. Particular attention has been paid to the impact of the COVID-19 outbreak on the Rolls-Royce Holdings plc group's Civil Aerospace and ITP Aero businesses. An assessment was performed on both a base case scenario (which reflects the Rolls-Royce Holdings plc group current expectations of future trading) and a severe but plausible downside scenario (which envisages a "stress" or "downside") to evaluate the potential impact of COVID-19 on the Rolls-Royce Holdings plc group future financial performance and cash flows. Further details of the base case and downside scenarios modelled by the Rolls-Royce Holdings plc group are included in Note 1 to the published results which are publicly available (www.rolls-royce.com).

Rolls-Royce Leasing Limited
Directors' Report for the Year Ended 31 December 2019 (continued)

Going concern (continued)

After considering the basis of preparation of the Rolls-Royce Holdings plc group interim financial statements, the Directors are satisfied that it remains appropriate to prepare the Company financial statements on a going concern basis. However, the inherent uncertainties outlined in the Rolls-Royce Holdings plc group financial statements represent material uncertainties that may cast significant doubt on the Company's ability to continue as a going concern and, therefore, to continue realising their assets and discharging their liabilities in the normal course of business. These financial statements do not contain any adjustments that would arise if the financial statements were not drawn up on a going concern basis.

Independent auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and are deemed to be reappointed under section 487(2) of the Companies Act 2006.

Post balance sheet events

Brexit

Following the United Kingdom's ('UK') exit from the European Union ('EU') on 31 January 2020, the Directors continue to monitor the potential outcomes for the UK's future relationship with the EU through the Rolls-Royce steering group which has remained active during 2019 and will remain active until the outcome is clear and any necessary mitigation plans are in place. It is difficult to evaluate all of the potential implications on the Company's operations and the wider economy. However, the Directors believe that the Company has limited exposure to any Brexit implications as a result of the strategic location of assets around the world and the nature of the Company. Further disclosures are given in the Rolls-Royce Holdings plc Annual Report (see note 20).

COVID-19

In March 2020, COVID-19 began causing significant financial market downturn and social dislocation. The situation is dynamic and the UK government continues to implement measures to address the outbreak. The Directors are aware that the COVID-19 pandemic will have an effect on the financial results of the Company and the extent remains uncertain.

Subsequently, Rolls-Royce Holdings plc has released Trading Updates and Half Year results for 2020. These outline the measures taken by the Rolls-Royce Holdings plc group including how people, business and communities have been safeguarded, the liquidity and financial position of the Rolls-Royce Holdings plc group and the year to date trading impact of COVID-19. The Directors of the Company are monitoring the impact of COVID-19 measures that the Rolls-Royce Holdings plc group is taking. The Directors of the Company have taken measures to ensure that suppliers are conforming to COVID-19 restrictions when they are carrying out the leasing services for the movement of engines, in line with measures taken by the Rolls-Royce Holdings plc group.

In response to the change in outlook for the Company, the Directors recognise that the impact of COVID-19 is likely to reduce the demand on our lease pool and have carried out an impairment review. Based on the current information available, the impairment charge expected in 2020 is in the region of £400m across property, plant and equipment, right-of-use assets and inventory. Following the impairment review the Directors are taking measures to ensure the right number of engines are being held.

In terms of the Company's financial and liquidity position in relation to COVID-19, given the nature of the trading relationship, the Company's liquidity is reliant on Rolls-Royce plc. The Directors are continuing to regularly engage with the Rolls-Royce plc directors to ensure that there is sufficient group liquidity to provide continued support to the Company.

Rolls-Royce Leasing Limited

Directors' Report for the Year Ended 31 December 2019 (continued)

Post balance sheet events (continued)

Lease Restructure

Post year end, Management has restructured 19 T700 engine leases. These counterparties of the leases that were due to expire in 2020 and 2026 have changed as part of the restructure and the new leases are 10 years in lengths. As of the date of the signing of the financial statements, 14 of these lease restructures have been completed with the remaining 5 to be completed prior to year end 2020. The accounting impact is the write off of the existing right of use asset and lease liability, and upon signing of each new agreement, the recognition of a new right of use asset and lease liability. The financial impact at date of signing to Rolls-Royce Leasing is £127m to the right of use asset, and £124m to the lease liability. The T700 engines will form part of the long term lease pool and will continue to support Rolls-Royce Leasing's Totalcare commitments.

Qualifying third party indemnity provisions

The Company has made qualifying third party indemnity provisions for the benefit of its Directors which were made during the year and remain in force at the date of approval of this report.

Directors' confirmations

In the case of each Director in office at the date the Directors' Report is approved:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Statement of Directors' responsibilities in respect of the financial statements

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). Under Company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

Approved by the Board on 9 September 2020 and signed on its behalf by:



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J N Burgess
Director

Rolls-Royce Leasing Limited

Independent Auditors' Report to the members of Rolls-Royce Leasing Limited

Report on the audit of the financial statements

Opinion

In our opinion, Rolls-Royce Leasing Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its profit for the year then ended;
- 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
- have been prepared in accordance with the requirements of the Companies Act 2006.

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

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 company 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, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Material uncertainty related to going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in the Going Concern section included within the "Significant accounting policies" to the financial statements concerning the Company's ability to continue as a going concern.

