

Registration number: 02658963

Rolls-Royce Overseas Holdings Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2019

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Rolls-Royce Overseas Holdings Limited

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Rolls-Royce Overseas Holdings Limited

Company Information

Registered office Moor Lane
Derby
Derbyshire
DE24 8BJ

Independent auditors PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Donington Court
Pegasus Business Park
Castle Donington
East Midlands
DE74 2UZ

Rolls-Royce Overseas Holdings Limited

Strategic Report for the Year Ended 31 December 2019

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

Principal activities

The principal activity of the Company is a holding company. However, the Company holds investments in two joint ventures 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 years ended 31 December 2019 and 2018.

The profit for the financial year after taxation amounted to £376,462 thousand (2018: £60,621 thousand).

The Company has net assets of £917,610 thousand (2018: £908,624 thousand).

Revenue of £45,999 thousand in 2019 was similar to the performance in 2018 (2018: £42,949 thousand). Techjet, the largest of the Company's joint operations, involved in compressor aerofoil manufacture, saw revenue grow in the year, from £35,135 thousand in 2018 to £37,071 thousand in 2019, reflecting the rise in Trent engine deliveries to its principal customers, as well as a favourable revenue mix change towards larger engines. In IAMPL, the revenue increased from £7,814 thousand in 2018 to £8,927 thousand in 2019 reflecting the increase in the supply of legacy, low-volume parts.

The profit for the financial year after taxation has increased by £316,000 thousand compared to prior year due to income from shares in group undertakings including £316,820 thousand from Rolls-Royce Overseas Investments Limited which was received in 2019 and did not occur in 2018. Income from participating interests was £52,870 thousand in 2019 (2018: £57,580 thousand).

Current borrowings of £3,580 thousand (2018: £3,552 thousand) 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. Non-current borrowings of £185 thousand (2018: £477 thousand) relate to external loans held by the Company's joint operation, IAMPL, which are due in greater than one year.

Rolls-Royce Overseas Holdings Limited

Strategic Report for the Year Ended 31 December 2019 (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 risk management procedures and detailed within the Rolls-Royce Holdings plc's Annual Report which can be obtained from the address in note 26.

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 and the wider economy. However, the Directors believe the Company has limited exposure to any Brexit implications due to IAMPL's operations being based in India and TechJet's being based in Israel. IAMPL and Techjet do not sell solely to Rolls-Royce in the UK and therefore there are no indications that Brexit will have any significant implications. The Directors recognise that this will continue to be monitored whilst the Brexit mitigation plans are finalised and associated implications, if any, in relation to the Company become clear. The Directors recognise that this will continue to be monitored whilst the Brexit plan is finalised and associated implications become clear. Further disclosures are given in the Rolls-Royce Holdings plc Annual Report which can be obtained from the address in note 26.

COVID - 19 - The Directors continue to assess the Company's financial and liquidity position in relation to COVID-19. The initial view of the impact COVID-19 has had on Techjet is a 20% - 30% reduction in sales which will result in approximately a £3m reduction in forecast 2020 profitability (50% of full Techjet reduction) and in turn drive headcount reductions of between 150 and 250. In terms of the 2020 outlook for IAMPL, based on the latest Sales & Operations Review Board, the Directors expect to see an approximately 40% reduction in sales which will result in a likely loss during the year. To attempt to mitigate the loss; headcount reductions will most likely be around the 20-30% mark.

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. Whilst COVID-19 is a non adjusting event, the performance of the group post balance sheet date is considered to be a trigger event to reassess the carrying value of investments and these continue to be monitored. Further details of the post balance sheet review are set out in note 25.

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.

Rolls-Royce Overseas Holdings Limited

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

Principal risks and uncertainties (continued)

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 below financial risk management policies:

Financial risk management

The following financial risk is considered key by the Directors:

Liquidity risk

The Company has net current liabilities of £424,084 thousand (2018: £426,834 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.

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 cash flows to ensure it can fulfil its repayment obligations as they fall due.

Key performance indicators

Given the nature of the Company's activities, the Company's Directors believe that there are no key performance indicators which are considered to be necessary or appropriate for an understanding of the Company's specific development, performance or the position of its business.

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 Company's Directors had regard to the factors set out above in making the principal decisions taken by the Company.

Although the Company's principal activity is a holding company, the Company holds investments in two joint operations which are proportionally consolidated. The Company's key stakeholders are therefore its joint operations, namely IAMPL and Techjet. Each joint operation will use both the Rolls-Royce Sales and Operation Review Board ("SORB") demand profile from the SORB 2004 process and external demand signals to regularly engage with external suppliers to discuss their latest requirements; this involves support from the Company where necessary. Communication with stakeholders takes many forms including face to face meetings and consultation from the Rolls-Royce designated statutory directors.

Rolls-Royce Overseas Holdings Limited

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

Section 172(1) statement (continued)

The Company engages with IAMPL to look at options to reduce the impact the demand reductions are having on the joint operations. The Company engages with IAMPL via board to board and management meetings. The Directors receive information on engagement through board papers which outline the impact of decisions on key stakeholders, they then use skills learnt during their director training to consider the impact decisions have on stakeholders and the wider community. The Directors then consider the stakeholder impacts against long-term strategy and principal risks. The Directors ensure principal risks are mitigated by adopting the Rolls-Royce Holdings plc Global Code of Conduct. The Company provided constructive challenge to IAMPL when looking at their cost base and implemented mitigating actions to reduce costs in light of COVID-19. Examples of this include: headcount right sizing, operating cost reductions and the request of rent discounts from the other parent, Hindustan Aeronautics Limited, who own the property. The Company engages with Techjet to ensure the impact of demand reductions on the joint operation is, where possible, mitigated through ensuring headcount is right sized, operating costs are flexed and inventory holdings are commensurate to load.

