

Registration number: 02658963

Rolls-Royce Overseas Holdings Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2018

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Rolls-Royce Overseas Holdings Limited

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Rolls-Royce Overseas Holdings Limited

Company Information

Company Secretary	J Gentles
Registered office	Moor Lane Derby Derbyshire DE24 8BJ
Independent auditors	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors 1 Embankment Place London WC2N 6RH

Rolls-Royce Overseas Holdings Limited

Strategic Report for the Year Ended 31 December 2018

The Directors present their Strategic Report for the year ended 31 December 2018.

Principal activity

The principal activity of the Company is a holding company. However, the Company holds investments in two joint operations which are proportionally consolidated. The financial statements therefore include the trading results of the two joint operations: Techjet Aerofoils Limited ('Techjet') and International Aerospace Manufacturing Private Limited ('IAMPL').

Business review

The Company holds investments in its subsidiaries and joint ventures at cost less accumulated impairment losses.

The revenue and cost of sales of the Company relate entirely to the proportionally consolidated results of the joint operations for both the years ended 31 December 2018 and 2017.

The profit for the financial year after taxation amounted to £60,621 thousand (2017: £250,641 thousand).

The Company has net assets of £908,624 thousand (2017: £845,071 thousand).

The profit for the financial year after taxation has decreased by £190,020 thousand compared to prior year due to income from shares in group undertakings including £203,642 thousand from Rolls-Royce Overseas Investments Limited which was received in 2017 and did not re-occur in 2018 (see note 13 for more detail). This was partially off-set by an increase in income from participating interests of £23,000 thousand over the income received in 2017. Income from participating interests was £57,580 thousand in 2018 (2017: £33,750 thousand).

Revenue of £42,949 thousand in 2018 was similar to the performance in 2017 (2017: £43,276 thousand). Techjet Aerofoils Limited ('Techjet'), the largest of the Company's joint operations, involved in compressor aerofoil manufacture, saw revenue grow in the year, from £33,084 thousand in 2017 to £35,135 thousand in 2018, reflecting the rise in deliveries of Trent engine deliveries to its principal customers, as well as a favourable revenue mix change towards larger engines. However, in International Aerospace Manufacturing Private Limited ('IAMPL'), the revenue decreased from £10,192 thousand in 2017 to £7,814 thousand in 2018 reflecting the supply of legacy, low-volume parts for which demand is decreasing.

Gross profit in Techjet fell slightly to 11% (2017: 14%) due to a one off cost of sales provision against old work in progress and an increase in Israeli labour rates. Pressure on gross margin is expected to continue in Techjet until contract renewal in 2021, whereas volume on newer engine types is expected to increase in IAMPL.

In 2018, the carrying value of investments in Nightingale Limited and Rolls-Royce Namibia (Proprietary) Limited were impaired by £9,047 thousand and £305 thousand respectively. The impairment charge was recognised in administrative expenses.

Future developments

The Directors do not consider that there will be any material changes to the businesses in the foreseeable future which are proportionally consolidated in the results of the Company other than as already disclosed above.

Brexit

The Directors are monitoring the impact of the Brexit vote on the Company and the terms on which the United Kingdom may withdraw from the European Union. It is difficult to evaluate all of the potential implications on the Company's operations and the wider economy. However, the Directors believe the business has limited exposure to any Brexit implications given the Company is a holding company and the trading activity of the overseas joint operations are overseas and outside of the European Union. Further disclosures are given in the Rolls-Royce Holdings plc group financial statements which can be obtained from the address in note 23.

Rolls-Royce Overseas Holdings Limited

Strategic Report for the Year Ended 31 December 2018 (continued)

Principal risks and uncertainties

The following risks have the most material potential impact on the Company. Mitigating activities are described for each risk. These risks are specific to the nature of our business notwithstanding that there are other risks that may occur and may impact the achievement of the Company's objectives. Where relevant these are managed within the Rolls-Royce Holdings plc's group ('Group') risk management procedures and detailed within the Group's Annual Report.

Carrying value of Investments - The Company holds significant investments in subsidiaries of the Rolls-Royce Holdings plc group. A decline in the value of one or more subsidiary undertakings could materially impact upon the carrying value of the investments held on the Company's Balance Sheet. The Company undertakes an impairment review of the carrying value of investments if any trigger event is identified.

Compliance - Non-compliance by the Company with legislation or other regulatory requirements in the regulated environment in which it operates (for example: export controls; offset; use of controlled chemicals and substances; anti-bribery and corruption legislation) compromising our ability to conduct business in certain jurisdictions and exposing the Company to potential: reputational damage; financial penalties; debarment from government contracts for a period of time; and/or suspension of export privileges or export credit financing, any of which could have a material adverse effect. The mitigating activities for the risks are:

The Group has an extensive compliance programme, which is applied within the Company. This programme and the Global Code of Conduct are promulgated throughout the Group and are updated and reinforced from time to time, to ensure their continued relevance, and to ensure that they are complied with both in spirit and to the letter. The Global Code of Conduct and the Company's compliance programme are supported by appropriate training. A legal and compliance team has been put in place to manage the current specific issue through to conclusion and beyond.

Market shock - The Company is exposed to a number of market risks, some of which are of a macro-economic nature, for example, foreign currency exchange rates, and some that are more specific to the Company, for example liquidity and credit risks, or disruption to other customer operations. Significant extraneous market events could also materially damage the Group's competitiveness and/or credit worthiness. This would affect operational results or the outcomes of financial transactions. The Company implements the following mitigating activities:

Maintaining a strong Company balance sheet, through healthy cash balances.
Providing financial flexibility by maintaining high levels of liquidity.

Deciding where and what currencies to source in, where and how much credit risk is extended or taken and hedging residual risk through the financial derivatives markets (foreign exchange, interest rates and commodity price risk).

Operating the joint operations from more than one geographical location (India and Israel).

Financial risk management

The following financial risk is considered key by the Directors:

Liquidity risk

The Company has net current liabilities of £426,067 thousand (2017: £477,430 thousand) and a liquidity risk, which is primarily attributable to amounts due to group undertakings in trade and other payables. Since the amounts due are to a fellow group undertaking the risk that the Company will be called upon to settle its debts as they fall due is considered to be low.

Rolls-Royce Overseas Holdings Limited

Strategic Report for the Year Ended 31 December 2018 (continued)

Credit risk

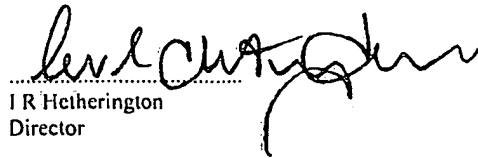
The Company's joint operations make sales on a credit basis and are therefore exposed to the risks of non-payment. Each joint operation regularly reviews the credit levels afforded to its customers and adjusts these where appropriate.