The Company is reliant on its parent company for ongoing support, including not seeking repayment of existing intercompany loans and to repay any amounts deposited by the Company as part of the parent company's cash pool sweeping arrangements. Rolls-Royce Holdings plc, the ultimate parent company, in its published results for the six-month period ended 30 June 2020, included material uncertainties on going concern in relation to the severity, extent and duration of the disruption caused by the COVID-19 pandemic and the timing of recovery of commercial aviation to pre-crisis levels, along with the availability of sufficient funding. Accordingly, there can be no certainty that the support required by the Company will in fact be made available.

These conditions, along with the other matters explained in the Going Concern section included within the "Significant accounting policies" note to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Company was unable to continue as a going concern.

Rolls-Royce Leasing Limited
Independent Auditors' Report to the members of Rolls-Royce Leasing Limited
(continued)

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, ISAs (UK) require us also to report certain opinions and matters as described below.

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.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of the Directors' Responsibilities in respect of the financial statements set out on page 7, 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 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 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.

Rolls-Royce Leasing Limited

Independent Auditors' Report to the members of Rolls-Royce Leasing Limited (continued)

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 the director's remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

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Christopher Richmond (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

9 September 2020

Rolls-Royce Leasing Limited
Income Statement for the Year Ended 31 December 2019

	Note	2019 £ 000	2018 £ 000
Revenue	3	476,249	282,891
Cost of sales		<u>(429,727)</u>	<u>(277,187)</u>
Gross profit		46,522	5,704
Administrative expenses		<u>(11,339)</u>	<u>(1,894)</u>
Operating profit	4	35,183	3,810
Finance income	5	33,082	10,316
Finance costs	6	<u>(63,834)</u>	<u>(11,955)</u>
Profit before taxation		4,431	2,171
Tax on profit	8	<u>1,567</u>	<u>(2,845)</u>
Profit/(loss) for the financial year		<u><u>5,998</u></u>	<u><u>(674)</u></u>

There is no other comprehensive income/(expense) for 2019 or 2018 other than that included in the Income Statement.

Rolls-Royce Leasing Limited

Statement of Comprehensive Income for the Year Ended 31 December 2019

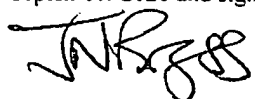
	2019 £ 000	2018 £ 000
Profit/(loss) for the financial year	<u>5,998</u>	<u>(674)</u>
Total comprehensive income/(expense) for the year	<u><u>5,998</u></u>	<u><u>(674)</u></u>

Rolls-Royce Leasing Limited
(Registration number: 00329435)
Balance Sheet as at 31 December 2019

	Note	2019 £ 000	2018 £ 000
Non-current assets			
Right-of-use assets	9	1,406,704	-
Property, plant and equipment	10	<u>441,326</u>	<u>523,393</u>
		<u>1,848,030</u>	<u>523,393</u>
Current assets			
Inventories	11	67,396	30,780
Trade and other receivables	12	<u>367,280</u>	<u>297,924</u>
		<u>434,676</u>	<u>328,704</u>
Current liabilities			
Creditors: amounts falling due within one year	13	(635,831)	(551,738)
Lease liabilities	17	(244,341)	-
Deferred tax liability	15	-	(10,038)
Provisions for liabilities and charges	15	<u>-</u>	<u>(39,739)</u>
Total current liabilities		<u>(880,172)</u>	<u>(601,515)</u>
Net current liabilities		<u>(445,496)</u>	<u>(272,811)</u>
Total assets less current liabilities		1,402,534	250,582
Creditors: amounts falling due after more than one year	14	-	(199,135)
Lease liabilities	17	(1,381,772)	-
Provisions for liabilities and charges	15	<u>-</u>	<u>(36,683)</u>
Net assets		<u>20,762</u>	<u>14,764</u>
Equity			
Called up share capital	16	100	100
Capital redemption reserve		1,200	1,200
Retained earnings		<u>19,462</u>	<u>13,464</u>
Total Equity		<u>20,762</u>	<u>14,764</u>

The Company has adopted IFRS 16 Leases from 1 January 2019 using the modified retrospective approach (see note 2).

The financial statements on page 11 to 34 were approved and authorised for issue by the Directors on 9 September 2020 and signed on its behalf by:



.....
J N Burgess
Director

Rolls-Royce Leasing Limited
Statement of Changes in Equity for the Year Ended 31 December 2019

	Called up share capital £ 000	Capital redemption reserve £ 000	Retained earnings £ 000	Total £ 000
At 1 January 2019	100	1,200	13,464	14,764
Total comprehensive income	-	-	5,998	5,998
At 31 December 2019	<u>100</u>	<u>1,200</u>	<u>19,462</u>	<u>20,762</u>

	Called up share capital £ 000	Capital redemption reserve £ 000	Retained earnings £ 000	Total £ 000
At 1 January 2018	100	1,200	14,138	15,438
Total comprehensive expense	-	-	(674)	(674)
At 31 December 2018	<u>100</u>	<u>1,200</u>	<u>13,464</u>	<u>14,764</u>

Called up share capital represents the principal investment from the parent company. Retained earnings represents the Company's distributable reserves from normal trading activities.

On 24 May 1999, the Company redeemed the whole of its 8.5% redeemable, non-cumulative non-participating preference shares at par (£1,200 thousand). The transaction gave rise to the Capital redemption reserve which has been maintained at £1,200 thousand since this date.

The Company has adopted IFRS 16 Leases from 1 January 2019 using the modified retrospective approach (see note 2). There was no impact on adoption of this standard in the Statement of Changes in Equity as at 1 January 2019.