The Directors ensure that when making principal decisions they factor in the principal risks of the Company and the interests of all stakeholders. When any principal financial decisions are made and discussed, the Directors ensure that the consequences of the decisions over the long term to other stakeholders including employees interests and relationships with other suppliers and customers are considered. An example of this is during dividend payments whereby the Directors must consider how the payment of a dividend impacts the Company's ability to pay suppliers, fulfil contract obligations and any employees remuneration.

The Company 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. Where the Directors do not engage directly with the Company's stakeholders, they are kept up to date to enable them to maintain an effective understanding of what matters to those stakeholders and can draw on these perspectives in Board decision-making. The Directors utilise their annual director training which highlights the importance of taking stakeholders into account during long-term decision making.

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 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 which can be obtained from the address in note 26.

Culture is a combination of the values, attitudes and behaviours demonstrated by the Company in its activities and relations with stakeholders. The Company embodies and demonstrates the desired culture of the Rolls-Royce Holdings plc group to maintain a reputation for high standards of business conduct through the adoption of the Group Policy manual which ensures that the Company embodies the philosophy to act with integrity and is trusted to deliver excellence. Further details on the Group Policy manual and the policies the Company adopts can be found in the Rolls-Royce Holdings plc Annual Report.

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



J H Luke
Director

Rolls-Royce Overseas Holdings Limited

Directors' Report for the Year Ended 31 December 2019

The Directors present their Directors' report of Rolls-Royce Overseas Holdings Limited (the 'Company') together with the audited financial statements for the year ended 31 December 2019.

Directors

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 and resigned 28 August 2020)

G Sampson (appointed 18 August 2020)

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.

Results

The profit for the year, after taxation, amounted to £376,462 thousand (2018: £60,621 thousand).

Dividends

On the 25 June 2019, the Company paid an interim dividend of £366,000 thousand (2018: £nil) 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 was subsequently been prepared in advance of the date of approval of these financial statements.

During the year the Company received total income from shares in group undertakings of £324,111 thousand (2018: £8,038 thousand). This was largely made up of dividends from Rolls-Royce Overseas Investments Limited of £316,820 thousand, Rolls-Royce Nuclear Services France S.A.S of £5,884 thousand (2018: £6,707 thousand), Rolls-Royce Malaysia SDN BHD £386 thousand (2018: £nil), Rolls-Royce Australia Services Pty Limited of £nil (2018: £1,107 thousand), and Rolls-Royce Technical Support Sarl of £345 thousand (2018: £333 thousand).

Future developments

The outlook of the joint operation companies which are proportionally consolidated in the Company's financial results remains positive, with strong order books. Following the impact of COVID-19 on the Civil Aerospace industry, the cash flows of certain businesses in which the Company holds an investment in have been reduced and as a result, the ability to pay dividends to the Company in the short term may be reduced. The Directors are also aware that a reduction in cash flows in these businesses could lead to an increase risk of impairment to the carrying value of investments. The Directors will continue to monitor the performance of the Company's investments during 2020 and assess whether an impairment charge is required to be recognised.

Rolls-Royce Overseas Holdings Limited

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

Financial risk management

The details of the Company's financial risk management are set out in more detail on page 4.

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 and/or other members of the parent's group unless adequate financing has been secured by the Company and it will repay cash deposited by the Company as part of the parent's cash pool sweeping arrangements. 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 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 expectation of future trading) and a severe but plausible downside scenarios (which envisages a "stress" or "downside") to evaluate the potential impact of COVID-19 on the Rolls-Royce plc group 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 publically 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.

Post balance sheet events

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 its Half Year results for 2020, outlining the measures taken by the Rolls-Royce Holdings plc group. This included 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 the COVID-19 measures that the Rolls-Royce Holdings plc group is taking.

Rolls-Royce Overseas Holdings Limited

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

Post balance sheet events (continued)

The Directors have assessed the subsequent conditions on the balance sheet date as at 31 December 2019 and have specifically reviewed the carrying value of the Company's investments. The updated assessment is indicating no impairment. Accordingly, as required by IAS 10, we have not reflected these subsequent conditions in the recoverable value of investments held as at 31 December 2019.

2020 Interim dividend

On the 26 June 2020, the Company paid an interim dividend of £350,000 thousand to its parent undertaking (Rolls-Royce plc).

Customers, Suppliers and Others Statement

The Company aims to foster enduring relationships with its stakeholders as identified in the Section 172 Statement in the Strategic Report (see page 4 and 5).

The Company's activities affect a wide range of stakeholders and the Company engages with these stakeholders and listens to their differing inputs and priorities as an everyday part of its business and uses the input and feedback to form its decision-making process. The Company utilises various engagement methods with IAMPL and Techjet which include regular engagement meetings at both Board of Director and lower management levels. The Directors recognise that communication is key as IAMPL and Techjet operate from more than one geographical location, including India and Israel. In relation to COVID-19 decisions have been considered in light of all country-specific requirements. The regular engagement and involvement with IAMPL and Techjet enable the Company to effect change, examples of how this has occurred when there was a decrease in demand is outlined in the Section 172(1) Statement in the Strategic Report (see pages 4 and 5).