Cashflow risk

The Company is reliant on its parent company for continued financial support and has received written confirmation that the parent company will continue to provide financial support for at least 12 months from the date of approval of these financial statements.

The Company also has some external borrowings through its joint operations. The Company through its joint operations monitors on a periodic basis the cashflows to ensure it can fulfil its repayment obligations as they fall due.

Approved by the Board on 19/12/19 and signed on its behalf by:


I R Heitherington
Director

Rolls-Royce Overseas Holdings Limited

Directors' Report for the Year Ended 31 December 2018

The Directors present their report and the audited financial statements for the year ended 31 December 2018.

Principal activity

The principal activity of the Company is a holding company. However, the Company holds investments in two joint operations which are proportionally consolidated. The financial statements therefore include the trading results of the two joint operations: Techjet Aerofoils Limited ('Techjet') and International Aerospace Manufacturing Private Limited ('IAMPL').

Results and dividends

Revenue in 2018 was £42,949 thousand (2017: £43,276 thousand) and gross profit was lower than the previous year at £3,573 thousand (2017: £5,868 thousand). The financial information relates to the proportionally consolidated results of the joint operations.

The profit for the financial year after taxation amounted to £60,621 thousand (2017: £250,641 thousand). The profit for the financial year after taxation has decreased by £190,020 thousand compared to the prior year due to income from shares from group undertakings including £203,642 thousand from Rolls-Royce Overseas Investments Limited which was received in 2017 but did not re-occur in 2018. This was partially off-set by an increase in income from participating interests of £23,000 thousand over the income received in 2017.

Further details on the business performance of the Company in the year is set out on page 2 in the Strategic Report.

No dividend was paid in the year (2017: £230,000 thousand).

Directors of the Company

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

J H Luke

W S Mansfield (resigned 5 April 2019)

I R Hetherington (appointed 13 May 2019)

Principal risks and uncertainties

The Rolls-Royce Holdings plc group has an established, structured approach to risk management, which is detailed in the Annual Report of Rolls-Royce Holdings plc. The Company acts in accordance with this policy. Further details are set out in the Strategic Report on pages 3 to 4.

Financial risk management

Further details of the financial risk management are set out in the Strategic Report on page 4.

Future developments

The future developments of the Company are set out in more detail in the Strategic Report on page 3.

Going concern

These financial statements have been prepared on a going concern basis.

Based on the Directors' assessment of the Company's future financial requirements and the ability of Rolls-Royce plc to support the Company as provided in writing, if necessary, the Directors consider that the Company will have sufficient financial resources to meet its obligations for the foreseeable future, that is, for at least 12 months from the date of approval of these financial statements.

Rolls-Royce Overseas Holdings Limited

Directors' Report for the Year Ended 31 December 2018 (continued)

Events after the end of the financial period

On 1 April 2019, the Rolls-Royce Holdings plc group disposed of all its commercial marine business to KONGSBERG for a cash consideration of £547,544 thousand. The Company holds 100% shareholding in investments in RR Namibia (Proprietary) Limited and Rolls-Royce International LLC, two of the companies included within the commercial marine disposal. An impairment review was performed to assess the carrying value of the investments at the year end. This has resulted in an impairment charge of £305 thousand in respect to the carrying value of RR Namibia (Proprietary) Limited.

On the 25 June 2019, the Company paid an interim dividend of £366,000 thousand to its parent undertaking (Rolls-Royce plc). Appropriate documentation to comply with the requirements of Section 836 and 838 of the Companies Act 2006 and to support the payment of the interim dividends was not in place on 25 June 2019. The additional documentation has subsequently been prepared in advance of the date of approval of these financial statements.

Qualifying third party indemnity provisions

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

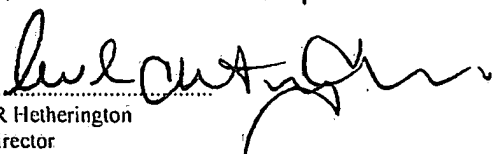
Disclosure of information to the auditors

Each Director has taken steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information. Each Director confirms that there is no relevant information that he knows of and of which he knows the auditors are unaware.

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.

Approved by the Board on 19/12/19 and signed on its behalf by:


I R Hetherington
Director

Rolls-Royce Overseas Holdings Limited

Statement of Directors' Responsibilities

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.

Rolls-Royce Overseas Holdings Limited

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

Report on the audit of the financial statements

Opinion

In our opinion, Rolls-Royce Overseas Holdings Limited financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2018 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 2018; 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.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

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.

Rolls-Royce Overseas Holdings Limited

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

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 2018 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 Directors' Responsibilities 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.

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.

Rolls-Royce Overseas Holdings Limited

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

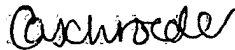
Other required reporting

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 financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.



.....
Catherine Schroeder (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

Date: 19.12.19

Rolls-Royce Overseas Holdings Limited

Income Statement for the Year Ended 31 December 2018

	Note	2018 £ 000	2017 £ 000
Revenue	3	42,949	43,276
Cost of sales		<u>(39,376)</u>	<u>(37,408)</u>
Gross profit		3,573	5,868
Administrative expenses		<u>(9,366)</u>	<u>(1,006)</u>
Operating (loss)/profit		(5,793)	4,862
Income from shares in group undertakings		8,038	212,045
Income from participating interests		57,580	33,750
Finance income	5	1,256	1,337
Finance costs	6	<u>(240)</u>	<u>(271)</u>
		<u>66,634</u>	<u>246,861</u>
Profit before taxation		60,841	251,723
Taxation	10	<u>(220)</u>	<u>(1,082)</u>
Profit for the financial year		<u>60,621</u>	<u>250,641</u>

The above results were derived from continuing operations.

Rolls-Royce Overseas Holdings Limited

Statement of Comprehensive Income for the Year Ended 31 December 2018

	Note	2018 £ 000	2017 £ 000
Profit for the year		<u>60,621</u>	<u>250,641</u>
Total comprehensive income for the year		<u>60,621</u>	<u>250,641</u>

The notes on pages 15 to 41 form an integral part of these financial statements.