Rolls-Royce Leasing Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

1 General Information

The Company is incorporated and domiciled in the United Kingdom. The address of the registered office is Moor Lane, Derby, Derbyshire, England, DE24 8BJ. The Company is a private company limited by shares.

The principal activity of the Company is the provision of short term lease solutions to support Rolls-Royce plc in honouring its obligations under TotalCare Packages or on a Time and Material basis. The volume of engines within the lease pool has continued to grow in line with the increase in the volume of aircraft in service and the number of customers opting for a TotalCare Agreement.

2 Significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied in dealing with items that are considered material to all the years presented, unless otherwise stated.

Basis of preparation

These financial statements have been prepared under the historical cost convention in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101").

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ('Adopted IFRSs'), but makes amendments where necessary in order to comply with Companies Act 2006 as applicable to companies using FRS101.

Summary of disclosure exemptions taken:

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- the requirements of paragraph 45(b) and 46-52 of IFRS 2 Share-Based Payment;
- the requirement of IFRS 7 Financial Instruments: Disclosures;
- the requirement of paragraphs 91-99 of IFRS 13 Fair Value Measurement;
- the requirement in paragraph 38 of IAS 1 Presentation of Financial Statements to present comparative information in respect of paragraph 79(a)(iv) of IAS 1, paragraph 73(e) of IAS 16 Property, Plant and Equipment and paragraph 118(e) of IAS 38 Intangible Assets;
- the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134-136 of IAS 1 Presentation of Financial Statements;
- the requirements of IAS 7 Statement of Cash Flows;
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- the requirements of paragraphs 17 and 18A of IAS 24 Related Party Disclosures;
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member;
- the requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d) to 134(f) and 135(c) to 135(e) of IAS 36 Impairment of Assets;
- new standards, amendments and IFRS interpretations; and
- the effect of new but not yet effective IFRSs.

Where required, equivalent disclosures are given in the consolidated financial statements of Rolls-Royce Holdings plc.

Rolls-Royce Leasing Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

2 Significant accounting policies (continued)

New standards, amendments and IFRIC interpretations

The Company adopted IFRS 16 Leases on 1 January 2019 using the modified retrospective approach. Under the specific transitional provisions in the standard, comparative information has not been restated. The reclassification and the adjustments arising from the new leasing rules have been recognised in the opening balance sheet on 1 January 2019 (see note 22).

Until 31 December 2018, leases of engines and plant and equipment were classified as either finance or operating leases. Payments made under operating leases were charged to profit or loss on a straight line basis over the period of the lease. From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available to the Company. Each lease payment is allocated between reducing the liability and a finance cost. The finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining liability for each period.

On adoption of IFRS 16, the Company recognised additional lease liabilities in relation to leases which had previously been classified as 'operating leases' under the previous principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using an incremental borrowing rate as of 1 January 2019. The weighted average incremental borrowing rate applied by the Company to the lease liabilities on 1 January 2019 was 3.48%.

Right-of-use assets are measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 1 January 2019. In applying IFRS 16 for the first time, the Company has used the following practical expedients permitted by the standard:

- On initial application, IFRS 16 was only applied to contracts that were previously classified as leases, the Company has elected not to reassess whether a contract is, or contains, a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group has relied on its assessment made applying IAS 17 and IFRIC 4 Determining whether an Arrangement contains a Lease.
- Lease contracts with a duration of less than 12 months will continue to be expensed to the income statement on a straight-line basis over the lease term. The lease term has been determined with the use of hindsight where the contract contains options to extend the lease; and
- Reliance on previous assessments on whether or not the leases are onerous.

Note 22 sets out the adjustments made on transition to IFRS 16 on 1 January 2019. The most significant changes are where the Company is a lessee as the standard has not significantly changed the accounting where the Company is a lessor in a lease arrangement.

Critical accounting judgements and key sources of estimation uncertainty

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities are addressed below.

Rolls-Royce Leasing Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

2 Significant accounting policies (continued)

Critical accounting estimates and judgements

Return conditions within ROU assets/lease liabilities

Engine leases often include clauses that require the engines to be returned to the lessor with specific levels of useable life remaining or cash payments to the lessor. The costs of meeting these requirements are included in the lease payments. The amounts payable are calculated based upon an estimate of the utilisation of the engines over the lease term, whether the engine is restored to the required condition by performing an overhaul at our own cost or through the payments of amounts specified in the contract and any new contractual arrangements arising when the current lease contract ends. At 31 December 2019, the lease liability included £353,000 thousand relating to the cost of meeting these residual value guarantees, with up to £79,000 thousand in 2020 and £66,000 thousand due over the following four years. Where estimates of payments change, an adjustment is made to the lease liability and the right-of-use asset.

Going concern

The Directors of the Company have prepared the financial statements on a going concern basis which assumes the Company will be able to meet its future obligations as they fall due and the Company will settle all payments within the agreed terms.

The Directors have received written confirmation from Rolls-Royce plc, the parent undertaking of the smallest group to consolidate the Company's financial statements and the principal trading company of the Rolls-Royce Holdings plc group, of its intention to support the Company with financial and other resources as necessary such that the Company can meet its financial obligations as they fall due. Furthermore, the parent undertaking has confirmed that it will not seek the repayment of amounts advanced to the Company by the parent undertaking and/or other members of the parent undertaking's group unless adequate financing has been secured by the Company. This written support is available for at least the next twelve months from the date of approval of these financial statements.