From the perspective of the Company's Directors, as outlined in the Section 172 Statement in the Strategic Report (see pages 4 and 5), as a result of the Rolls-Royce Holdings plc group governance structure, and the Company being a holding company, the Rolls-Royce Holdings plc Board of Directors have taken the lead in carrying out the duties of a board in respect of the Company's other stakeholders. The Company's Directors have also considered relevant matters where appropriate in relation to communication and engagement with IAMPL and Techjet. An explanation of how the Rolls-Royce Holdings plc Board of Directors have had regard to the need to foster the Company's business relationships with suppliers, customers and others, and the effect of that regard, including on the principal decisions taken by the Company during the financial year, is set out in the Rolls-Royce Holdings plc Annual Report (see note 26) and does not form part of this report.

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.

Rolls-Royce Overseas Holdings Limited

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

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.

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.

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



J H Luke
Director

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 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 Overseas Holdings Limited

Independent Auditors' Report to the members of Rolls-Royce Overseas Holdings 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 Directors' Responsibilities in respect of the financial statements set out on page 9, 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.

Rolls-Royce Overseas Holdings Limited

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

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

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

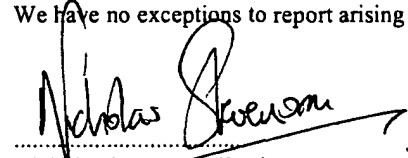
Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.


Nicholas Stevenson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
East Midlands

10 September 2020

Rolls-Royce Overseas Holdings Limited

Income Statement for the Year Ended 31 December 2019

| | Note | 2019 £ 000 | 2018 £ 000 |
|--|------|-----------------------|----------------------|
| Revenue | 3 | 45,999 | 42,949 |
| Cost of sales | | <u>(43,652)</u> | <u>(39,376)</u> |
| Gross profit | | 2,347 | 3,573 |
| Administrative expenses | | <u>(3,195)</u> | <u>(9,366)</u> |
| Operating loss | | (848) | (5,793) |
| Income from shares in group undertakings | 14 | 324,111 | 8,038 |
| Income from participating interests | 14 | 52,870 | 57,580 |
| Disposal of investment | 14 | 3,112 | - |
| Finance income | 5 | 483 | 1,256 |
| Finance costs | 6 | <u>-(835)</u> | <u>(240)</u> |
| | | <u>379,741</u> | <u>66,634</u> |
| Profit before taxation | | 378,893 | 60,841 |
| Taxation | 10 | <u>(2,431)</u> | <u>(220)</u> |
| Profit for the financial year | | <u>376,462</u> | <u>60,621</u> |

The above results were derived from continuing operations for both the financial years ended 31 December 2019 and 31 December 2018.

Rolls-Royce Overseas Holdings Limited

Statement of Comprehensive Income for the Year Ended 31 December 2019

| | 2019 £ 000 | 2018 £ 000 |
|---|-----------------------------|-----------------------------|
| Profit for the year | <u>376,462</u> | <u>60,621</u> |
| Total comprehensive income for the year | <u>376,462</u> | <u>60,621</u> |

Rolls-Royce Overseas Holdings Limited

(Registration number: 02658963)

Balance Sheet as at 31 December 2019

| | Note | 2019 £ 000 | 2018 £ 000 |
|--|------|-----------------------|-----------------------|
| Non-current assets | | | |
| Intangible assets | 11 | 416 | 468 |
| Property, plant and equipment | 12 | 24,710 | 28,327 |
| Right-of-use assets | 13 | 6,766 | - |
| Investments | 14 | 1,316,599 | 1,307,792 |
| | | <u>1,348,491</u> | <u>1,336,587</u> |
| Current assets | | | |
| Inventories | 15 | 16,647 | 17,720 |
| Trade and other receivables | 16 | 62,355 | 59,668 |
| Cash and cash equivalents | | 9,885 | 7,950 |
| | | <u>88,887</u> | <u>85,338</u> |
| Current liabilities | | | |
| Trade and other payables | 20 | 508,879 | 508,620 |
| Loans and borrowings | 17 | 4,092 | 3,552 |
| Creditors: Amounts falling due within one year | | <u>(512,971)</u> | <u>(512,172)</u> |
| Net current liabilities | | <u>(424,084)</u> | <u>(426,834)</u> |
| Total assets less current liabilities | | 924,407 | 909,753 |
| Creditors: Amounts falling due after more than one year | | | |
| Loans and borrowings | 17 | (6,439) | (477) |
| Provisions for liabilities and charges | 19 | <u>(358)</u> | <u>(652)</u> |
| Net assets | | <u>917,610</u> | <u>908,624</u> |
| Equity | | | |
| Called up share capital | 23 | 399,499 | 399,499 |
| Share premium reserve | | 133,961 | 133,961 |
| Other reserves | | 3,350 | 4,826 |
| Retained earnings | | <u>380,800</u> | <u>370,338</u> |
| Total equity | | <u>917,610</u> | <u>908,624</u> |

The financial statements on pages 13 to 51 were approved and authorised for issue by the Board on 9 September 2020 and signed on their behalf by:



J H Luke
Director

The notes on pages 17 to 51 form an integral part of these financial statements.

Rolls-Royce Overseas Holdings Limited

Statement of Changes in Equity for the Year Ended 31 December 2019

| | Called up share capital £ 000 | Share premium reserve £ 000 | Other reserves £ 000 | Retained earnings £ 000 | Total equity £ 000 |
|-----------------------------------|--|--|---------------------------------|--|-------------------------------|
| At 1 January 2019 | 399,499 | 133,961 | 4,826 | 370,338 | 908,624 |
| Profit for the financial year | - | - | - | 376,462 | 376,462 |
| Total comprehensive income | - | - | - | 376,462 | 376,462 |
| Foreign exchange movement in year | - | - | (1,476) | - | (1,476) |
| Dividends (note 21) | - | - | - | (366,000) | (366,000) |
| At 31 December 2019 | 399,499 | 133,961 | 3,350 | 380,800 | 917,610 |

| | 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 |

Other reserves relate to the cumulative translation gain arising from the retranslation of the Company's two joint operations results into the presentational currency of the Company.