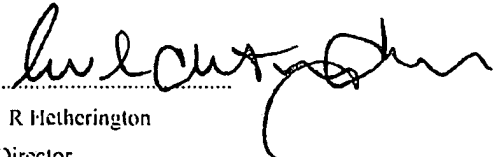
Rolls-Royce Overseas Holdings Limited

(Registration number: 02658963)
Balance Sheet as at 31 December 2018

	Note	2018 £ 000	(As restated) 2017 £ 000
Non-current assets			
Intangible assets	11	468	455
Property, plant and equipment	12	28,327	27,709
Investments	13	1,307,792	1,296,233
		<u>1,336,587</u>	<u>1,324,397</u>
Current assets			
Inventories	14	17,720	17,426
Trade and other receivables	15	59,668	9,467
Cash and cash equivalents		7,950	11,977
		<u>85,338</u>	<u>38,870</u>
Current liabilities			
Trade and other payables	19	508,620	512,450
Loans and borrowings	16	3,552	3,850
Creditors: Amounts falling due within one year		<u>(512,172)</u>	<u>(516,300)</u>
Net current liabilities		<u>(426,834)</u>	<u>(477,430)</u>
Total assets less current liabilities		909,753	846,967
Creditors: Amounts falling due after more than one year			
Loans and borrowings	16	(477)	(820)
Provisions for liabilities and charges	18	<u>(652)</u>	<u>(1,076)</u>
Net assets		<u>908,624</u>	<u>845,071</u>
Equity			
Called up share capital	21	399,499	399,499
Share premium reserve		133,961	133,961
Other reserves		4,826	1,894
Retained earnings		<u>370,338</u>	<u>309,717</u>
Total equity		<u>908,624</u>	<u>845,071</u>

The comparative financial information for the year ended 31 December 2017 has been restated (see note 2).

The financial statements on pages 11 to 41 were approved and authorised for issue by the Directors on 19/12/19 and signed on their behalf by:


I R Hetherington
Director

The notes on pages 15 to 41 form an integral part of these financial statements.
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Rolls-Royce Overseas Holdings Limited

Statement of Changes in Equity for the Year Ended 31 December 2018

	Called up share capital £ 000	Share premium reserve £ 000	Other reserves £ 000	Retained earnings £ 000	Total equity £ 000
At 1 January 2018	399,499	133,961	1,894	309,717	845,071
Profit for the financial year	-	-	-	60,621	60,621
Total comprehensive income	-	-	-	60,621	60,621
Foreign exchange movement in year	-	-	2,932	-	2,932
At 31 December 2018	399,499	133,961	4,826	370,338	908,624

	Called up share capital £ 000	Share premium reserve £ 000	Other reserves £ 000	Retained earnings £ 000	Total equity £ 000
At 1 January 2017	399,499	133,961	5,530	289,076	828,066
Profit for the financial year	-	-	-	250,641	250,641
Total comprehensive income	-	-	-	250,641	250,641
Foreign exchange movement in year	-	-	(3,636)	-	(3,636)
Dividends	-	-	-	(230,000)	(230,000)
	-	-	(3,636)	(230,000)	(233,636)
At 31 December 2017	399,499	133,961	1,894	309,717	845,071

The notes on pages 15 to 41 form an integral part of these financial statements.

Rolls-Royce Overseas Holdings Limited

Notes to the Financial Statements for the Year Ended 31 December 2018

1 General information

The Company is a private company limited by share capital incorporated and domiciled in the East Midlands in the UK. The principal activity of the Company is a holding company.

The address of its registered office is:

Moor Lane
Derby
Derbyshire
DE24 8BJ

Principal activity

The principal activity of the Company is a holding company. However, the Company holds investments in two joint operations which are proportionally consolidated. The financial statements therefore include the trading results of the two joint operations: Techjet Acrolifts Limited ('Techjet') and International Aerospace Manufacturing Private Limited ('IAMPL').

2 Significant accounting policies

Basis of preparation

The financial statements of Rolls-Royce Overseas Holdings Limited have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101). The financial statements have been prepared under the historical cost convention, in accordance with the Companies Act 2006.

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

- A Cash Flow Statement and related notes;
- The requirements of IAS 24 *Related Party Transactions* and has, therefore, not disclosed transactions between the Company and its wholly owned subsidiaries;
- Disclosures in respect of the compensation of Key Management Personnel; and
- The effects of new but not yet effective IFRSs.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

New standards, amendments and IFRIC interpretations

IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* are new accounting standards that are effective for the year ended 31 December 2018. On transitioning to the new accounting standards, the Directors evaluated the impact on the financial statements and considered that there is not a material impact.

There were no other changes to accounting standards that had a material impact on the 2018 financial statements.

Rolls-Royce Overseas Holdings Limited

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

2 Significant accounting policies (continued)

Restatement of prior year comparatives

The 2017 trade payables balance has been restated to reclassify current and non-current loans and borrowings of £3,850,000 and £820,000 respectively, which were previously included in trade payables, as separate balance sheet line items (see notes 16 and 18 for more detail). The loans and borrowings are held by the Company's joint operation, International Aerospace Manufacturing Private Limited and are proportionally consolidated.

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 amounts of assets and liabilities are addressed below.

Critical accounting estimates and assumptions

Key estimate - Carrying value of investments

The carrying value of investments is assessed on an annual basis by either comparing the carrying value of the investment against the net assets of the subsidiary undertaking or comparing the carrying value of the investment against the estimate of future cash flows arising from the subsidiaries' operations. The assessment of whether investments are impaired is dependent on the present value of future cash flows to be generated by the relevant subsidiary (see note 13).

Critical accounting judgements in applying the entities accounting policies

The Directors have determined that there are no critical accounting judgements in applying the accounting policies of the Company.

Going concern

The financial statements have been prepared on a going concern basis, under the historical cost convention.

Based on the Directors' assessment of the Company's future financial requirements and the ability of Rolls-Royce plc to support the Company as provided in writing, if necessary, the Directors consider that the Company will have sufficient financial resources to meet its obligations for the foreseeable future, that is, for at least 12 months from the date of approval of these financial statements.

Exemption from preparing group accounts

The financial statements contain information about Rolls-Royce Overseas Holdings Limited as an individual company and do not contain consolidated financial information as the parent of a group. The Company is exempt under section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it and its subsidiary undertakings are included by full consolidation in the consolidated financial statements of a group parent, Rolls-Royce plc, a company incorporated in United Kingdom, which are publicly available. The address of the parent company's registered office is set out in note 23.

Rolls-Royce Overseas Holdings Limited

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

2 Significant accounting policies (continued)

Revenue recognition

Revenues comprise sales made by joint operations to other Rolls-Royce Holdings plc group companies and outside customers, excluding value added taxes, in respect of deliveries made during the year. The Company recognises revenue when performance obligations have been satisfied, which is when goods have been transferred to the customer and the customer has control of these. This is considered to be at a point in time.

For the year ended 31 December 2018, following the adoption of IFRS 15, revenue is recognised when control of goods is transferred to a customer. A five-step recognition model is used to apply the standard as follows: (1) identify the contract(s) with the customer; (2) identify the separate performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to separate performance obligations; and (5) recognise revenue when (or as) each performance obligation is satisfied. The revenue of the Company comes from the sale of goods that are recognised at a point in time. Sales of goods in the Income Statement are recognised by the Company when control of the goods has been transferred, being when the customer takes control of the goods and that all performance obligations have been fulfilled. This is considered to be when the goods are delivered to the customer.