Rolls-Royce Holdings plc, the ultimate parent company of Rolls-Royce plc and the ultimate parent undertaking to consolidate the Company's financial statements, in its published results for the six-month period ended 30 June 2020 included a material uncertainty on going concern in relation to the severity, extent and duration of the disruption caused by the COVID-19 pandemic and the timing of recovery of commercial aviation to pre-crisis levels, along with the availability of sufficient funding. As the Company is reliant on the support of the parent undertaking as stated above, the material uncertainty also applies to the Company's assessment of the going concern basis for the preparation of its financial statements.

The Rolls-Royce Holdings plc group has considered the forecast cash flows of the Group and the liquidity available over an eighteen-month period to 28 February 2022 when assessing their going concern. Particular attention has been paid to the impact of the COVID-19 outbreak on the Rolls-Royce Holdings plc group's Civil Aerospace and ITP Aero businesses. An assessment was performed on both a base case scenario (which reflects the Rolls-Royce Holdings plc group current expectations of future trading) and a severe but plausible downside scenario (which envisages a "stress" or "downside") to evaluate the potential impact of COVID-19 on the Rolls-Royce Holdings plc group future financial performance and cash flows. Further details of the base case and downside scenarios modelled by the Rolls-Royce Holdings plc group are included in Note 1 to the published results which are publicly available (www.rolls-royce.com).

After considering the basis of preparation of the Rolls-Royce Holdings plc group interim financial statements, the Directors are satisfied that it remains appropriate to prepare the Company financial statements on a going concern basis. However, the inherent uncertainties outlined in the Rolls-Royce Holdings plc group financial statements represent material uncertainties that may cast significant doubt on the Company's ability to continue as a going concern and, therefore, to continue realising their assets and discharging their liabilities in the normal course of business. These financial statements do not contain any adjustments that would arise if the financial statements were not drawn up on a going concern basis.

Rolls-Royce Leasing Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

2 Significant accounting policies (continued)

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rate ruling at the year end. Exchange differences arising on foreign exchange transactions and the retranslation of assets and liabilities into sterling at the rate ruling at the year end are taken into account in determining profit before taxation.

Financial assets and liabilities

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

Share capital

Ordinary shares are classified as equity. Equity instruments are measured at the fair value of the cash or other resources received or receivable, net of the direct costs of issuing the equity instruments. If payment is deferred and the time value of money is material, the initial measurement is on a present value basis.

Revenue

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for the usage of the engines by the lessee in combination of the number of days, flight hours and flight cycles used depending on the contract, stated net of discounts and value added taxes. The Company recognises revenue when the amount of revenue can be reliably measured and it is probable that future economic benefits will flow to the Company.

Intercompany trading with Rolls-Royce plc does not attract any margin, all costs associated with this trade are recovered from Rolls-Royce plc. Revenue to external customers attracts a 3% margin on costs before tax at the prevailing foreign exchange rates.

The Company invoices its customers on a monthly basis with payments due on industry standard terms.

Inventories

Inventories and work in progress are valued at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads, including depreciation of property, plant and equipment, that have been incurred in bringing the inventories to their present location and condition. Net realisable value represents the estimated selling prices less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Trade receivables

Trade receivables are amounts due from customers for leases in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at the transaction price. They are subsequently measured at amortised cost using the effective interest method, less provision for impairment. In addition to the IFRS 9 ECL model on specific debts, a provision for the impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables.

Rolls-Royce Leasing Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

2 Significant accounting policies (continued)

Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at the transaction price and subsequently measured at amortised cost using the effective interest method.

Impairment of non-financial assets

Impairment of non-current assets is considered in accordance with IAS 36 Impairment of Assets. Where the asset does not generate cash flows that are independent of other assets, impairment is considered for the cash-generating unit to which the asset belongs. Intangible assets that are not yet available for use are tested for impairment annually. Other intangible assets and property, plant and equipment are assessed for any indications of impairment annually. If any indication of impairment is identified, an impairment test is performed to estimate the recoverable amount.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be below the carrying value, the carrying value is reduced to the recoverable amount and the impairment loss recognised as an expense. The recoverable amount is the higher of value in use or fair value less costs to sell, if this is readily available. The value in use is the present value of future cash flows using a pre-tax discount rate that reflects the time value of money and the risk specific to the asset.

Taxation

The tax expense for the period comprises current and deferred tax. Tax is recognised in the Income Statement, except to the extent that it relates to items recognised in other comprehensive income or directly in shareholders' funds. In this case, the tax is also recognised in other comprehensive income or directly in shareholders' funds, respectively.

The current tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities.

Deferred tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; and arise from initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised to the extent it is probable that future taxable profits will be available against which the deductible temporary difference can be utilised, based on management's assumptions relating to the quantum of future taxable profits.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Rolls-Royce Leasing Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

2 Significant accounting policies (continued)

Property, plant and equipment - engines and stands

Property, plant and equipment are stated at cost less accumulated depreciation and any provision for impairments in value.

Depreciation is provided on a straight-line basis to write off the cost, less estimated residual value over their estimated useful lives. Engines and stands are depreciated over a period of between 10 - 20 years.

The assets residual values and useful economic lives are reviewed and adjusted if appropriate at the end of each reporting period. The carrying amount of an asset is written down immediately to its recoverable amount if its estimated recoverable amount falls below its carrying value.