The notes on pages 17 to 51 form an integral part of these financial statements.

Rolls-Royce Overseas Holdings Limited

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

1 General information

The Company is a private company limited by shares and incorporated in England. 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 Aerofiles Limited ('Techjet') and International Aerospace Manufacturing Private Limited ('IAMPL').

2 Significant accounting policies

Basis of preparation

The financial statements of the Company 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 IFRS 7 Financial Instruments: Disclosures;
- Comparative period reconciliations for tangible and intangible fixed assets;
- Disclosures in respect of capital management;
- The requirements of IAS 24 *Related Party Transactions* and has, therefore, not disclosed transactions between Rolls-Royce Holdings plc and its wholly owned subsidiaries;
- Disclosures in respect of the compensation of Key Management Personnel; and
- The requirements of paragraphs 10(d), 10(f), 40A, 40B, 40C, 40D, 111 of IAS 1 *Presentation of Financial Statements*.

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

Rolls-Royce Overseas Holdings 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

IFRS 16 *Leases* is a new accounting standard that is effective for the year ended 31 December 2019. On transitioning to the new accounting standard, the Directors have evaluated the impact on the financial statements and have set out the impact in note 27. The Directors have adopted a modified retrospective approach to transition so there is no restatement of the prior year financial statements, nor is there any change to net assets or retained earnings as a result of the transition as at 1 January 2019.

Until 31 December 2018, leases of plant and equipment and land and buildings were classified as either finance or operating leases. Payments made under operating leases were charged to administrative expenses 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 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.

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 27 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.

There are no other amendments to accounting standards, or IFRIC interpretations that are effective for the year ended 31 December 2019 that have had a material impact on the Company's financial statements.

Rolls-Royce Overseas Holdings Limited

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

2 Significant accounting policies (continued)

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 14).

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 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 and/or other members of the parent's group unless adequate financing has been secured by the Company and it will repay cash deposited by the Company as part of the parent's cash pool sweeping arrangements. 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 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 expectation of future trading) and a severe but plausible downside scenarios (which envisages a "stress" or "downside") to evaluate the potential impact of COVID-19 on the Rolls-Royce plc group 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 Overseas Holdings Limited

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

2 Significant accounting policies (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.

Exemption from preparing group accounts

The financial statements contain information about the Company 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 Holdings 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 26.

Functional and presentational currency

Both the Company's functional and presentational currency is Pound Sterling.

Rounding of amounts

All amounts in the financial statements and notes have been rounded off to the nearest thousand Pounds Sterling, unless otherwise stated.

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.

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. The Company has assessed the nature of its joint arrangements and determined that two of its joint arrangements are joint operations: Techjet and 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.

Rolls-Royce Overseas Holdings Limited

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

2 Significant accounting policies (continued)

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 which are substantively enacted at the balance sheet date and expected to be effective at the time the timing differences are expected to reverse.

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.

Rolls-Royce Overseas Holdings Limited

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

2 Significant accounting policies (continued)

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.

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.

Financial assets and liabilities

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 Company's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Impairment of financial assets

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 and cash and cash equivalents (comprising cash at bank, money market funds and short-term deposits).

- 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) are subject to low market risk. Cash balances are measured at fair value through profit and loss (FVTPL).

Financial liabilities

Financial liabilities primarily consist of trade payables, lease liabilities and borrowings. All other financial liabilities are classified and measured at amortised cost.

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.

Rolls-Royce Overseas Holdings 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. 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.

Rolls-Royce Overseas Holdings Limited

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

2 Significant accounting policies (continued)

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

Until the 2018 financial year, leases of property, plant and equipment were classified as either finance leases or operating leases. 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 for use by the Company.

Payments made under operating lease arrangements were charged to the income statement on a straight-line basis over the lease term for the financial year ended 31 December 2018.

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; 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 transition 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.

Rolls-Royce Overseas Holdings Limited

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

2 Significant accounting policies (continued)

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 2019 (continued)

3 Revenue

The geographical analysis of revenue by country is as follows:

| | 2019 £ 000 | 2018 £ 000 |
|-------------------------|---------------|---------------|
| Germany | 8,185 | 4,621 |
| United States | 2,040 | 1,100 |
| United Kingdom | 18,260 | 37,228 |
| Australasia and Pacific | 15,540 | - |
| Middle East and Asia | 1,974 | - |
| | <u>45,999</u> | <u>42,949</u> |

4 Operating loss

Arrived at after charging

| | 2019 £ 000 | 2018 £ 000 |
|---|---------------|---------------|
| Depreciation expense (see note 12) | 4,297 | 4,292 |
| Amortisation expense (see note 11) | 225 | 293 |
| Lease expense - property | - | 535 |
| Inventory recognised as an expense | 11,238 | 15,532 |
| Impairment of inventory | 244 | 29 |
| Wages and salaries | 10,292 | 9,668 |
| Social security costs | 587 | 569 |
| Other pension costs | 1,199 | 1,061 |
| Impairment of investments (see note 14) | 844 | 9,352 |
| Depreciation of right-of-use assets (see note 13) | <u>581</u> | <u>-</u> |

Lease expense for the year ended 31 December 2018 relate to land and buildings held by the Company's joint operations as accounted for under IAS 17 *Leases*.

Administrative costs include £844 thousand relating to the impairment of investments in Rolls-Royce Oman (31 December 2018: £9,047 thousand and £305 thousand relating to impairments of investments in Nightingale Limited and Rolls-Royce Namibia (Proprietary) Limited respectively). Further details are disclosed in note 14.