Investments

The Company applies IFRS 11 to all joint arrangements. Under IFRS 11, investments are classified as either joint operations or joint ventures, depending on the contractual rights and obligations of each investor. Rolls-Royce Overseas Holdings Limited has assessed the nature of its joint arrangements and determined that two of its joint arrangements are joint operations: Techjet Aerofoils Limited ('Techjet') and International Aerospace Manufacturing Private Limited ('IAMPL'). Joint operations are consolidated on a proportionate basis.

Investments in subsidiaries and joint ventures are shown at cost less accumulated impairment losses in the financial statements.

Deferred taxation

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except that a change attributable to an item of income or expense recognised as other comprehensive income is also recognised directly in other comprehensive income.

Full provision is made for deferred tax assets and liabilities arising from all timing differences between the recognition of gains and losses in the financial statements and recognition in the tax computation.

A net deferred tax asset is recognised only if it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax assets and liabilities are calculated at the tax rates expected to be effective at the time the timing differences are expected to reverse.

Rolls-Royce Overseas Holdings Limited

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

2 Significant accounting policies (continued)

Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at rates of exchange ruling at the balance sheet date.

Transactions in foreign currencies are translated into sterling at the rate ruling on the date of the transaction.

Exchange gains and losses are recognised in the income statement.

The trading results of the joint operations, which are proportionally consolidated in accordance with IFRS 11, are translated into sterling at the average exchange rates for the year. The assets and liabilities of the joint operations, on initial consolidation, were translated at the exchange rates ruling at the year end. Exchange adjustments arising from the retranslation of the opening net investments, and from the translation of the profits or losses at average rates, are recognised in other reserves.

Property, plant and equipment

Property, plant and equipment assets are stated at cost less accumulated depreciation and any provision for impairment in value. Depreciation is provided at rates calculated to write off the cost of tangible assets, less their estimated residual value, over their expected useful lives on the following bases:

Land and buildings - freehold buildings - 2.5%, leasehold over the remaining lease term

Furniture, fittings and equipment - 10% to 33.3%

Tangible assets 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. An asset's carrying amount is written down immediately to its recoverable amount if it is greater than its estimated recoverable amounts.

Property, plant and equipment are derecognised on disposal or when no future economic benefits are expected. On disposal, the difference between the net disposal proceeds and the carrying amount is recognised as a gain or loss within administrative expenses in the income statement.

Intangible assets

Intangible assets consist of amounts paid in respect of long-term project technical know-how and software, primarily relating to the Trent 500 engine. These amounts are stated at cost and amortised over 15 years in equal annual instalments, commencing on the day of payment in respect of the project.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand that is readily convertible to a known amount of cash and is subject to an insignificant risk of changes in value.

Trade receivables

Trade receivables are amounts due from customers for products sold in the ordinary course of business. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any expected credit losses. When assessing the impairment of trade and other receivables, management considers factors including the credit rating of the receivable, the ageing profile of receivables and historical experience. The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

Rolls-Royce Overseas Holdings Limited

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

2 Significant accounting policies (continued)

Financial assets and liabilities

IFRS 9 has changed the classification of financial assets compared to IAS 39. The Directors have considered the impact of IFRS 9 on this Company and it has been determined not to have a material impact.

Classification

IFRS 9 Financial Instruments replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The date of initial application (i.e. the date on which the Company has assessed its existing financial assets and financial liabilities in terms of the requirements of IFRS 9) is 1 January 2018. Accordingly, the Company has applied the requirements of IFRS 9 to instruments that continue to be recognised as at 1 January 2018 and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018.

The Company was required to revise its impairment methodology under IFRS 9 for its financial assets. All recognised financial assets that are within the scope of IFRS 9 are required to be measured subsequently at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Impairment of financial assets

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires the Company to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Financial assets

Financial assets primarily include trade receivables, cash and cash equivalents (comprising cash at bank, money market funds and short term deposits), short term investments, derivatives (foreign exchange contracts, commodity contracts, interest rate contracts) and unlisted investments.

- Trade receivables are generally classified as 'held to collect' and measured at amortised cost.
- Cash and cash equivalents (consisting of balances with banks and short-term deposits) and short-term investments are subject to low market risk. Cash balances and short-term investments are measured at fair value through profit and loss (FVTPL).

Financial liabilities

Financial liabilities primarily consist of trade payables and borrowings.

The classification of financial liabilities under IFRS 9 is unchanged with respect to the previous requirements under IAS 32.

- Derivatives are classified and measured at Fair Value through the income statement;
- All other financial liabilities are classified and measured at amortised cost.

Rolls-Royce Overseas Holdings Limited

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

2 Significant accounting policies (continued)

Inventories

Inventories and work in progress are valued at the lower of cost and net realisable value.

The cost of raw materials is determined on a weighted average basis.

The cost of finished goods and work in progress 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 based on normal operating capacity of the production facilities. 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 payables

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

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Borrowings

All borrowings are initially recorded at the amount of proceeds received, net of transaction costs. Borrowings are subsequently carried at amortised cost, with the difference between the proceeds, net of transaction costs, and the amount due on redemption being recognised as a charge to the income statement over the period of the relevant borrowing.

Interest expense is recognised on the basis of the effective interest method and is included in finance costs.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Provisions

Provisions are recognised when the Company has a present obligation as a result of a past event, and it is probable that the Company will be required to settle that obligation. Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

Leases

Payments made and rentals received under operating lease arrangements are charged/credited to the income statement on a straight-line basis.

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.

Dividends

Dividend distribution to the Company's shareholders is recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

Rolls-Royce Overseas Holdings Limited

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

3 Revenue

The geographical analysis of revenue by country is as follows:

	2018 £ 000	2017 £ 000
Germany	4,621	11,772
Japan	-	1,026
United States	1,100	2,659
United Kingdom	37,228	27,819
	<u>42,949</u>	<u>43,276</u>

4 Operating (loss)/profit

Arrived at after charging

	2018 £ 000	2017 £ 000
Depreciation expense (see note 12)	4,292	4,940
Amortisation expense (see note 11)	293	266
Operating lease expense - property (see note 17)	535	550
Inventory recognised as an expense	15,532	19,554
Impairment of inventory	29	-
Wages and salaries	9,668	8,368
Social security costs	569	499
Other pension costs	1,061	936
Impairment of investments	<u>9,352</u>	<u>-</u>

The operating lease payments relate to land and buildings held by the Company's joint operations. For further details see note 17.

Administrative costs include £9,047,000 and £305,000 relating to impairments of investments in Nightingale Limited and Rolls-Royce Namibia (Proprietary) Limited respectively (see note 13).