Engines classified as inventory

The Company purchases engines to satisfy long-term leases to Airlines with the intention of selling the long-term lease and engine to a third party. Where an intention exists to sell the lease and engine within 12 months of the acquisition the engine is held in inventory and not property, plant and equipment until such time as the sale occurs. As at 31 December 2019, 10 engines at a total value of £42,722 thousand (10 engines at a total value of £18,313 thousand at 31 December 2018) were held in inventory.

Leases

i) As Lessee

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

Fixed payments less any lease incentive receivable;

Variable lease payments that are based on an index or a rate;

Amounts expected to be payable by the Company under residual value guarantees;

The exercise price of a purchase option if the Company is reasonably certain to exercise that option; and

Payments of penalties for termination of the lease, if the lease term reflects the Company exercising that option.

Where leases commence after the initial transaction date, the lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the Company's incremental borrowing rate is used, being the rate that the Company would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions. Lease liabilities are revalued at each reporting date using the spot exchange rate.

Right-of-use assets are measured at cost comprising the following:

The amount of the initial measurement of lease liability or a revaluation of the liability;

Any lease payments made at or before the commencement date less any lease incentives received;

Any initial direct costs; and

Restoration costs.

Each right-of-use asset is depreciated over the shorter of its useful economic life and the lease term on a straight-line basis unless the lease is expected to transfer ownership of the underlying asset to the Company, in which case the asset is depreciated to the end of the useful life of the asset.

Payments associated with the short-term leases are recognised on a straight-line basis as an expense in the income statement. Short-term leases are leases with a lease term of 12 months or less.

ii) As Lessor

Rentals receivable under leases are included in revenue on an accruals basis.

Rolls-Royce Leasing Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

3 Revenue

The analysis of revenue by geography is as follows:

	2019 £ 000	2018 £ 000
United Kingdom	331,467	211,692
Rest of European Union	64,903	24,543
Rest of World	79,879	46,656
	<u>476,249</u>	<u>282,891</u>

The analysis of internal and external revenue is as follows:

	2019 £ 000	2018 £ 000
Internal revenue	328,311	211,036
External revenue	147,938	71,855
	<u>476,249</u>	<u>282,891</u>

4 Operating profit

Operating profit is stated after charging/(crediting):

	2019 £ 000	2018 £ 000
Depreciation of property, plant and equipment:		
- Depreciation expense	29,737	25,631
- Depreciation of ROU assets *	292,037	18,476
Lease expense - engines	9,617	146,440
Impairment of accounts receivable	5,448	(938)
Impairment of inventory	(5,196)	5,009
	<u>297,533</u>	<u>294,618</u>

* £18,476 thousand is the depreciation of assets held under finance leases under IAS 17 for the year ended 31 December 2018.

The fees for the audit of the Company financial statements were £75 thousand (2018: £17 thousand) and were paid by Rolls-Royce plc and not recharged to the Company. No other services are received from the auditors apart from the annual audit.

5 Finance income

	2019 £ 000	2018 £ 000
Foreign exchange gains	<u>33,082</u>	<u>10,316</u>

Rolls-Royce Leasing Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

6 Finance costs

	2019 £ 000	2018 £ 000
Interest on lease arrangements (2018: Interest on finance lease and hire purchase contracts)*	63,834	3,372
Foreign exchange losses	-	8,583
	<u>63,834</u>	<u>11,955</u>

* Interest of £63,834 thousand at 31 December 2019 is for all leases under IFRS 16 compared to interest of £3,372 thousand at 31 December 2018 is for finance leases under IAS 17.

7 Staff costs and Directors' remuneration

The Company had no employees in either the current or prior years and the Directors did not receive any fees or emoluments from the Company directly attributable to their services to the Company. All Directors' fees or emoluments were paid by Rolls-Royce plc and the amount attributable to the qualifying services provided by the Directors to the Company cannot be reliably estimated. No recharge has been made in the current or prior years for the services of the Directors. Employee costs of £Nil (2018: £Nil) relating to operating the Company were recharged from Rolls-Royce plc to the Company.

8 Tax on profit

Tax (credited)/charged in the income statement

	2019 £ 000	2018 £ 000
Current taxation		
Group relief payable at 19.00% (2018: 19.00%)	14,651	8,755
Adjustments in respect of prior periods	(4,342)	-
Total current income tax	<u>10,309</u>	<u>8,755</u>
Deferred taxation		
Origination and reversal of temporary differences	(11,876)	(6,968)
Adjustments in respect of prior periods	-	1,058
Total deferred taxation	<u>(11,876)</u>	<u>(5,910)</u>
Tax (credit)/charge in the income statement	<u>(1,567)</u>	<u>2,845</u>

Factors affecting tax (credit)/charge for current year

The tax on profit before tax for the year is lower than the standard rate of corporation tax in the UK (2018 - higher) of 19% (2018: 19%). The differences are explained below:

Rolls-Royce Leasing Limited
Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

8 Tax on profit (continued)

	2019 £ 000	2018 £ 000
Profit before tax	<u>4,431</u>	<u>2,171</u>
Profit before tax multiplied by the standard rate of corporation tax in the UK of 19.00% (2018: 19%)	842	413
Adjustments in respect of prior periods	(4,342)	1,058
Expenses not deductible	536	554
Tax rate differential on timing differences	<u>1,397</u>	<u>820</u>
Total tax (credit)/charge	<u>(1,567)</u>	<u>2,845</u>

Factors that may affect future tax charges

The 2020 Budget announced that the UK corporation tax rate will no longer reduce to 17% from 1 April 2020 and will remain at 19%. The deferred tax asset has been calculated at 17% as this rate has been substantively enacted at the Balance Sheet date. Had the 19% been substantively enacted on or before 31 December 2019 it would have had the effect of increasing the deferred tax asset by £216 thousand.