5 Finance income

| | 2019 £ 000 | 2018 £ 000 |
|-----------------------------------|---------------|---------------|
| Bank and loan interest receivable | 483 | 363 |
| Foreign exchange gains | - | 893 |
| | <u>483</u> | <u>1,256</u> |

Rolls-Royce Overseas Holdings Limited

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

6 Finance costs

| | 2019 | 2018 |
|-------------------------|--------------|--------------|
| | £ 000 | £ 000 |
| Other interest payable | 301 | 240 |
| Foreign exchange losses | 534 | - |
| | <u>835</u> | <u>240</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 £28 thousand (2018: £9 thousand) and were paid by Rolls-Royce plc on behalf of the Company and not recharged.

£Nil (2018: £nil) was paid to the Company's auditors for non-audit services.

Rolls-Royce Overseas Holdings Limited

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

10 Taxation

Tax charged in the income statement

| | 2019 £ 000 | 2018 £ 000 |
|--|---------------|---------------|
| Current taxation | | |
| UK corporation tax charge on profit for the year | 2,071 | - |
| Group relief payable for the period at 19.00% (2018: 19.00%) | (379) | 205 |
| Foreign tax on income for the year | 1,022 | (147) |
| Total current tax charge | 2,714 | 58 |
| Deferred taxation | | |
| Arising from origination and reversal of temporary differences | (283) | 162 |
| Tax expense in the income statement | 2,431 | 220 |

The tax assessed for the year is lower than (2018: lower than) the standard rate of corporation tax in the UK of 19.00% (2018: 19.00%).

The differences are reconciled below:

| | 2019 £ 000 | 2018 £ 000 |
|----------------------------------|---------------|---------------|
| Profit before tax | 378,893 | 60,841 |
| Corporation tax at standard rate | 71,990 | 11,560 |
| Effects of: non-taxable income | (70,581) | (11,193) |
| Foreign tax | 1,022 | (147) |
| Total tax charge | 2,431 | 220 |

In the Spring Budget 2020, the Government announced that from 1 April 2020 the corporation tax rate would remain at 19% (rather than reducing to 17%, as previously enacted). This new law was substantively enacted on 17 March 2020.

Rolls-Royce Overseas Holdings Limited

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

10 Taxation (continued)

Deferred tax

Deferred tax movement during the year:

| | At 1 January 2019 £ 000 | Recognised in income £ 000 | Other movements £ 000 | At 31 December 2019 £ 000 |
|---|-------------------------------|----------------------------------|-----------------------------|------------------------------------|
| Other items | (616) | 283 | - | (333) |
| Foreign exchange differences on foreign operations | (36) | - | 11 | (25) |
| Net tax assets/(liabilities) | <u>(652)</u> | <u>283</u> | <u>11</u> | <u>(358)</u> |

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

Deferred tax movement during the prior year:

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

Rolls-Royce Overseas Holdings Limited

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

11 Intangible assets

| | Other intangible assets £ 000 |
|---------------------------------|--|
| Cost | |
| At 1 January 2019 | 9,598 |
| Additions | 186 |
| Foreign exchange movements | (301) |
| At 31 December 2019 | 9,483 |
| Accumulated amortisation | |
| At 1 January 2019 | 9,130 |
| Amortisation charge | 225 |
| Foreign exchange movements | (288) |
| At 31 December 2019 | 9,067 |
| Carrying amount | |
| At 31 December 2019 | 416 |
| At 31 December 2018 | 468 |

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 2019 (continued)

12 Property, plant and equipment

| | Freehold land and buildings £ 000 | Furniture, fittings and equipment £ 000 | Total £ 000 |
|---------------------------------|---|--|----------------|
| Cost | | | |
| At 1 January 2019 | 7,660 | 74,686 | 82,346 |
| Additions | - | 1,450 | 1,450 |
| Foreign exchange movements | (234) | (2,334) | (2,568) |
| At 31 December 2019 | 7,426 | 73,802 | 81,228 |
| Accumulated depreciation | | | |
| At 1 January 2019 | 2,146 | 51,873 | 54,019 |
| Charge for the year | 275 | 4,022 | 4,297 |
| Foreign exchange movements | (66) | (1,732) | (1,798) |
| At 31 December 2019 | 2,355 | 54,163 | 56,518 |
| Carrying amount | | | |
| At 31 December 2019 | 5,071 | 19,639 | 24,710 |
| At 31 December 2018 | 5,514 | 22,813 | 28,327 |

Included within Freehold land and buildings is land with a cost of £386 thousand (2018: £368 thousand).

Rolls-Royce Overseas Holdings Limited

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

13 Right-of-use assets

| | Land and Buildings | Plant and Equipment | Total |
|--|-----------------------|------------------------|--------------|
| | £ 000 | £ 000 | £ 000 |
| Cost | | | |
| At 31 December 2018 | - | - | - |
| Impact of adopting IFRS 16 (see note 27) | 7,507 | 66 | 7,573 |
| At 1 January 2019 | <u>7,507</u> | <u>66</u> | <u>7,573</u> |
| Disposals | - | (66) | (66) |
| Exchange differences | (226) | - | (226) |
| At 31 December 2019 | <u>7,281</u> | <u>-</u> | <u>7,281</u> |
| Accumulated depreciation | | | |
| At 1 January 2019 | - | - | - |
| Charge for the year | 515 | 66 | 581 |
| Disposals | - | (66) | (66) |
| At 31 December 2019 | <u>515</u> | <u>-</u> | <u>515</u> |
| Net book value | | | |
| At 31 December 2019 | <u>6,766</u> | <u>-</u> | <u>6,766</u> |
| At 1 January 2019 | <u>7,507</u> | <u>66</u> | <u>7,573</u> |