5 Finance income

	2018 £ 000	2017 £ 000
Bank and loan interest receivable	363	11
Foreign exchange gains	893	1,326
	<u>1,256</u>	<u>1,337</u>

Rolls-Royce Overseas Holdings Limited

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

6 Finance costs

	2018 £ 000	2017 £ 000
Other interest payable	<u>240</u>	<u>271</u>

7 Staff costs

The Company has no employees, as it is a holding company. However, cost of sales include staff related costs due to the financial statements including the proportionate consolidation of the results of the Company's joint operations (see note 4).

8 Directors' remuneration

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 charge has been made in the current or prior year for the services of the Directors.

9 Auditors' remuneration

The fees for the audit of the Company financial statements were £9,000 (2017: £7,000) and were paid by Rolls-Royce plc on behalf of the Company and not recharged.

£Nil (2017: £nil) was paid to the Company's auditors for non-audit services.

10 Taxation

Tax charged in the income statement

	2018 £ 000	2017 £ 000
Group relief payable for the period at 19.00% (2017: 19.25%)	205	260
Foreign tax on income for the year	(147)	883
Deferred taxation		
Arising from origination and reversal of temporary differences	<u>162</u>	<u>(61)</u>
Tax expense in the income statement	<u>220</u>	<u>1,082</u>

Rolls-Royce Overseas Holdings Limited

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

10 Taxation (continued)

The tax assessed for the year is lower than (2017: lower than) the standard rate of corporation tax in the UK of 19.00% (2017: 19.25%).

The differences are reconciled below:

	2018 £ 000	2017 £ 000
Profit before tax	60,841	251,723
Corporation tax at standard rate	11,560	48,457
Effects of: non-taxable income	(11,193)	(48,258)
Foreign tax	(147)	883
Total tax charge	220	1,082

The UK Corporation tax rate reduced to 19% from 1 April 2017.

The Budget 2016 announced that the UK tax rate will reduce to 17% with effect from 1 April 2020. The rate reduction to 17% has been substantively enacted on 6 September 2016. The deferred tax liabilities of the Company has therefore been calculated at 17%.

Deferred tax

Deferred tax movement during the year:

	At 1 January 2018 £ 000	Recognised in income £ 000	Recognised in other comprehensive income £ 000	At 31 December 2018 £ 000
Other items	(454)	(162)	-	(616)
Foreign exchange differences on foreign operations	(4)	-	(32)	(36)
Net tax assets/(liabilities)	(458)	(162)	(32)	(652)

Other items comprise of accelerated capital allowances, losses and other timing differences.

Rolls-Royce Overseas Holdings Limited

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

10 Taxation (continued)

Deferred tax movement during the prior year:

	At 1 January 2017 £ 000	Recognised in income £ 000	Recognised in other comprehensive income £ 000	At 31 December 2017 £ 000
Other items	(515)	61	-	(454)
Foreign exchange differences on foreign operations	(52)	-	48	(4)
Net tax assets/(liabilities)	<u>(567)</u>	<u>61</u>	<u>48</u>	<u>(458)</u>

11 Intangible assets

	Other intangible assets £ 000
Cost	
At 1 January 2018	8,847
Additions	296
Foreign exchange movements	<u>455</u>
At 31 December 2018	<u>9,598</u>
Accumulated amortisation	
At 1 January 2018	8,392
Amortisation charge	293
Foreign exchange movements	<u>445</u>
At 31 December 2018	<u>9,130</u>
Carrying amount	
At 31 December 2018	<u>468</u>
At 31 December 2017	<u>455</u>

Intangible assets consist of amounts paid in respect of long-term project technical know-how and software, primarily relating to the Trent 500 engine.

Rolls-Royce Overseas Holdings Limited

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

12 Property, plant and equipment

	Land and buildings £ 000	Furniture, fittings and equipment £ 000	Total £ 000
Cost			
At 1 January 2018	7,254	67,717	74,971
Additions	-	3,745	3,745
Foreign exchange movements	406	3,224	3,630
At 31 December 2018	<u>7,660</u>	<u>74,686</u>	<u>82,346</u>
Accumulated depreciation			
At 1 January 2018	1,774	45,488	47,262
Charge for the year	263	4,029	4,292
Foreign exchange movements	109	2,356	2,465
At 31 December 2018	<u>2,146</u>	<u>51,873</u>	<u>54,019</u>
Carrying amount			
At 31 December 2018	<u>5,514</u>	<u>22,813</u>	<u>28,327</u>

Contractual commitments for the purchase of property, plant and equipment

At 31 December 2018 the Company had contractual commitments for the purchase of plant and equipment of £76,000 (2017: £24,000).

Rolls-Royce Overseas Holdings Limited

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

13 Investments

The Company's investments comprise investments in subsidiaries of £1,153,104 (2017 - £1,152,456) and investments in joint ventures of £154,688 (2017 - £143,777) (for further detail see page 32). The Company's total carrying amount of investments are £1,307,792 (2017 - £1,296,233).

Subsidiaries	£ 000
Cost	
At 1 January 2018	1,153,889
Additions	<u>10,000</u>
At 31 December 2018	<u>1,163,889</u>
Provision	
At 1 January 2018	1,433
Provision in year	<u>9,352</u>
At 31 December 2018	<u>10,785</u>
Carrying amount	
At 31 December 2018	<u><u>1,153,104</u></u>
At 31 December 2017	<u><u>1,152,456</u></u>

During the year the Company received total income from shares in group undertakings of £8,038,000 (2017 - £212,045,000). This was largely made up of dividends from Rolls-Royce Nuclear Field Services France S.A.S. of £6,707,000 (2017 - £1,662,000); Rolls-Royce Australia Services Pty Limited of £1,107,000 (2017 - £3,984,000); and Rolls-Royce Technical Support Sarl of £333,000 (2017 - £308,000). In 2017 income from shares in group undertakings also comprised £203,642,000 from Rolls-Royce Overseas Investments Limited; £1,600,000 from Nightingale Limited and £595,000 from Singapore Limited. No income from these group undertakings was received in 2018.

During the year impairments were made to the carrying value of investments in Nightingale Limited of £9,047,000 and Rolls-Royce Namibia (Proprietary) Limited of £305,000 which were recognised within administrative expenses.

The Directors have reassessed the carrying value of the Company's other investments in subsidiary undertakings based upon their net asset values as at 31 December 2018 and at 31 December 2017 and have identified no further impairments.