Rolls-Royce Leasing Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

9 Right-of-use assets

	Engines and Stands £ 000
Cost	
At 1 January 2019	1,583,870
Additions	114,871
Disposals	(9,146)
At 31 December 2019	<u>1,689,595</u>
Accumulated depreciation	
At 1 January 2019	-
Depreciation charge	292,037
Amortisation on disposals	(9,146)
At 31 December 2019	<u>282,891</u>
Carrying amount	
At 31 December 2019	<u><u>1,406,704</u></u>
At 31 December 2018	<u><u>-</u></u>

In the previous year, the Company only recognised lease assets and lease liabilities in relation to leases that were classified as 'finance leases' under IAS 17 Leases. The assets were presented in property, plant and equipment and the liabilities as part other accounts payable. For adjustments recognised on adoption of IFRS 16 on 1 January 2019, please refer to note 22.

Rolls-Royce Leasing Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

10 Property, plant and equipment

	Engines and Stands £ 000
Cost	
At 1 January 2019	644,869
Additions	141,536
Disposals	(30,763)
IFRS 16 Transfers	(206,136)
At 31 December 2019	549,506
Accumulated Depreciation	
At 1 January 2019	121,476
Charge for the year	29,737
Disposals	(6,014)
IFRS 16 Transfers	(37,019)
At 31 December 2019	108,180
Carrying amount	
At 31 December 2019	441,326
At 31 December 2018	523,393

All non-current assets are currently in use.

During 2018 a charge of £925 thousand was made for assets with reassessed useful economic lives.

The gross carrying value of fully depreciated assets still in use by the Company is £17,378 thousand (2018: £16,900 thousand).

There are no non-current assets retired from active use or held for sale as at 31 December 2019. (£Nil at 31 December 2018).

The net book value of assets held under finance leases or hire purchase contracts, included above, are as follows:

	2019 £ 000	2018 £ 000
Engines	-	160,020

11 Inventories

	2019 £ 000	2018 £ 000
Finished goods	67,396	30,780

Rolls-Royce Leasing Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

11 Inventories (continued)

Finished goods comprise engines and spare parts for the years ended 31 December 2019 and 31 December 2018. Engines classified as inventory are expected to be realised through external sales.

12 Trade and other receivables

	2019 £ 000	2018 £ 000
Trade receivables	24,258	26,529
Amounts due from group undertakings	207,008	103,645
Accrued income	134,169	167,750
Deferred tax asset	1,838	-
Vat receivable	7	-
	<u>367,280</u>	<u>297,924</u>

£133,307 thousand of the accrued income balance is expected to be recovered from fellow group companies with £862 thousand expected to be recovered from third parties. The movement in accrued income mostly relates to standard trading fluctuations due to movement of foreign currency rates on the balances between Rolls-Royce PLC and Rolls-Royce Leasing Limited. Also, the transfer of the return conditions provision on transition to IFRS 16 and an accrual for 2019 external revenue to be billed in 2020.

Amounts due from group undertakings are trading balances under normal commercial terms and interest is not charged. These undertakings are unsecured and repayable on demand. A provision for doubtful debts is included in trade receivables of £17,265 thousand (2018: £6,811 thousand).

13 Creditors: amounts falling due within one year

	2019 £ 000	(As restated) 2018 £ 000
Trade payables	2,205	1,232
Accruals and deferred income	13,754	47,680
Net obligations under finance leases and hire purchase contracts*	-	24,074
Amounts due to group undertakings	619,872	478,353
Payments received on account	-	399
	<u>635,831</u>	<u>551,738</u>

Prior year balance of £42,642 thousand has been reallocated for items with accruals shown as trade payables.

*This amount was transferred to lease liabilities on transition to IFRS 16. Please see Note 22.

Amounts owed by group undertakings

Amounts due to group undertakings are trading balances under normal commercial terms and interest is not charged. These undertakings are unsecured and repayable on demand.

Rolls-Royce Leasing Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

14 Creditors: amounts falling due after more than one year*

	2018 £ 000
Net obligations under finance leases and hire purchase contracts	168,547
Accruals and deferred income	<u>30,588</u>
	<u><u>199,135</u></u>

The minimum finance lease payments are as follows:

	2018 £ 000
Not later than one year	33,029
Later than one year and not later than five years	89,521
Later than five years	<u>109,357</u>
Total gross payments	231,907
Impact of finance expenses	<u>(39,286)</u>
Carrying value of liability	<u><u>192,621</u></u>

*This note only has prior year balances which are in relation to IAS 17 please see Note 17 for lease liabilities under IFRS 16.

Obligations under finance leases are secured by related leased assets.

Finance leases are fixed in term and have the right to purchase the leased assets at a pre-agreed amount. The leases are a mixture of fixed and variable rate leases. The use of the assets enables the support of the parent company's obligations.