Rolls-Royce Overseas Holdings Limited

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

14 Investments

The Company's investments comprise investments in subsidiaries of £1,161,911 thousand (2018 - £1,153,104 thousand) and investments in joint ventures of £154,688 thousand (2018 - £154,688 thousand). The Company's total carrying amount of investments are £1,316,599 thousand (2018 - £1,307,792 thousand).

| Subsidiaries | £ 000 |
|------------------------|-------------------------|
| Cost | |
| At 1 January 2019 | 1,163,889 |
| Additions | 10,000 |
| Disposals | (349) |
| At 31 December 2019 | <u>1,173,540</u> |
| Provision | |
| At 1 January 2019 | 10,785 |
| Provision in year | 844 |
| At 31 December 2019 | <u>11,629</u> |
| Carrying amount | |
| At 31 December 2019 | <u><u>1,161,911</u></u> |
| At 31 December 2018 | <u><u>1,153,104</u></u> |

During the year the Company received total income from shares in group undertakings of £324,111 thousand (2018: £8,038 thousand). This was largely made up of dividends from Rolls-Royce Overseas Investments Limited of £316,820 thousand, Rolls-Royce Nuclear Services France S.A.S of £5,884 thousand (2018: £6,707 thousand), Rolls-Royce Malaysia SDN BHD £386 thousand (2018: £nil), Rolls-Royce Australia Services Pty Limited of £nil (2018: £1,107 thousand), and Rolls-Royce Technical Support Sarl of £345 thousand (2018: £333 thousand).

During the year ended 31 December 2019 an impairment charge was recognised to the carrying value of the Company's investment in Rolls-Royce Oman LLC of £844 thousand. During the year ended 31 December 2018, impairments were made to the carrying value of investments in Nightingale Limited of £9,047 thousand and Rolls-Royce Namibia (Proprietary) Limited of £305 thousand. These were recognised within administrative expenses.

During the year ended 31 December 2019, the Company disposed of its shareholding in Rolls-Royce Namibia (Proprietary) Limited for a consideration of £3,462 thousand which resulted in a gain on disposal of £3,112 thousand.

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 2019 and at 31 December 2018 and have identified no further impairments.

Rolls-Royce Overseas Holdings Limited

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

14 Investments (continued)

The following were subsidiary undertakings / participating interests of the Company as at 31 December 2019:

** denotes a direct shareholding by the Company

| Company name | Share class | Address | % Holding 2019 |
|--|-----------------|--|----------------------|
| Nightingale Insurance Limited** | Ordinary | Maison Trinity, Trinity Square, St. Peter Port, GY1 4AT, Guernsey | 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 Corporation | Common Stock | Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware 19808, United States | 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 Overseas Holdings Limited

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

14 Investments (continued)

| | | | |
|---|---------------------|--|------|
| 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 Limitada Inc** | Capital Stock | Bldg 06 Berthaphil Compound, Jose Abad Santos Avenue, Clark Special Economic Zone Clark Pampanga Philippines | 100% |
| 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 (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 | 99% |
| Rolls-Royce International s.r.o** | Ordinary | Pobrezni 620/3, 186 00, Karlin - Prague 8, Czech Republic | 100% |

Rolls-Royce Overseas Holdings Limited

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

14 Investments (continued)

| | | | |
|---|--------------|--|------|
| Rolls-Royce Malaysia Sdn Bhd** | Ordinary | C-2-3A TTDI Plaza, Jalan Wan Kadir 3, Taman Tun Dr Ismail, 60000 Kuala Lumpur, Malaysia | 100% |
| Rolls-Royce 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 | 99% |
| Rolls-Royce New Zealand Limited** | Ordinary | C/o Deloitte, 80 Queen Street, Auckland Central, Auckland, 1010, New Zealand | 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 Overseas Holdings Limited

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

14 Investments (continued)

| | | | |
|---|--------------|--|------|
| Rolls-Royce North American Technologies Inc | Common Stock | Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware 19808, 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 | 99% |
| Rolls-Royce Operations (India) Private Limited** | Ordinary | Birla Tower West, 2nd Floor, 25 Barakhamba Road, New Delhi, 110001, India | 99% |
| 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 Saudi Arabia Limited | Cash Shares | PO Box 88545, Riyadh, 11672, Saudi Arabia | 99% |
| Rolls-Royce Singapore PTE. Ltd ** | Ordinary | 6 Shenton Way, #33-00 OUE, Downtown, Singapore, 068809, 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 | Levazim Mahallesi, Koru Sokagi, Zorlu Center No:2 Teras Evler T2 D:204, Zincirlikuyu, Besiktas, Istanbul, 34340, 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 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 2019 (continued)

14 Investments (continued)

| | | | |
|--|-------------------------------|---|------|
| Rolls-Royce Nuclear Field Services Inc. | Common Stock | Corporation Service Company, 80 State Street, Albany, New York 12207, United States | 100% |
| PKMJ Technical Services Inc. | Ordinary | Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware 19808, United States | 100% |
| Data Systems & Solutions LLC | Partnership (no equity) | Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware 19808, United States | 100% |
| Rolls-Royce Nuclear Field Services France S.A.S. | Ordinary | ZA Notre-Dame, 84430, Mondragon, France | 100% |

Rolls-Royce Overseas Holdings Limited

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

14 Investments (continued)

Joint ventures

£ 000

Cost or valuation

At 1 January 2019 154,688

At 31 December 2019 154,688

Impairment

At 31 December 2019 -

Carrying amount

At 31 December 2019 154,688

During the year the Company received total income from participating interests of £52,870 thousand (2018 - £57,580 thousand). This was largely made up of £38,686 thousand (2018 - £32,781 thousand) from Hong Kong Aero Engine Services Limited and £14,185 thousand (2018 - £24,790 thousand) from Alpha Partners Leasing Limited.