Rolls-Royce Overseas Holdings Limited

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

13 Investments (continued)

The following were subsidiary undertakings / participating interests of the Company as at 31 December 2018:

** denotes a direct shareholding by the Company

Company name	Share class	Address	% Holding 2018
Data Systems & Solutions, LLC	Partnership	Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware 19808, United States	100%
Nightingale Insurance Limited**	Ordinary	Maison Trinity, Trinity Square, St. Peter Port, GY1 4AT, Guernsey	100%
PKMJ Technical Services, Inc	Ordinary	Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware 19808, United States	100%
PT Rolls-Royce	Ordinary	Mid Plaza 2, Lantai 16 Jl. Jenderal Sudirman 10-11, Jakarta, Pusat, 10220, Indonesia	100%
Rolls-Royce Australia Pty Limited**	Ordinary	Suite 102, 2-4 Lyonpark Rd, Macquarie Park, NSW-2113, Australia	100%
Rolls-Royce Australia Services Pty Limited**	Ordinary	Suite 102, 2-4 Lyonpark Rd, Macquarie Park, NSW-2113, Australia	100%
Rolls-Royce Civil Nuclear SAS**	Ordinary	23 chemin du Vieux Chêne, 38240, Meylan, France	100%
Rolls-Royce Control Systems Holdings Co	Common Stock	Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware 19808, United States	100%
Rolls-Royce Controls and Data Services Inc	Common Stock	Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware 19808, United States	100%

Rolls-Royce Overseas Holdings Limited

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

13 Investments (continued)

Rolls-Royce Corporation	Common Stock	Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware 19808, United States	100%
Rolls-Royce Cote D'Ivoire SARL**	Ordinary	7 Boulevard Lairille, 25 BP 945, Abidjan, Cote d'Ivoire	100%
Rolls-Royce Crosspointe LLC	Partnership	Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware 19808, United States	100%
Rolls-Royce Defense Products And Solutions Inc	Common Stock	Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware 19808, United States	100%
Rolls-Royce Defence Services Inc	Common Stock	Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware 19808, United States	100%
Rolls-Royce Energy Systems Inc	Common Stock	Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware 19808, United States	100%
Rolls-Royce Engine Services Holdings Co	Common Stock	Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware 19808, United States	100%
Rolls-Royce Engine Services Limiteda Inc**	Capital Stock	Bldg 06 Berthaphil Compound, Jose Abad Santos Avenue, Clark Special Economic Zone Clark Pampanga Philippines	99%
Rolls-Royce Finance Company Limited	Deferred & Ordinary	Moor Lane, Derby, England DE24 8BJ	100%
Rolls-Royce Finance Holdings Co	Common Stock	Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware 19808, United States	100%

Rolls-Royce Overseas Holdings Limited

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

13 Investments (continued)

Rolls-Royce (Ireland) Unlimited Company**	Ordinary	Ulster International Financial, 1st Floor, IFSC House, Dublin 1, Ireland	100%
Rolls-Royce High Temperature Composites Inc	Common Stock	Corporation Service Company, 2710 Gateway Oaks Dr, Suite 150N, Sacramento, CA 95833, United States	100%
Rolls-Royce India Private Limited**	Equity	Birla Tower West 2nd Floor 25, Barakhamba Rd, New Delhi, 110001, India	100%
Rolls-Royce International LLC**	Ordinary	Office 41N, Lit. A, 32-34 Nevsky Prospect, St. Petersburg, 19186, Russian Federation	100%
Rolls-Royce International s.r.o**	Ordinary	Pobrezni 620/3, 186 00, Karlín - Prague 8, Czech Republic	100%
Rolls-Royce Malaysia Sdn Bhd**	Ordinary	Suite 13.03, 13th floor, Menara Tan&Tan, 207 Jalan Tun Razak 50400 Kuala Lumpur, Malaysia	100%
Rolls-Royce Marine Chile SpA**	Ordinary	Alcantara 200, Office 1303, Las Condes, Santiago, Chile	100%
Rolls-Royce Marine North America Inc	Common Stock	Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware 19808, United States	100%
Rolls-Royce Mexico Administration S De RL de CV**	Ordinary	Boulevard Adolfo Ruiz Cortinez 3642-403, Fracc Costa de Oro, Veracruz CP 94299 6, Mexico	100%
Rolls-Royce Mexico S De RI De CV**	Ordinary	Boulevard Adolfo Ruiz Cortinez 3642-403, Fracc Costa de Oro, Veracruz CP 94299 6, Mexico	100%
Rolls-Royce Namibia (Proprietary) Limited**	Ordinary	2nd Floor, Unit 4, LA Chambers, Ausspahn Plaza, Dr Agostinho Neto Rd, Asspahnplatz, Windhoek, Namibia	100%

Rolls-Royce Overseas Holdings Limited

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

13 Investments (continued)

Rolls-Royce New Zealand Limited**	Ordinary	Level 7 Baileys Building, 36 Brandon Street, Wellington 6011 New Zealand	100%
Rolls-Royce Nigeria Limited**	Ordinary	Civic Towers, Plot GA1, Ozumba Mbadiwe Avenue, Victoria Island, Lagos, Nigeria	100%
Rolls-Royce North America (USA) Holdings Co.	Common Stock	Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware 19808, United States	100%
Rolls-Royce North America Holdings Inc	Common Stock	Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware 19808, United States	100%
Rolls-Royce North America Inc	Common Stock	Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware 19808, United States	100%
Rolls-Royce North America Ventures Inc	Common Stock	Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware 19808, United States	100%
Rolls-Royce North American Technologies Inc	Common Stock	Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware 19808, United States	100%
Rolls-Royce Nuclear Field Services France SAS	Ordinary	ZA Notre-Dame, 84430, Mondragon, France	100%
Rolls-Royce Nuclear Field Services Inc	Common Stock	Corporation Service Company, 80 State Street, Albany, NY 12207, United States	100%
Rolls-Royce Oman LLC**	Ordinary	Bait Al Reem, Business Office, #131, Building No. 81 Way No. 3409, Block No. 234, Al Thaqafa Street, Al Khuwair, PO Box 20 Postal Code 103, Oman	100%
Rolls-Royce Operations (India) Private Limited**	Ordinary	Birla Tower West, 2nd Floor, 25 Barakhamba Road, New Delhi, 110001, India	100%
Rolls-Royce Overseas Investments Limited**	Ordinary	Moor Lane, Derby, England DE24 8BJ	100%
Rolls-Royce Placements Limited	Ordinary	Moor Lane, Derby, England DE24 8BJ	100%

Rolls-Royce Overseas Holdings Limited

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

13 Investments (continued)

Rolls-Royce Saudi Arabia Limited	Cash Shares	PO Box 88545, Riyadh, 11672, Saudi Arabia	100%
Rolls-Royce Singapore PTE. Ltd **	Ordinary	1 Marina Boulevard, #28-00 One Marina Boulevard, 018989, Singapore	100%
Rolls-Royce Technical Support sari**	Ordinary	Centrada 1, Avenue Didier Daurat, 31700 Blagnac, Toulouse, France	100%
Rolls-Royce Turkey Power Solutions Industry And Trade Limited**	Cash Shares	Meclis i Mebusan Cad No. 1, Ekemen Han 34427, Kabataş, Istanbul, Turkey	100%
Vessel Lifter Inc	Common Stock	Corporation Service Company, 1201 Hays Street, Tallahassee, FL32301, United States	100%
Vinters-Armstrongs Limited**	Ordinary B	Moor Lane, Derby, England DE24 8BJ	100%

Rolls-Royce Overseas Holdings Limited

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

13 Investments (continued),

Joint ventures

£ 000

Cost or valuation

At 1 January 2018

143,777

Additions

10,911

At 31 December 2018

154,688

Impairment

At 31 December 2018

-

Carrying amount

At 31 December 2018

154,688

During the year the Company received total income from participating interests of £57,580,000 (2017 - £33,750,000). This was largely made up of £32,781,000 (2017 - £21,604,000) from Hong Kong Aero Engine Services Limited and £24,790,000 (2017 - £12,146,000) from Alpha Partners Leasing Limited.