15 Provisions for liabilities and charges*

	Other provisions £ 000
At 1 January 2019	76,422
Adoption of IFRS 16	<u>(67,122)</u>
Revised at 1 January 2019	9,300
Released	<u>(9,300)</u>
At 31 December 2019	-
Current liabilities	<u>-</u>
Non-current liabilities	<u><u>-</u></u>

*This balance relates to provisions for return conditions under IAS 17 of £67,122 thousand which have been transferred to IFRS 16 at 1 January 2019. £9,300 thousand was released during the year. Please see Note 17 for lease liabilities under IFRS 16.

Rolls-Royce Leasing Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

15 Provisions for liabilities and charges* (continued)

There are no securities or guarantees given in respect of any creditor balances other than finance leases.

Deferred tax movement during the year:

	At 1 January 2019 £ 000	Recognised in income £ 000	At 31 December 2019 £ 000
Accelerated tax depreciation	<u>10,038</u>	<u>(11,876)</u>	<u>(1,838)</u>

Deferred tax movement during the prior year:

	At 1 January 2018 £ 000	Recognised in income £ 000	At 31 December 2018 £ 000
Accelerated tax depreciation	<u>15,948</u>	<u>(5,910)</u>	<u>10,038</u>

16 Called up share capital

Allotted, called up and fully paid shares

	2019		2018	
	No. 000	£ 000	No. 000	£ 000
Ordinary shares of £1 each	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>

The issued share capital is the same as the authorised share capital.

Called up share capital represents the principal investment from the parent company.

Rolls-Royce Leasing Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

17 Financial commitments

At 31 December 2019 the Company has rentals payable under lease arrangements (2018: non-cancellable operating leases) as follows:

	2019 £ 000	2018 £ 000
Within one year	307,115	201,127
In two to five years	821,174	711,784
In over five years	740,450	562,712
	<u>1,868,739</u>	<u>1,475,623</u>

The prior year amounts relate to operating leases under IAS 17 and the current year amounts are all leases under IFRS 16.

Operating leases are fixed term and do not have the right to extend or purchase the leased assets. The leases are a mixture of fixed and variable rate leases. The use of the assets enables the support of the parent company's obligations.

Future minimum lease payments as at 31 December 2019 are as follows:

	£ 000
Not later than one year	307,115
Later than one year and not latest than five years	821,174
Later than five years	740,450
Total gross payments	<u>1,868,739</u>
Impact of finance expenses	(242,626)
Carrying value of liability	<u>1,626,113</u>
Of which: Current liabilities	244,341
Non-current liabilities	1,381,772

Leases as lessor

Lease arrangements (2018: non-cancellable operating lease rentals) are receivable as follows:

	2019 £ 000	2018 £ 000
Non-cancellable operating lease rentals are receivable as follows:		
Within one year	12,210	27,016
Between one and five years	37,196	92,586
After five years	16,464	76,569
	<u>65,870</u>	<u>196,171</u>

In addition, the Company has an arrangement with Rolls-Royce plc in which it provides engines on a demand basis, but generally not in excess of one year, to satisfy Rolls-Royce plc's obligations. Income generated from this activity in 2019 was £328,000 thousand (2018: £211,000 thousand).

Rolls-Royce Leasing Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

18 Contingent liabilities

In January 2017, after full cooperation, the Company concluded deferred prosecution agreements (DPA) with the SFO and the US Department of Justice (DoJ) and a leniency agreement with the MPF, the Brazilian federal prosecutors. Following the expiry of its term the DPA with the US DoJ was dismissed by the US District Court on 19 May 2020. Other authorities are investigating members of the Group for matters relating to misconduct in relation to historical matters. The Group is responding appropriately. Action may be taken by further authorities against the Company or individuals. In addition, we could still be affected by actions from customers and customers' financiers. The Directors are not currently aware of any matters that are likely to lead to a material financial loss over and above the penalties imposed to date, but cannot anticipate all the possible actions that may be taken or their potential consequences.

19 Related party transactions

Purchases from joint ventures of the Rolls-Royce Group

	Joint ventures £ 000
2019	
Purchase of goods	207,494
Amounts payable at 31 December 2019	(442)
2018	
Purchase of goods	137,742
Amounts payable at 31 December 2018	(338)

Sales to joint ventures of the Rolls-Royce Group

	Joint ventures £ 000
2019	
Sale of goods	2,348
Amounts receivable at 31 December 2019	647
2018	
Sale of goods	93
Amounts receivable at 31 December 2018	853

The Company has taken advantage of the exemption in IAS 24 Related Party Disclosures not to disclose related party transactions with wholly owned subsidiaries of Rolls-Royce Holdings plc group.

Rolls-Royce Leasing Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

20 Parent and ultimate parent undertaking

The Company's immediate parent undertaking is Rolls-Royce plc.

The ultimate parent undertaking and controlling party is Rolls-Royce Holdings plc, which is the parent undertaking of the largest group to consolidate these financial statements. Rolls-Royce plc is the parent undertaking of the smallest group to consolidate these financial statements.

The consolidated financial statements of these groups are available to the public and may be obtained from Kings Place, 90 York Way, London, United Kingdom, N1 9FX.

Rolls-Royce Leasing Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

21 Post balance sheet events

Brexit

Following the United Kingdom's ('UK') exit from the European Union ('EU') on 31 January 2020, the Directors continue to monitor the potential outcomes for the UK's future relationship with the EU through the Rolls-Royce steering group which has remained active during 2019 and will remain active until the outcome is clear and any necessary mitigation plans are in place. It is difficult to evaluate all of the potential implications on the Company's operations and the wider economy. However, the Directors believe that the Company has limited exposure to any Brexit-implications as a result of the strategic location of assets around the world and the nature of the Company. Further disclosures are given in the Rolls-Royce Holdings plc Annual Report (see note 20).