Rolls-Royce Overseas Holdings Limited

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

14 Investments (continued)

Details as at 31 December 2019 are as follows:

** denotes a direct shareholding of the Company

| Company name | Class of shares | Address | Proportion of ownership interest and voting rights held 2019 |
|-------------------------------|-------------------------|--|--|
| 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 2019 (continued)

14 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 | 1 Brewer's Green, London , SW1H 0RH, 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 2019 (continued)

14 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 Katyavala, Edificio Rei Katyavalo, 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 | 1 Brewer's Green, London , SW1H ORH, 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 | 1 Brewer's Green, London , SW1H ORH, United Kingdom | 50% |
| RRPF Engine Leasing (US) (No.2) LLC | Partnership | Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware 19808, United States | 50% |
| RRPF Engine Leasing (US) LLC | Partnership | 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 2019 (continued)

14 Investments (continued)

| | | | |
|--|-------------------------|---|-----|
| RRPF Engine Leasing Limited | Ordinary | 1 Brewer's Green, London , SW1H 0RH, 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 | 49% |
| Techjet 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% |
| Omega Leasing Limited** | A ordinary | 1 Brewer's Green, London , SW1H 0RH, United Kingdom | 50% |
| Alpha Leasing Limited | Ordinary | 1 Brewer's Green, London SW1H 0RH | 50% |
| Alpha Leasing (No. 4) Limited | Ordinary | 1 Brewer's Green, London SW1H 0RH | 50% |
| Alpha Leasing (No. 9) Limited | Ordinary | 1 Brewer's Green, London SW1H 0RH | 50% |
| Alpha Leasing (No. 10) Limited | Ordinary | 1 Brewer's Green, London SW1H 0RH | 50% |
| Alpha Leasing (No. 11) Limited | Ordinary | 1 Brewer's Green, London SW1H 0RH | 50% |
| Alpha Leasing (No. 12) Limited | Ordinary | 1 Brewer's Green, London SW1H 0RH | 50% |
| Alpha Leasing (No. 14) Limited | Ordinary | 1 Brewer's Green, London SW1H 0RH | 50% |
| Omega Leasing (No. 4) Limited | Ordinary | 1 Brewer's Green, London SW1H 0RH | 50% |
| Omega Leasing (No. 9) Limited | Ordinary | 1 Brewer's Green, London SW1H 0RH | 50% |
| Omega Leasing (No. 10) Limited | Ordinary | 1 Brewer's Green, London SW1H 0RH | 50% |
| Omega Leasing (No. 11) Limited | Ordinary | 1 Brewer's Green, London SW1H 0RH | 50% |
| Omega Leasing (No. 12) Limited | Ordinary | 1 Brewer's Green, London SW1H 0RH | 50% |

Rolls-Royce Overseas Holdings Limited

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

14 Investments (continued)

Omega Leasing (No. 14) Limited

Ordinary

1 Brewer's Green, London SW1H 0RH

50%

Rolls-Royce Overseas Holdings Limited

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

15 Inventories

| | 2019 £ 000 | 2018 £ 000 |
|-------------------------------------|---------------|---------------|
| Raw materials and consumables | 6,298 | 5,637 |
| Work in progress | 8,436 | 10,945 |
| Finished goods and goods for resale | 1,913 | 1,138 |
| | <u>16,647</u> | <u>17,720</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 £921,000 (2018 - £677,000).

16 Trade and other receivables: amounts due in less than one year

| | 2019 £ 000 | 2018 £ 000 |
|------------------------------------|---------------|---------------|
| Trade receivables | 8,866 | 10,919 |
| Amounts owed by group undertakings | 51,180 | 46,584 |
| Other receivables | 2,309 | 2,165 |
| | <u>62,355</u> | <u>59,668</u> |

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

17 Loans and borrowings

| | 2019 £ 000 | 2018 £ 000 |
|-------------------------------------|---------------|---------------|
| Current loans and borrowings | | |
| Bank borrowings | 3,580 | 3,552 |
| Lease liabilities | 512 | - |
| | <u>4,092</u> | <u>3,552</u> |

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.

| | 2019 £ 000 | 2018 £ 000 |
|---|---------------|---------------|
| Non-current loans and borrowings | | |
| Bank borrowings | 185 | 477 |
| Lease liabilities | 6,254 | - |
| | <u>6,439</u> | <u>477</u> |

Rolls-Royce Overseas Holdings Limited

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

17 Loans and borrowings (continued)

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 9.75% on the outstanding loan value.

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

| | £ 000 |
|------------------------------------|--------------|
| Less than 1 year | 512 |
| Between 1 -2 years | 514 |
| Between 2-5 years | 1,540 |
| After 5 years | 4,200 |
| Total gross payments | 6,766 |
| Impact of finance expense | - |
| Carrying value of liability | 6,766 |

On adoption of IFRS 16, the Company recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 1.56%.

Under the specific transitional provisions using the modified retrospective approach within IFRS 16 Leases, comparative information has not been restated. The reclassifications and the adjustments arising from the new leasing rules have been recognised in the opening balance sheet on 1 January 2019. Thus, the future minimum lease payments for the prior year presented below are based on IAS 17, while the current year figures above are based on IFRS 16.