Rolls-Royce Overseas Holdings Limited

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

13 Investments (continued)

Details as at 31 December 2018 are as follows:

** denotes a direct shareholding of the Company

Company name	Class of shares	Address	Proportion of ownership interest and voting rights held 2018
Alpha Leasing (US) (No 2) LLC	Partnership (no equity)	Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware 19808, United States	50%
Alpha Leasing (US) (No.4) LLC	Partnership (no equity)	Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware 19808, United States	50%
Alpha Leasing (US) (No 5) LLC	Partnership (no equity)	Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware 19808, United States	50%
Alpha Leasing (US) (No 6) LLC	Partnership (no equity)	Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware 19808, United States	50%
Alpha Leasing (US) (No 7) LLC	Partnership (no equity)	Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware 19808, United States	50%
Alpha Leasing (US) (No.8) LLC	Partnership (no equity)	Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware 19808, United States	50%

Rolls-Royce Overseas Holdings Limited

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

13 Investments (continued)

Alpha Leasing (US) LLC	Partnership (no equity)	Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware 19808, United States	50%
Alpha Partners Leasing Limited**	A ordinary	Kings Place, 90 York Way, London, N1 9FX, United Kingdom	50%
Egypt Aero Management Services**	Ordinary	EgyptAir Engine Workshop, Cairo International Airport, Cairo, Egypt	50%
Hong Kong Aero Engine Services Limited**	Ordinary	33rd Floor, One Pacific Place, 88 Queensway, Hong Kong	50%
International Aerospace Manufacturing Private Limited**	Ordinary	3 Survey Number, 3 Kempapura Village, Varthur Hobli, Bangalore, KA 560037, India	50%
Light Helicopter Turbine Engine Company	Partnership (no equity)	Suite 119, 9238 Madison Boulevard, Madison, AL35758, United States	50%
Omega Leasing (US) (No.2) LLC	Partnership (no equity)	Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware 19808, United States	50%
Omega Leasing (US) (No.4) LLC	Partnership (no equity)	Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware 19808, United States	50%
Omega Leasing (US) (No.5) LLC	Partnership (no equity)	Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware 19808, United States	50%
Omega Leasing (US) (No.6) LLC	Partnership (no equity)	Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware 19808, United States	50%
Omega Leasing (US) (No.7) LLC	Partnership (no equity)	Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware 19808, United States	50%

Rolls-Royce Overseas Holdings Limited

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

13 Investments (continued)

Omega Leasing (US) (No.8) LLC	Partnership (no equity)	Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware 19808, United States	50%
Omega Leasing (US) LLC	Partnership (no equity)	Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware 19808, United States	50%
Rolls-Royce Energy Angola, Limitada	Quota	Rua Rei Katavala, Edificio Rei Katavala, Entrada B, Piso 8, Luanda, Angola	50%
Rolls-Royce & Partners Finance (US) (No.2) LLC	Partnership (no equity)	Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware 19808, United States	50%
Rolls-Royce & Partners Finance (US) LLC	Partnership (no equity)	Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware 19808, United States	50%
Rolls-Royce & Partners Finance Limited	Ordinary	Kings Place, 90 York Way, London, N1 9FX, United Kingdom	50%
Rolls-Royce Engine Leasing (Labuan) (No.2) Limited	Ordinary	Unit Level 13(A), Main Office Tower, Financial Park Labuan Jalan Merdeka, 87000 Federal Territory of Labuan, Malaysia	50%
Rolls-Royce Engine Leasing (Labuan) Limited	Ordinary	Unit Level 13(A), Main Office Tower, Financial Park Labuan Jalan Merdeka, 87000 Federal Territory of Labuan, Malaysia	50%
RRPF Engine Leasing (No.2) Limited	Ordinary	Kings Place, 90 York Way, London, N1 9FX, United Kingdom	50%
RRPF Engine Leasing (US) (No.2) LLC	Ordinary	Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware 19808, United States	50%
RRPF Engine Leasing (US) LLC	Ordinary	Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware 19808, United States	50%

Rolls-Royce Overseas Holdings Limited

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

13 Investments (continued)

RRPF Engine Leasing Limited	Ordinary	Kings Place, 90 York Way, London, N1 9FX, United Kingdom	50%
Singapore Aero Engine Services Private Limited	Ordinary	11 Calshot Road, 509932, Singapore	50%
Taec Ucak Motor Sanayi AS**	Cash shares	Buyukdere Caddesi, Prof. Ahmet Kemal Aru, Sokagi Kaleseramik, Binasi Levent No. 4, Besiktas, Istanbul	40%
Tecljet Aerofoils Limited**	Ordinary A & Ordinary B	Tefen Industrial Zone, PO.Box 16, 24959, Israel	50%
Texas Aero Engine Services LLC	Partnership (no equity)	The Corporation Trust Company, 1209 Orange St, Wilmington, DE19801, United States	50%

Rolls-Royce Overseas Holdings Limited

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

14 Inventories

	2018 £ 000	2017 £ 000
Raw materials and consumables	5,637	5,595
Work in progress	10,945	2,220
Finished goods and goods for resale	1,138	9,611
	<u>17,720</u>	<u>17,426</u>

There is no significant difference between replacement cost of work in progress and finished goods for resale and their carrying amounts. Inventories are stated after provisions for impairment of £677,000 (2017 - £652,000).

15 Trade and other receivables: amounts due less than one year

	2018 £ 000	2017 £ 000
Trade receivables	10,919	7,178
Amounts owed by group undertakings	46,584	-
Other receivables	2,165	2,289
	<u>59,668</u>	<u>9,467</u>

Amounts owed by group undertakings are non-interest bearing, unsecured and repayable on demand.