COVID-19

In March 2020, COVID-19 began causing significant financial market downturn and social dislocation. The situation is dynamic and the UK government continues to implement measures to address the outbreak. The Directors are aware that the COVID-19 pandemic will have an effect on the financial results of the Company and the extent remains uncertain.

Subsequently, Rolls-Royce Holdings plc has released Trading Updates and Half Year results for 2020. These outline the measures taken by the Rolls-Royce Holdings plc group including how people, business and communities have been safeguarded, the liquidity and financial position of the Rolls-Royce Holdings plc group and the year to date trading impact of COVID-19. The Directors of the Company are monitoring the impact of COVID-19 measures that the Rolls-Royce Holdings plc group is taking. The Directors of the Company have taken measures to ensure that suppliers are conforming to COVID-19 restrictions when they are carrying out the leasing services for the movement of engines, in line with measures taken by the Rolls-Royce Holdings plc group.

In response to the change in outlook for the Company, the Directors recognise that the impact of COVID-19 is likely to reduce the demand on our lease pool and have carried out an impairment review. Based on the current information available, the impairment charge expected in 2020 is in the region of £400m across property, plant and equipment, right-of-use assets and inventory. Following the impairment review the Directors are taking measures to ensure the right number of engines are being held.

In terms of the Company's financial and liquidity position in relation to COVID-19, given the nature of the trading relationship, the Company's liquidity is reliant on Rolls-Royce plc. The Directors are continuing to regularly engage with the Rolls-Royce plc directors to ensure that there is sufficient group liquidity to provide continued support to the Company.

Lease Restructure

Post year end, Management has restructured 19 T700 engine leases. These counterparties of the leases that were due to expire in 2020 and 2026 have changed as part of the restructure and the new leases are 10 years in lengths. As of the date of the signing of the financial statements, 14 of these lease restructures have been completed with the remaining 5 to be completed prior to year end 2020. The accounting impact is the write off of the existing right of use asset and lease liability, and upon signing of each new agreement, the recognition of a new right of use asset and lease liability. The financial impact at date of signing to Rolls-Royce Leasing is £127m to the right of use asset, and £124m to the lease liability. The T700 engines will form part of the long term lease pool and will continue to support Rolls-Royce Leasing's Totalcare commitments.

Rolls-Royce Leasing Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

22 Impact of new accounting standards

The following table reconciles the operating lease obligations under the previous accounting standard, IAS 17 Leases, to the lease liability recorded under IFRS 16 on transition.

	£ 000
Operating lease commitments as reported at 31 December 2018	1,475,623
Lease commitments at end of aero engines lease contracts previously reflected in provisions and other liabilities	446,673
Discounted using the incremental borrowing rate at date of initial applications	<u>(379,477)</u>
At 1 January 2019	1,542,819
Finance lease liabilities recognised as at 31 December 2018	192,621
Impact of adoption of IFRS 16 / Lease liability recognised as at 1 January 2019	<u><u>1,735,440</u></u>
Of which are:	
Current lease liabilities	208,818
Non-current lease liabilities	1,526,622

The recognised right-of-use assets relate to the following types of asset:

Land and buildings	-
Plant and equipment	345
Aircraft and engines	1,583,525
Total right-of-use assets	<u><u>1,583,870</u></u>

The change in accounting policy affected the following items in the balance sheet on 1 January 2019.

Rolls-Royce Leasing Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

22 Impact of new accounting standards (Continued)

	Previous accounting	IFRS 16 impact	As at 1 January 2019
	£ 000	£ 000	£ 000
Non-current assets			
Property, plant and equipment (1)	523,393	(169,117)	354,276
Right-of-use assets (2)	-	1,583,870	1,583,870
	<u>523,393</u>	<u>1,414,753</u>	<u>1,938,146</u>
Current assets			
Inventory	30,780	-	30,780
Trade and other receivables: amounts falling due within one year	297,924	-	297,924
	<u>328,704</u>	<u>-</u>	<u>328,704</u>
Current liabilities			
Trade and other payables (3)	(551,738)	30,334	(521,404)
Provisions for liabilities and charges (4)	(39,739)	30,439	(9,300)
Lease liabilities	-	(184,728)	(184,728)
Deferred tax liabilities	(10,038)	-	(10,038)
Total assets less current liabilities	<u>250,582</u>	<u>1,290,798</u>	<u>1,541,380</u>
Non-current liabilities			
Trade and other payables	(199,135)	30,594	(168,541)
Lease liabilities	-	(1,358,075)	(1,358,075)
Provisions for liabilities and charges	(36,683)	36,683	-
Net Assets	<u>14,764</u>	<u>-</u>	<u>14,764</u>
Equity			
Ordinary shares	100	-	100
Capital redemption reserve	1,200	-	1,200
Retained earnings	13,464	-	13,464
Total equity	<u>14,764</u>	<u>-</u>	<u>14,764</u>

1 Transfer of net book value of finance leased assets to right-of-use assets.

2 Initial recognition of right-of-use assets accounted for under IFRS 16.

3 Lease-related creditors reclassified against the IFRS 16 right-of-use assets on transition.

4 Provisions related to engine residual value guarantee reclassified against IFRS 16 right-of-use assets.