18 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:

| | 2019 £ 000 | 2018 £ 000 |
|----------------------|---------------|---------------|
| Within one year | - | 540 |
| In two to five years | - | 2,217 |
| In over five years | - | 1,627 |
| | 4,384 | 4,384 |

The amount of non-cancellable operating lease payments recognised as an expense during the year was £Nil (2018 - £535 thousand).

Rolls-Royce Overseas Holdings Limited

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

19 Provisions for liabilities and charges

| | Total provisions for liabilities and charges £ 000 |
|----------------------------------|---|
| At 1 January 2019 | 652 |
| Credited to the Income Statement | (283) |
| Other movements | (11) |
| At 31 December 2019 | <u>358</u> |

Total provisions of £358 thousand at the year ended 31 December 2019 relate to deferred tax liabilities (2018: £652 thousand). Further details are disclosed in note 10.

20 Trade and other payables

| | 2019 £ 000 | 2018 £ 000 |
|------------------------------------|----------------|----------------|
| Trade payables | 4,110 | 5,227 |
| Accruals | 890 | 767 |
| Amounts owed to group undertakings | 500,666 | 500,849 |
| Social security and other taxes | 1,322 | 1,362 |
| Group relief payable | 1,692 | 205 |
| Other payables | 199 | 210 |
| | <u>508,879</u> | <u>508,620</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.

Accruals relate to vacation and recreation pay accrued in the Company's joint operations, Techjet, which is based in Israel and in IAMPL which is based in India.

21 Dividends

On the 25 June 2019, the Company paid an interim dividend of £366,000 thousand (2018: £nil) to its parent undertaking (Rolls-Royce plc). Appropriate documentation was not in place to comply with the requirements of Section 836 and 838 of the Companies Act 2006 and to support the payment of the interim dividends on 25 June 2019. The additional documentation was subsequently been prepared in advance of the date of approval of these financial statements.

Rolls-Royce Overseas Holdings Limited

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

22 Commitments

Contractual commitments for the purchase of property, plant and equipment

At 31 December 2019 the Company had contractual commitments for the purchase of plant and equipment of £199 thousand (2018: £76 thousand).

23 Called up share capital

Allotted and fully paid shares

| | 2019 | | 2018 | |
|---------------------------------------|---------|---------|---------|---------|
| | No. 000 | £ 000 | No. 000 | £ 000 |
| Ordinary shares of £1 each | 314,502 | 314,502 | 314,502 | 314,502 |
| Allotted and fully paid shares | | | | |
| | 2019 | | 2018 | |
| | 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.

24 Contingent liabilities

In January 2017, after full cooperation, other companies within the Rolls-Royce plc group 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 relating against those other companies within the Rolls-Royce plc group or other individuals. In addition, we could still be affected by actions from customers and customers' financiers. The Directors are not currently aware of any matter 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.

Rolls-Royce Overseas Holdings Limited

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

25 Post balance sheet events

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, outlining the measures taken by the Rolls-Royce Holdings plc group which included 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 the COVID-19 measures that the Rolls-Royce Holdings plc group is taking.

The Directors have assessed the subsequent conditions on the balance sheet date as at 31 December 2019 and have specifically reviewed the carrying value of the Company's investments. The updated assessment is indicating no impairment. Accordingly, as required by IAS 10, we have not reflected these subsequent conditions in the recoverable value of investments held as at 31 December 2019.

2020 Interim dividend

On the 26 June 2020, the Company paid an interim dividend of £350,000 thousand to its parent undertaking (Rolls-Royce plc).

26 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.

Rolls-Royce Overseas Holdings Limited

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

27 Impact of adopting IFRS 16 Leases

For leases previously classified as finance leases, the Company recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right-of-use asset and the lease liability at the date of initial application. The measurement principles of IFRS 16 are only applied after that date.

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 | 4,384 |
| Other | 3,189 |
| Lease liability recognised as at 1 January 2019 | 7,573 |
| Of which are: | |
| Current liabilities | - |
| Non-current liabilities | (7,573) |

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

| | £ 000 |
|---------------------|--------------|
| Land and buildings | 7,507 |
| Plant and equipment | 66 |
| Total | 7,573 |

Rolls-Royce Overseas Holdings Limited

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

27 Impact of adopting IFRS 16 Leases (continued)

| | Previous accounting £ 000 | IFRS 16 Impact £ 000 | As at 1 January 2019 £ 000 |
|--|---------------------------------|----------------------------|----------------------------------|
| Non-current assets | | | |
| Intangible assets | 468 | - | 468 |
| Property, plant and equipment | 28,327 | - | 28,327 |
| Right-of-use assets | - | 7,573 | 7,573 |
| Investments in subsidiary undertakings | 1,307,792 | - | 1,307,792 |
| | 1,336,587 | 7,573 | 1,344,160 |
| Current assets | | | |
| Inventory | 17,720 | - | 17,720 |
| Trade and other receivables | 59,668 | - | 59,668 |
| Cash and cash equivalents | 7,950 | - | 7,950 |
| | 85,338 | - | 85,338 |
| Current liabilities | | | |
| Trade and other payables | (508,620) | - | (508,620) |
| Loans and borrowings | (3,552) | - | (3,552) |
| Total assets less current liabilities | 909,753 | 7,573 | 917,326 |
| Non-current liabilities | | | |
| Loans and borrowings | (477) | (7,573) | (8,050) |
| Provisions for liabilities and charges | (652) | - | (652) |
| Net assets | 908,624 | - | 908,624 |
| Equity | | | |
| Ordinary shares | 399,499 | - | 399,499 |
| Share premium | 133,961 | - | 133,961 |
| Revaluation reserve | 4,826 | - | 4,826 |
| Retained earnings | 370,338 | - | 370,338 |
| Total equity | 908,624 | - | 908,624 |