16 Loans and borrowings

	2018 £ 000	(As restated) 2017 £ 000
Current loans and borrowings		
Bank borrowings	<u>3,552</u>	<u>3,850</u>

Current loans and borrowings in 2017 have been restated to present a balance of £3,850,000 previously classified as a trade payable relating to the Company's joint operation, IAMPL. The balance has been proportionally consolidated (see note 2).

Current borrowings relate to the element of the external loans held by the Company's joint operation, IAMPL, due less than one year. The borrowings relate to packing credit secured on IAMPL's trade receivables and inventory. The terms of the credit are 6 months from the draw down date and interest is payable half-yearly at LIBOR plus 225 basis points.

	2018 £ 000	(As restated) 2017 £ 000
Non-current loans and borrowings		
Bank borrowings	<u>477</u>	<u>820</u>

Rolls-Royce Overseas Holdings Limited

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

16 Loans and borrowings (continued)

Non-current loans and borrowings in 2017 have been restated to present a balance of £820,000 previously classified as a trade payable relating to the Company's joint operation, IAMPL. The balance has been proportionally consolidated (see note 2).

Non-current borrowings relate to external loans held by the Company's joint operation, IAMPL, which are due in greater than one year. The external bank loan is secured on the plant and machinery of the Company. The term of the loan is 5 years and is due for repayment on 18 January 2021. Interest is payable monthly at 10.5% on the outstanding loan value.

17 Obligations under leases and hire purchase contracts

Operating leases

The lease payments in the year and future operating lease commitments relate to leases for land and buildings relating to the Company's joint operations, IAMPL, and Techjet. The lease for the IAMPL land and warehousing expires in August 2026 and the Techjet buildings lease expires in September 2024.

The total future value of minimum lease payments is as follows:

	2018 £ 000	2017 £ 000
Within one year	540	548
In two to five years	2,217	2,404
In over five years	1,627	1,766
	<u>4,384</u>	<u>4,718</u>

The amount of non-cancellable operating lease payments recognised as an expense during the year was £535,000 (2017 - £550,000).

18 Provisions for liabilities and charges

	Employee provisions £ 000	Deferred tax liabilities £ 000	Total provisions for liabilities and charges £ 000
At 1 January 2018	618	458	1,076
Additions	149	194	343
Transfer to accruals	(767)	-	(767)
At 31 December 2018	<u>-</u>	<u>652</u>	<u>652</u>

Rolls-Royce Overseas Holdings Limited

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

Employee provisions relate to vacation and recreation pay accrued in the Company's joint operations, Techjet, which is based in Israel and in IAMPL in India. At the 31 December 2018, the total liability for vacation and recreation pay has been transferred to trade and other payables and presented as an accrual (note 19).

In addition to the above, provisions for deferred tax liabilities are scheduled in note 10.

Total provisions of £652 thousand at the year ended 31 December 2018 relate to deferred tax liabilities (2017: £1,076 thousand).

19 Trade and other payables

	2018 £ 000	2017 £ 000
Trade payables	5,227	4,833
Accruals	767	-
Amounts owed to group undertakings	500,849	505,625
Social security and other taxes	1,362	1,145
Group relief payable	205	260
Other payables	210	587
	<u>508,620</u>	<u>512,450</u>

Amounts owed to group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

The social security and other taxes relate to the Company's joint operations, whose results have been proportionately consolidated in the financial statements.

2017 trade payables have been restated to reclassify current and non current borrowings of £3,850,000 and £820,000 respectively (see notes 2 and 16). The current and non-current borrowings relate to borrowings held by the Company's joint operation, IAMPL and are proportionally consolidated.

Accruals relate to vacation and recreation pay accrued in the Company's joint operations, Techjet, which is based in Israel and in IAMPL in India. At the 31 December 2018, the total liability for vacation and recreation pay has been transferred from provisions for liabilities and charges (note 18) to trade and other payables and presented as an accrual.

20 Dividends

During the year a dividend of £Nil was paid (2017 - £230,000 thousand).

Rolls-Royce Overseas Holdings Limited

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

21 Called up share capital

Allotted and fully paid shares

	2018		2017	
	No. 000	£ 000	No. 000	£ 000
Ordinary shares of £1 each	314,502	314,502	314,502	314,502
Allotted and fully paid shares				
	2018		2017	
	No. 000	£ 000	No. 000	£ 000
'A' shares of \$1 each	120,756	84,997	120,756	84,997

The 'A' shares do not carry the right to a dividend (fixed or otherwise), other than as a class dividend at the discretion of the Directors.

The 'A' shares carry the same right to assets on the winding up or other repayment of Capital as the ordinary Shares. The 'A' shares shall not confer the right to any further or other participation in the profits of the assets of the Company.

The 'A' shares shall not entitle the holders to receive notice of or attend or vote at any general meeting unless the business of the meeting includes the consideration of a resolution for:

- a) winding up of the Company or reducing its authorised share capital for;
- b) sale of the undertaking of the Company;
- c) varying or abrogating any of the rights attached to the 'A' shares.

22 Contingent liabilities

In January 2017, after full cooperation, companies within the Rolls-Royce group concluded deferred prosecution agreements with the SFO and the US Department of Justice and a leniency agreement with the MPF, the Brazilian federal prosecutors ("the agreements"). The Central Bureau of Investigation (CBI) in India has opened a formal investigation naming Rolls-Royce plc, Rolls-Royce India Private Limited and others alleging bribery in relation to historical matters. The companies named will respond appropriately. Action may be taken by other authorities against these or other entities or individuals. In addition, we could still be affected by actions from customers and customers' financiers. The Directors of those companies that are party to the agreements or named in the CBI investigation are not currently aware of any matters that are likely to lead to a material financial loss, but cannot anticipate all the possible actions that may be taken or their potential consequences. There are no financial consequences of the agreements or the CBI investigation on the Company.

Rolls-Royce Overseas Holdings Limited

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

23 Events after the end of the financial period

On 1 April 2019, the Rolls-Royce Holdings plc group disposed of all its commercial marine business to KONGSBERG for a cash consideration of £547,544 thousand. The Company holds 100% shareholding in investments in RR Namibia (Proprietary) Limited and Rolls-Royce International LLC, two of the companies included within the commercial marine disposal. An impairment review was performed to assess the carrying value of the investments at the year end. This has resulted in an impairment charge of £305 thousand in respect of the carrying value of RR Namibia (Proprietary) Limited.

On the 25 June 2019, the Company paid an interim dividend of £366,000 thousand to its parent undertaking (Rolls-Royce plc). Appropriate documentation to comply with the requirements of Section 836 and 838 of the Companies Act 2006 and to support the payment of the interim dividends was not in place on 25 June 2019. The additional documentation has subsequently been prepared in advance of the date of approval of these financial statements.

24 Parent and ultimate parent undertaking

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

Rolls-Royce Holdings plc is the ultimate controlling party and 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.